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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

SERBIA
(2026-2028)

COMMISSION ASSESSMENT

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1. EXECUTIVE SUMMARY

In 2025, Serbia's economic growth was weaker than expected, but the economic reform programme (ERP) projects that it will pick up gradually in 2026-2028¹. Real growth fell sharply from 3.9% in 2024 to an estimated 2%.² Domestic political instability and global uncertainties concerning tariffs and trade affected consumer and business confidence and spending. Despite these challenges, the ERP and the Commission forecast that economic growth will rebound. The ERP expects GDP growth to accelerate from 3% in 2026 to 5% in 2027 due to capital investments and tourism inflows related to the specialised EXPO27 event in Belgrade, before falling back to 3.5% in 2028. Robust wage growth, supported by hikes in minimum wages and pensions, is projected to boost private consumption in the short term. The labour market is expected to improve gradually, with rising employment and a fall in unemployment to 8.2% by 2028. Average inflation stayed within the central bank's target band of 3% ± 1.5 pps in 2025. This was partly due to the government's temporary intervention in retail prices which, however, worsened the business environment and does not affect underlying price pressures. The current account deficit is projected to remain high, at around 5% of GDP, and not covered entirely by net foreign direct investment (FDI) inflows, which have halved compared to 2024.

The 2025 budget deficit outcome was better than planned, but the fiscal strategy entails a relatively loose fiscal stance in the medium term. Despite the slowdown in economic activity, Serbia's fiscal performance in 2025 exceeded expectations, with a deficit of 2.4% of GDP³, which was significantly below the 3% target. This outcome stems from expenditure underperformance (especially investments) relative to the plan, while revenues were helped by strong private income and social taxes. The ERP projects that the deficit will rise to 3% of GDP in 2026 and stay at this level in 2027, before falling back to 2.5% in 2028. Pensions and public sector wages are set to drive up spending in 2026, while capital investment is kept at a high level as part of the 'Leap to the Future – Serbia 2027' programme and EXPO27. This relatively loose fiscal policy in 2026-2027 coincides with an expected economic recovery and may contribute to inflationary pressures and an elevated current account deficit. Nevertheless, the public debt-to-GDP ratio is projected to decline gradually from 45% in 2025 to 44.1% by 2028, driven by strong nominal GDP growth.

The main challenges currently facing Serbia include the following:

- **Keeping fiscal policy appropriately tight would contribute to disinflation and contain the current account deficit.** Serbia plans to maintain the deficit at 3% of GDP until 2027, which implies a relatively loose fiscal stance. While in recent years the fiscal outcome has been better than planned, various expenditure pressures and risks are present (cost overruns for capital investment, social spending and subsidies for state-owned enterprises (SOEs)).

¹ The assessment is based on the ERP submitted on 9 January 2026, prior to the escalation of the conflict in the Middle East. The war may significantly affect economic growth, inflation, and the external balance, depending on its duration and severity. However, detailed information on these effects was not available when the assessment was prepared, as the cut-off date was mid-March.

² Preliminary estimate by the Statistical Office of the Republic of Serbia. The ERP expected 2.3% growth.

³ Preliminary fiscal deficit estimate by the Ministry of Finance.

- **Serbia's relatively large state-owned enterprises (SOEs), particularly in the energy sector, continue to pose significant fiscal risks.** The government has taken action in recent years via a two-pronged approach involving structural reforms of SOEs and limiting the issuance of new guarantees. While the legal base for strengthening SOE governance has been put in place, its full and successful implementation is now the key to actual improvements in the longer term. Challenges also remain in terms of systematically disclosing and analysing SOEs' financial data and fiscal risks, strengthening government oversight, restructuring SOEs where needed to improve transparency, and avoiding irregularities in SOEs' public procurement.
- **Improving the management of public investments remains a key issue.** Throughout 2025, efforts were focused on enhancing the management of public investments, and these efforts are set to continue in 2026. However, the process still grants the government considerable discretion in designating projects as having 'particular importance' and thereby exempting them from standard planning and oversight protocols. Further work is needed on long-term planning, regular monitoring and developing a unified, comprehensive and transparent public investment system.
- **Public sector wage reform is critical to attracting and retaining highly qualified staff, but it continues to face delays.** The current wage structure is highly compressed, offering comparatively low wage levels for high-end positions. Postponing reforms any further would create a risk of significant brain drain. Wage compression already hampers the implementation of various ongoing reforms, notably in the tax administration and SOE management. The excessive politicisation of recruitment procedures also needs to be addressed.
- **Budgetary practices could be further improved to strengthen the transparency of public finances.** Budgetary information lacks detail on some risks, on in-year budget execution per beneficiary, on comparisons to the original budget bill and on tax expenditures. Although efforts to strengthen the medium-term budget framework have continued, significant improvements are still needed to make it more binding and turn it into a genuine constraint on annual budgetary decisions. Work on strengthening the analysis of the long-term sustainability of public finances and private-public-partnerships (PPPs) should continue.

Structural challenges limiting Serbia's growth potential remain in the areas of fundamental democratic and judicial reforms, the business environment and private sector development, human capital, and the green transition. Serbia's business environment faces several challenges, including weak rule of law and corruption, as well as inconsistent State aid and public procurement procedures that are often non-transparent and subject to exemptions that hinder fair competition. The prevalence of inefficient SOEs obstructs the development of a robust corporate sector and a competitive market. The energy sector, which is heavily dominated by SOEs, requires modernisation and a diversification of energy sources. Human capital development is hampered by skills mismatches and brain drain. These challenges are also being addressed through structural reforms outlined in Serbia's Reform Agenda, which is supported by the EU.

The policy guidance jointly adopted at the Economic and Financial Dialogue of 13 May 2025 has been partially implemented. Budget overperformance in 2025 was used for stronger-than-planned deficit reduction. The Ministry of Finance made progress on assessing the long-term sustainability of the pension system and preparing a comprehensive tax expenditure review, both planned for publication in early 2026. Likewise, work continued on enhancing fiscal risk monitoring. The central bank maintained a tight monetary stance while succeeding in bringing inflation back within the target band, continued to promote greater use of the dinar and implemented a credit registry to harmonise bank lending information. However, only limited

progress was made on the management of public investments, where the government is still allowed substantial discretion to exempt major projects from the standard rules. There was also limited progress on public sector wage reform.

2. ECONOMIC OUTLOOK AND RISKS

Serbia's GDP growth slowed significantly from 3.9% in 2024 to an estimated 2%⁴ in 2025, largely due to slowing investment and household consumption. Last year's ERP anticipated GDP growth of 4.2% in 2025, revised down to 2.3% in the current ERP, while the actual outcome was 2%, according to the preliminary estimate of Statistical Office of the Republic of Serbia. The ERP estimates that private consumption was the primary driver of growth, bolstered by a notable surge in real disposable income due to higher wages (up by 11.5% year-on-year on average in Q3 2025) and pensions (11% year-on-year). Still, private consumption growth slowed markedly, from 5.2% in 2024 to an estimated 2.8% in 2025, amid deteriorating sentiment due to continued domestic political unrest⁵ Investment growth also slowed significantly compared to the previous year (to an estimated 1.6%), primarily due to weaker construction activity and a drop in FDIs by approximately 50% year-on-year. Although exports increased robustly by 4.3%, imports grew even faster, by 5.5%. This resulted in a negative contribution from net exports to GDP growth, which was, however, 1 pp. lower than in 2024. The labour market cooled in 2025, with employment growing by a mere 0.1% year-on-year and unemployment rising by 0.5 pps to 8.9%. In terms of sectors, production data from Q1-Q3 2025 show continued strength in the IT sector and resilience in the manufacturing sector (strong automotive sector). By contrast, the construction and agriculture sectors faced significant challenges.

The ERP's medium-term macroeconomic scenario projects that growth will peak in 2027, coinciding with the specialised EXPO in Belgrade.⁶ The weaker-than-expected GDP outcome in 2025 has led to a downward revision of the 2026 growth forecast to 3%, from the 4% projected in last year's ERP. Despite this adjustment, a significant acceleration in GDP growth to 5.0% is still anticipated in 2027, as in last year's ERP. GDP growth is expected to fall back to 3.5% in 2028, aligning more closely with potential growth trends. Projected growth is primarily driven by robust private consumption fuelled by household income growth and booming investments in 2026 and 2027. These investments are supported by large-scale public initiatives included in the EXPO27 and the 'Leap into the future' investment programme⁷ (and reflected in a relatively loose fiscal policy with a deficit planned at 3% of GDP until 2027). The growth of exports is forecast to

⁴ Macroeconomic and fiscal estimates and forecasts covering the period 2025-2028 have been taken from the ERP; if available, preliminary macroeconomic and fiscal out-turn data for 2025 have been taken from the relevant national sources (Statistical Office, Ministry of Finance, Central Bank).

⁵ The Novi Sad tragedy in November 2024, caused by the collapse of the railway station's canopy which killed 16 people, led to widespread student-led protests against corruption.

⁶ Belgrade and Serbia will host a Specialised World EXPO from 15 May to 15 August 2027, under the theme 'Play for Humanity: Sports and Music for All'. It is estimated by Serbian authorities that, during the exhibition, Serbia will receive more than 4 million domestic and foreign visitors.

⁷ The development plan 'Leap into the Future – Serbia 2027' provides for significant public investments, especially in anticipation of hosting the Specialised World EXPO in 2027. It serves as a central framework for accelerated infrastructure modernisation. Around 18 billion euro will be invested in more than 300 projects throughout Serbia by 2027, as part of the 'Leap into the future - Serbia 2027' plan. Technically, the plan also includes the EXPO 2027 investments, but the two were announced at different times.

outpace import growth from 2027 onwards, spurred by new production capacities created by previous FDI inflows, EXPO-related tourism inflows and an anticipated recovery in external demand. According to the ERP, the output gap is expected to be negative at 1% in 2026, reflecting the relatively subdued growth witnessed in 2025 and 2026. It is expected to turn marginally positive in 2027 as the economy operates above its potential, before becoming neutral in 2028. The labour market is projected to exhibit positive trends, characterised by slightly rising employment and declining unemployment, which is expected to drop to 8.2% by 2028. Relatively strong real wage growth is set to persist, further boosted by hikes to minimum wages in 2025-2026, but at a somewhat slower pace.

The growth scenario is rather optimistic, as the recent slowdown in GDP growth and FDI points to some notable downside risks. The Commission's November 2025 forecast is more cautious, especially for 2027 (GDP growth of 4.2%, see Table II 7.1.), which is explained by differences in export projections. Moreover, several factors that already led to slower growth in 2025 might persist in the years ahead. In particular, the ongoing political crisis in the country remains acute, even if nationwide protests diminished somewhat towards the end of 2025 and the beginning of 2026. Weak external demand, global trade uncertainties and geopolitical tensions persist as significant risks. Although the ERP anticipates a strong surge in exports over the coming years, this depends to a large extent on the recovery of external demand, particularly from key partners such as Germany and Italy, and the success of the EXPO27 in attracting tourist inflows. On the positive side, Serbia currently benefits from high demand for specific car models produced in the country, partially insulating it from the crisis affecting the EU's automotive industry. Employing around 100 000 people, the automotive sector accounts for a substantial share of Serbia's manufacturing exports.

Table 1:

Serbia - comparison of macroeconomic developments and forecasts

	2024		2025		2026		2027		2028	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
Real GDP (% change)	3.9	3.9	2.2	2.3	3.3	3.0	4.2	5.0	n.a.	3.5
<i>Contributions:</i>										
- final domestic demand	5.7	5.8	3.4	2.6	4.6	5.1	4.2	4.1	n.a.	3.8
- change in inventories	0.1	0.2	0.1	0.7	-0.1	-0.5	0.0	0.0	n.a.	0.0
- external balance of goods and services	-1.9	-2.1	-1.3	-1.1	-1.2	-1.6	0.0	1.0	n.a.	-0.4
Employment (% change)	2.0	2.0	0.1	0.1	0.4	-0.2	0.7	0.6	n.a.	0.1
Unemployment rate (%)	8.6	8.4	8.9	8.9	8.7	8.9	8.6	8.5	n.a.	8.2
GDP deflator (% change)	6.3	6.3	3.9	4.1	4.4	3.7	4.4	3.4	n.a.	2.9
CPI inflation (%)	4.7	4.6	4.0	3.9	4.1	3.3	3.7	4.0	n.a.	3.0
Current account balance (% of GDP)	-4.5	-4.5	-5.3	-5.0	-6.1	-5.6	-5.2	-3.9	n.a.	-5.2
General government balance (% of GDP)	-2.0	-2.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	n.a.	-2.5
Government gross debt (% of GDP)	47.5	46.9	47.7	45.0	47.3	44.5	46.5	44.3	n.a.	44.1

Sources: Economic Reform Programme (ERP) 2026, Commission Autumn 2025 forecast.

The ERP identifies three categories of risks for the economic outlook: external factors, domestic socio-economic tensions and sector-specific uncertainties. The economic risk analysis highlights unstable global political, economic and trade conditions as key downside risks for the export-oriented Serbian economy, which is reliant on FDI inflows. A high degree of uncertainty also exists regarding some major branches of industry, such as the supply of energy products and steel exports to the EU. Assuming that these negative external risks materialise, the ERP's risk scenario estimates that the GDP growth rate in the period 2026–2028 will be 1.5 pps lower than in the baseline scenario. A further risk involves border delays and constraints on the free movement of truck drivers into the EU due to the stricter application of EU visa rules. This

poses challenges for cross-border transportation and increases costs for Serbia's export-import sector.

Average consumer price inflation was within the central bank's target band (3 ± 1.5%) in 2025, but price rises were temporarily suppressed by an ad hoc government intervention in retail trade margins. From September 2025 to February 2026, the government imposed a 20% cap on margins for most food categories, as well as household cleaning and personal hygiene products. As a result of the cap, inflation decreased sharply from 4.7% in August 2025 to 2.9% in September, remaining at a similar level for the rest of the year. Core inflation also slowed over 2025, to about 4% in Q4 2025 and in January 2026, driven by prices of goods. Housing costs, meanwhile, continued to be the main driver of inflation. Overall, the average inflation outcome for 2025 was 3.8% ⁽⁸⁾, down from 4.7% in 2024. While retail margin caps temporarily slowed inflation, they also disrupted free market operations for retailers and supply chains, negatively influencing investment and the FDI environment, while not addressing underlying price pressures. The relatively high price level in Serbia, particularly for food and beverages (96.4% of the EU average in 2024, significantly higher than in most regional counterparts), represents a structural issue that fuels wage demands, adversely affecting the competitiveness of the export sector. Alternative policy measures such as regulatory and legal measures to boost competition, prevent unfair trading practices, improve supply chain efficiency and facilitate border crossings for transport companies could help address these issues. The Serbian administration is actively working on these improvements.

In 2026-2028, inflation is forecast to remain within the central bank's target range. The ERP projects that inflation will decrease to 3.3% in 2026, before bouncing back to 4% in 2027, as EXPO27 is expected to boost demand. The Commission forecasts slightly higher inflation in 2026 (4.1%), but slightly lower in 2027 (3.7%). In 2028, the ERP expects inflation to ease to the central target value of 3.0%. The National Bank of Serbia (NBS) has kept the key policy rate unchanged at 5.75%⁹ since 2024, maintaining a cautious monetary policy. The average reverse repo rate, which de facto determines the monetary stance, remained around 4.5%. As stated in the ERP, this inflation profile depends on several assumptions, such as a moderation of international commodity prices, normal agricultural seasons and no significant rebound in inflation after the expiration of the retail margin caps. Aside from these specific risks, inflationary pressures are likely to persist due to comparatively loose fiscal policy (with the deficit maintained at 3% of GDP) and rapid increases in average and minimum wages. The potential inflationary effects from the conflict in the Middle East were not known in detail at the time of the preparation of this assessment (cut off in mid-March).

The dinar exchange rate against the euro stayed broadly unchanged in 2025. The NBS plans to continue implementing a managed float regime. The stability of the dinar was maintained through the central bank's regular interventions in the foreign exchange market, with net sales of EUR 490 million during the course of 2025. On 9 December 2025, the NBS took additional measures to address a temporary surge in demand for foreign currency, driven by rumours that sanctions on NIS might impact the financial sector. These measures aimed to enhance the supply of foreign cash to exchange offices and to limit the fees imposed by these offices. At the end of 2025, the NBS's foreign exchange reserves remained relatively high at EUR 29 billion, down 1%

⁸ This is the actual outcome according to the Statistical Office of the Republic of Serbia.; Table 1 refers to the respective forecast figures.

⁹ Latest information dating from February 2026.

year-on-year, equalling 6.8 months' worth of imports. The most significant boost to official reserves came from favourable valuation effects due to surging gold prices. Serbia's gold reserves are valued at EUR 6.2 billion, making up 21.4% of its total foreign exchange reserves.

The current account deficit remained high in 2025. It amounted to 4.8%¹⁰ of GDP in 2025, slightly up from 4.5% in 2024. The higher deficit was caused mainly by a smaller surplus from trade in services (down by 18% year-on-year) and a higher primary income deficit (up by 7% year-on-year), while a slightly smaller deficit (by 4%) from trade in goods had a positive impact. The surplus in secondary income (mainly remittances) was practically unchanged. The ERP expects the already elevated current account deficit to increase slightly to above 5% of GDP in the medium term, except in 2027, due to the expected EXPO-related tourism inflows. Goods imports are projected to surge in 2026, increasing the merchandise trade deficit by 0.7 pps to 8.6% of GDP, before falling back somewhat. The expected jump in services exports in 2027 is forecast to raise their share in GDP by 1.8 pps in 2027, but this is set to dissipate the following year.

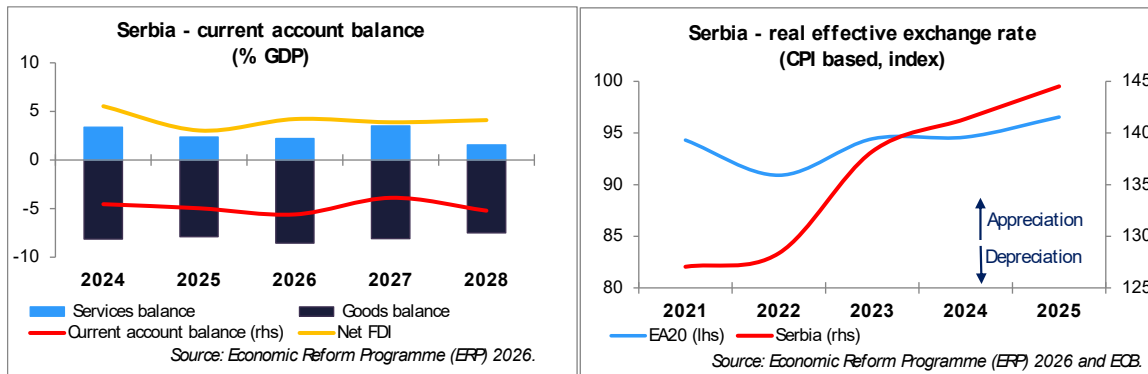
Unlike in previous years, in 2025 the current account deficit was not fully covered by net FDI inflows, and this is projected to continue. Amidst political turmoil and global trade uncertainties, investor sentiment weakened and net FDI inflows halved in 2025 compared to 2024, amounting to 2.4% of GDP. On the positive side, many of these investments continue to be channelled into tradable sectors and contribute to increasing domestic production capacity.¹¹ The ERP assumes that the drop in FDI in 2025 was temporary, after exceptionally strong inflows in previous years. Significant net FDI inflows are expected to resume in 2026, but only at around 4% of GDP annually, thus still not fully covering the current account deficit. However, weaker FDI could prove to be a more lasting trend, given the persistence of the same factors that led to the recent drop, such as uncertainties surrounding the external trade environment, domestic political instability and rapidly rising labour costs (further boosted by minimum wage hikes).¹² Serbia's net international investment position (NIIP) was negative at 61% of GDP in 2024, with FDI remaining dominant on the liability side and the stock of net FDI accounting for around 107% of the NIIP. Together with the comfortable level of foreign exchange reserves, this remains a key factor in reducing the country's vulnerability to external shocks.

External competitiveness and current account

¹⁰ Data published on 20 February 2026 by the central bank. Actual GDP outcome data might change the ratio. ERP projected 5% of GDP.

¹¹ In the first three quarters of 2025, the largest FDI inflows went into manufacturing industry (24%), construction (18%), professional, scientific, innovative and technical activities (17%), and wholesale and retail trade (15%). Investors were mainly from the EU (82% of total) and Asian countries (11%).

¹² The minimum wage has been substantially hiked, including a 13.7% increase in January 2025, a 9.4% increase in October 2025 and a 10.1% increase in January 2026, amounting to a cumulative 37% increase over a short period, to 750 euros monthly. The minimum wage as a proportion of the average wage is now relatively high compared with most European countries, estimated at slightly over 70% of the median wage and close to 60% of the average wage.



Serbia's financial sector remained stable in 2025. The banking sector is well capitalised, with a capital-adequacy ratio of 21% as of Q3-2025. The return on assets is relatively high, easing from the historic peak of 3.1% in Q1 to 2.9% in Q3. The ratio of non-performing loans to total loans further declined to a record low of 2.2% in Q3-2025. Bank lending growth has been on an upward trend since 2023, accelerating to 12% year-on-year in Q3-2025 amid eased credit standards. Lending is driven by household loans (over 15% year-on-year growth) and, to a lesser extent, corporate loans (10%). At the same time, bank deposits grew by about 11%.

The extension, from 2024, of temporary measures to cap interest rates and make mortgages and consumer loans more affordable for lower-income households raises moral hazard concerns. In 2025, a new law on financial service consumer protection was enacted, allowing differentiated interest rate caps on various types of loans. For instance, mortgage interest rate caps are fixed at 5-6% until May 2026, depending on the mortgage type, while average rates are slightly below this range. The law also restricts credit card overdraft rates (cap of 8.15% on EUR denominated credit) and provides detailed loan repayment relief for borrowers facing difficulties. Additionally, the central bank has instructed commercial banks to offer special mortgage and consumer credit options with reduced interest rates for low-income households, youth and pensioners. It was announced that this measure would remain in effect for 'at least one year'. The reduction in rates amounts to up to 3 pps for cash and consumer loans, and up to 0.5 pps for housing loans. The authorities aim to increase access to finance, alleviate excessive interest rate burdens on households and encourage fixed-rate loans, citing the relatively high loan margins in Serbia compared to neighbouring countries. However, these measures may interfere with market mechanisms in setting mortgage and consumer credit rates, potentially creating moral hazard. The measure may stimulate demand for loans among low-income households, thereby potentially increasing over-indebtedness in the very group it aims to protect, and contribute to even faster credit expansion. Furthermore, interest rates below market levels would affect the operating income of banks. Overall, stimulating credit growth could eventually call for tighter borrower-based macroprudential measures.

A large share of foreign-currency-denominated lending implies indirect credit risks, while efforts to promote greater use of the dinar continue. The central bank supports the development of local bond markets and encourages growth in dinar-denominated deposits and loans. To achieve this, it implements lower reserve requirements for financing sourced in dinars, pays interest on mandatory reserves held in dinars, prioritises the dinar in capital-adequacy calculations, and imposes higher buffer requirements for foreign-currency exposures. As a result of these measures, the share of dinar deposits has edged up to a new record high in December 2025. However, household dinar deposits still account for only about one third of total deposits, and household mortgage loans are predominantly in foreign currency. Additionally, only around 20% of corporate loans are denominated in dinars.

Table 2:

Serbia - financial sector indicators

	2021	2022	2023	2024	2025
Total assets of the banking system (EURmillion)	56 748	61 122	67 271	76 020	80 570
Foreign ownership of banking system (%)	87.0	83.6	76.9	77.5	77.9 ¹⁾
Credit growth (% , average)	9.1	10.9	1.7	4.5	11.8
Deposit growth (% , average)	14.4	8.4	11.4	13.0	9.7
Loan-to-deposit ratio (end of period)	0.88	0.88	0.79	0.76	0.82
Financial soundness indicators (% , end of period)					
- non-performing loans to total loans	3.6	3.0	3.2	2.5	2.1
- regulatory capital to risk-weighted assets	20.8	20.2	21.4	21.3	20.2
- liquid assets to total assets	37.7	37.5	41.0	40.8	36.1
- return on equity	7.8	13.9	18.1	20.3	20.6
- foreign exchange loans to total loans *	63.2	65.5	59.7	57.2	56.1

* Includes both denominated and indexed positions.

1) Q3-2025

Note: data for December 2025 are preliminary.

Sources: ERP 2026, National Bank of Serbia.

The NBS has taken measures to further strengthen the regulatory and supervisory framework. The most significant novelty was the establishment of the bank resolution fund, managed by the NBS. Fund membership will be mandatory for all banks, with contributions envisaged to start in 2026. The NBS is also making progress on the implementation of a credit registry to harmonise bank loan information in line with the EU standard format. As part of the rollout of the new credit registry, by the end of 2025 some banks were submitting data for testing purposes.

3. PUBLIC FINANCE

Preliminary data show that, at 2.4% of GDP, the deficit was lower in 2025 than the 3.5% projected by the ERP. Even with GDP growth being weaker than expected, the deficit came out 0.6 pps lower than projected, reflecting expenditure underperformance relative to the plan and revenues in line with plans. Expenditures grew by 9% year-on-year (vs. 10.3% planned) even though investments under-performed with only 1.5% growth (vs. 5% planned), but current expenditures were also lower than planned (10.8% vs. 11.4%). Revenues grew by 7.9% (vs. 7.7% planned), as solid growth in labour taxes (personal income tax up by 10%, social security tax up by 13.3%) compensated for weaker VAT revenues (4.9%).

The ERP projects a relatively loose fiscal stance for 2026-2028. The medium-term deficit ceiling is set at 3% of GDP, ostensibly to allow for EXPO27-related investments up to 2027.¹³ However, as shown in Table 3, investments are actually set to decline as a share of GDP, albeit from a relatively high level after the 2024 peak, while 'consumption' expenditure and

¹³ The fiscal rules were adopted in December 2022, with the deficit rule only set to enter into force in 2025, since specific deficit targets for 2023 and 2024 had already been agreed in the Stand-By Arrangement with the IMF. However, under the Policy Coordination Instrument agreed with the IMF at the end of 2024, the deficit ceilings were relaxed to 3.0% of GDP for 2025-2027 and to 2.5% of GDP for 2028 and 2029, in order to accommodate EXPO27 investments. On the positive side, specific fiscal rules regulating the growth of public wages and pensions continued to apply from 2023 and are also planned to be followed in the 2026 budget.

transfers/subsidies are set to drive expenditures (notably pensions and wages). In 2028, a consolidation is expected, with the deficit falling by 0.5 pps to 2.5% of GDP. The primary balance is set to be negative at about 1% of potential GDP and to improve only in 2028, in line with the nominal balance. The envisaged fiscal stance (the cyclically adjusted primary balance) appears to be somewhat loose in 2026-2027 and contractionary in 2028. According to the ERP, the fiscal path allows room for investments while remaining consistent with the downward trend for public debt. In addition, the ERP notes that the budget is conservatively planned, leaving room for absorbing some potential negative risks (or for savings and a lower-than-planned deficit in the absence of shocks). The ERP predicts that both the revenue and expenditure ratios to GDP would decline slightly after a high point in 2025-2026 as non-tax revenues, as well as spending on investments and 'transfers and subsidies' (to agriculture and the energy sector), are expected to ease.

The 2026 budget assumes that the fiscal deficit will remain at 3.0% of GDP. However, considering the better-than-planned outcome in 2025, the 2026 plan would imply a fiscal stimulus, unless the previous year's savings are carried over. Aggregate expenditure and revenue ratios as a share of GDP are projected to remain unchanged in 2026. In terms of sub-components, the tax revenue share is forecast to rise, as was the case in the previous year, due to labour taxes outperforming the GDP base. Interestingly, the budget provides for a significant change in the composition of spending (as a percentage of GDP). The public investment ratio is set to fall despite the projected peak in 2026 of EXPO27 investments, while spending on pensions and public wages is set to rise by 0.5 pps and 0.3 pps, respectively. However, the actual investment profile could turn out to be different, as the underspending in 2025 (by 0.3 pps) likely implies project delays and postponed spending that would be expected to boost capital expenditure in 2026.

The 2026 budget implements only minimal changes in tax policy. The non-taxable personal income threshold will be raised by 20.4%, with the aim of further reducing the tax burden on lower incomes and labour in general. The fiscal effect of this measure is estimated to result in a revenue reduction of 24.5 billion dinars (0.2 % of GDP), of which 17 billion relate to the tax on wages and 7.5 billion to compulsory social security contributions. While the continued modernisation of the tax administration could lead to improvements in tax collection efficiency, this is not included in the ERP projections, representing an upside risk to revenues. Non-tax revenues are projected to fall back over the medium term, after a peak in 2025, when a one-off 5G auction generated revenues of 0.15% of GDP.¹⁴

¹⁴ The exact amounts are not set out in the ERP, but public sources suggest a revenue of EUR 300 million, or 0.3% of GDP in total, split equally between 2025 and 2026.

Table 3:

Serbia - composition of the budgetary adjustment (% of GDP)

	2024	2025	2026	2027	2028	Change: 2025-28
Revenues	40.4	40.9	40.9	40.1	40.0	-0.9
- Taxes and social security contributions	35.9	36.1	36.5	36.1	36.1	0.0
- Other (residual)	4.6	4.8	4.4	4.0	3.9	-0.9
Expenditure	42.4	43.9	43.9	43.1	42.5	-1.4
- Primary expenditure	40.5	42.0	42.0	41.2	40.5	-1.5
<i>of which:</i>						
Gross fixed capital formation	7.2	7.1	6.7	6.4	6.1	-1.0
Consumption	16.2	17.4	17.8	17.6	17.6	0.2
Transfers & subsidies	15.4	15.8	16.1	15.8	15.5	-0.3
Other (residual)	1.7	1.7	1.5	1.4	1.3	-0.4
- Interest payments	1.9	1.9	1.9	1.9	1.9	0.0
Budget balance	-2.0	-3.0	-3.0	-3.0	-2.5	0.5
- Cyclically adjusted	-2.3	-2.9	-2.7	-3.1	-2.5	0.4
Primary balance	-0.1	-1.1	-1.1	-1.1	-0.6	0.6
- Cyclically adjusted	-0.4	-1.0	-0.8	-1.2	-0.6	0.5
Gross debt level	46.9	45.0	44.5	44.3	44.1	-0.9

Sources: Economic Reform Programme (ERP) 2026, Commission calculations.

In the medium term, expenditures as a share of GDP are projected to decline more than revenues. The declining trend in revenues as a share of GDP is explained by the projected structure of Serbia's medium-term economic growth becoming less tax-rich and the assumption of a relative decline of non-tax 'other' revenues. Despite the 20.4% increase in the non-taxable income threshold, the ratio of labour taxes to GDP would still slightly increase, as wage growth is projected to exceed GDP growth and social security contributions would be less affected by the measure. Although VAT revenue was below expectations in 2025 due to weak household spending, a modest recovery is expected in the coming years, staying broadly stable as a share of GDP in 2025-2028. Expenditures as a share of GDP are also set to decline significantly in 2027 and 2028, largely explained by investments falling back after their EXPO27 peak and a relative reduction in subsidies and pension costs. The fiscal rules set the pension expenditure target at 10% of GDP, and the medium-term projection reflects the application of the pension indexation formula¹⁵ to bring down the ratio from an estimated 10.6% in 2026 to 10.2% in 2028. The fiscal rules also cap employee compensation in the general government sector at 10% of GDP. However, this will be adjusted upward in the event of an expansion of statistical coverage of the general government (inclusion of new entities). The ERP scenario expects to meet this requirement with wage expenditures slightly above 10% of GDP due to the statistical inclusion of new government units. After a temporary increase in 2025-2026, subsidies are projected to decline slightly over the medium term relative to GDP, as it is assumed that higher allocations for agriculture, energy and transport infrastructure will expire. However, this particular assumption is somewhat risky, as subsidies are typically decided on an ad hoc basis in response to unforeseen shocks.

¹⁵ In 2024, pensions were indexed to wage growth, whereas in 2025, the Swiss formula (relying on both inflation and average wage growth) was applied. In 2026, pensions will be aligned with the growth of the average wage (12.2%), and in 2027 indexation under the Swiss formula is envisaged by the ERP.

BOX: DEBT DYNAMICS

Serbia					
Composition of changes in the debt ratio (% of GDP)					
	2024	2025	2026	2027	2028
Gross debt ratio [1]	46.9	45.0	44.5	44.3	44.1
Change in the ratio	-1.4	-2.0	-0.5	-0.2	-0.2
Contributions [2]:					
1. Primary balance	0.1	1.1	1.1	1.1	0.6
2. 'Snowball effect'	-2.7	-0.9	-0.9	-1.5	-0.7
Of which:					
Interest expenditure	1.9	1.9	1.9	1.9	1.9
Growth effect	-1.7	-1.0	-1.2	-2.1	-1.4
Inflation effect	-2.8	-1.8	-1.6	-1.4	-1.2
3. Stock-flow adjustment	1.1	-2.2	-0.8	0.2	0.0

[1] End of period, in accordance with Government debt as defined by the national methodology. This includes all government-guaranteed debt and non-guaranteed local government debt. It differs from government debt according to the national methodology (set out in the Public Debt Law), which does not include non-guaranteed local government debt.

[2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).

The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.

Source: Economic Reform Programme (ERP) 2026, Commission calculations.

Despite the relatively high deficit targets, the ERP projects that the public debt ratio will continue to fall. The downward trend in the debt ratio is expected to continue in the medium-term despite the negative primary balance of around 1% of GDP. The ERP expects the debt ratio to decrease slightly, from 45% in 2025 to 44.5% in 2026, and further to 44.1% in 2028. The gradual decline is projected to be driven largely by strong economic growth and a lower, but still noticeable,

inflation effect. Interest expenditures are expected to remain stable. The stock-flow adjustment was substantial in 2025, at -2.2 pps (reflecting the use of fiscal reserves), but it is projected gradually to turn neutral in 2027-2028. A large share (77.3%) of public debt remains denominated in foreign currency, therefore exposing Serbia's public debt stock to foreign exchange rate risks. However, this is mitigated by a de facto stable exchange rate arrangement. The ERP includes an analysis of the impact of different exchange rate scenarios on debt trends for the central government. The analysis compares the baseline projection with alternative scenarios of up to 10% appreciation or depreciation of the dinar exchange rate against a specific currency basket. For those scenarios, the projected central government debt-to-GDP ratio ranges from 40.2% to 47.0% in 2028, compared with the baseline scenario of 43.6%.

Overall, fiscal risks appear relatively balanced, but the fiscal scenario outlined contains some challenges. The deficit projections in the ERP are in line with the Commission's forecast. However, the revenue projections are contingent on wages and employment continuing to increase and business and consumer confidence stabilising. On the expenditure side, risks relate to possible spending overruns on the time-critical EXPO27 projects and unexpected subsidies to SOEs. Moreover, further non-budgeted ad hoc expenditure measures could be announced over the course of the year, as has been the practice in recent years, for example in the domain of social protection during election years. However, extraordinary spending was typically executed in the second half of the year, once the actual in-year budget performance was more certain, limiting for the risk of not meeting the deficit target. By mitigating these risks, Serbia has overperformed its fiscal targets in recent years, owing to conservative budget planning.

The Ministry of Finance continued its efforts to improve monitoring and assessing fiscal risks. The ERP includes a detailed assessment of fiscal risks related to the performance of a number of SOEs, court decisions and potential natural disasters. However, work on public-private-partnerships (PPP) and local government is less advanced. The fiscal risk monitoring process is based on a methodology developed together with the World Bank, and cooperation continues.

Serbia has also carried out a Fiscal Transparency Evaluation in cooperation with the IMF, and consultations with the IMF are planned to continue.¹⁶ Additional information is scheduled to be published on financial relations between the state and public enterprises, fiscal data at the municipal level, PPPs, fees for the exploitation of mineral resources, and subsidies to SOEs. Serbia plans to revise the Law on Public-Private Partnerships and Concessions in 2026 to require all local PPPs with investments over 50 million euros to secure approval from the Ministry of Finance. While the Fiscal Risks Monitoring Department within the Ministry of Finance has expanded the coverage of its reporting on fiscal risks in the fiscal strategy for 2025-2027, it does not currently publish comprehensive reports or a stand-alone Fiscal Risk Statement. The Ministry of Finance has calculated an 'SO indicator' of short-term fiscal sustainability, based on the European Commission's methodology. The result appears favourable for Serbia, indicating minimal short-term fiscal stress risks. The well-established Fiscal Council continues to function properly, closely monitoring fiscal policies in the country and producing independent reports and recommendations.

SOEs play a relatively large role in the Serbian economy, with significant fiscal impacts.

There is ample evidence that SOEs typically underperform in terms of investments, innovation, productivity, profitability and payment discipline. The OECD recently estimated a negative net fiscal impact on the Serbian budget of around 0.8% of GDP in 2023, largely caused by the ten largest SOEs and energy-related companies.¹⁷ In this context, the government has taken action over recent years to reduce SOE-linked fiscal risks via a two-pronged approach: structural reforms of public- and state-owned enterprises and limiting the issuance of new guarantees for SOE operations. The share of guarantees in public debt (primarily guarantees to SOEs) has continued to decline from 9.5% in 2015 to 4.3% as of 31 August 2025. The cornerstone of reducing fiscal risks and improving SOE performance is the 2024 Law on SOE governance and its by-laws. However, the law has not been enforced evenly. Its full and successful implementation, which has only started recently, is the key to actual improvements in the longer term. Challenges remain in terms of systematically disclosing and analysing financial data and fiscal risk statements, strengthening government oversight, enhancing transparency and the quality of executive and supervisory boards, SOE restructuring where needed, and addressing irregularities in SOEs' public procurements. In recent years progress has been made in terms of a gradual upward adjustment of utility tariffs to cost-recovery levels. These challenges are also addressed in the Reform Agenda.

While reforms of public investment management are under preparation, notable gaps remain.

One major issue is the substantial discretion which the government enjoys when designating investments as having 'particular importance'. The current legislation exempts those investments (including PPPs) from the standard investment management procedures and only requires enhanced monitoring and recording. Consequently, certain large investment decisions are still made without the necessary consultations, feasibility studies, cost-benefit analyses and environmental impact assessments which are crucial for ensuring transparency and the sound use of public funds. Serbia's medium-term fiscal strategy includes a list of public investments for projects exceeding EUR 20 million, excluding defence and security. While this helps with transparency, further work is still needed on long-term planning, regular monitoring and the development of a unified, comprehensive and transparent system of public investments

¹⁶ Serbia also carried out a Public Expenditure and Financial Accountability (PEFA) review in 2025.

¹⁷ Public Finance Review: Fiscal Policy for High-Income Serbia, World Bank, 2025

regardless of type and source of financing. It is also important to properly budget future costs arising from the maintenance of a growing public capital stock.

The public sector wage reform continues to face delays, which makes it increasingly challenging to attract and retain highly qualified employees. Strong built-in wage compression makes it difficult to attract and retain highly qualified employees in the public sector, creating a risk of significant brain drain if reforms are postponed further, as the private sector offers more competitive salaries. The excessive politicisation of recruitment procedures, notably for senior managers, may also contribute to demotivation and the risk of brain drain. An essential preparatory step is the rollout of Iskra, the central electronic public wage and employment registry, which has progressed well. It includes all direct budget beneficiaries in central and local government (except the defence, security and internal affairs sectors) and higher education institutions. Based on this database, a report was produced in 2025 detailing employee numbers and salary ranges which could also serve as a basis for future wage reform steps.

The modernisation of the tax administration is ongoing, with technical support from the IMF and the World Bank. The upgrade of IT tools is ongoing. Recently the focus has been on actively monitoring and analysing the VAT and corporate income tax gaps. The adoption of the Law on the Determination of the Origin of Assets and Special Tax, alongside a new organisational unit within the tax administration, makes it possible to cross-check individuals' assets and income. Staff shortages and training remain a significant challenge, due to inadequate salaries. Activities are underway to fill vacancies, including public campaigns and a simplified hiring system to allow for the speedy recruitment of highly qualified staff.

BOX: SENSITIVITY ANALYSIS

The ERP presents a sensitivity analysis of both the deficit and the debt in line with the alternative macroeconomic scenario presented, which features lower growth rates compared to the baseline. The alternative scenario assumes that negative risks from the international environment, such as trade restrictions, and the escalation of domestic socio-political tensions materialise. The analysis shows that, mainly due to its impact on revenues, especially from income and consumption taxes, slower growth would result in a public debt ratio of 49.0% in 2027 (instead of 46.5%) and a higher deficit of 4.4% (instead of 3.0%).

There is scope for improving the transparency and quality of public finances. Typically, the in-year supplementary budgets are adopted using the fast-track procedure with very limited parliamentary involvement. Notable technical gaps in the budget include a lack of information on risks related to public-private partnerships, public expenditure on SOEs, actual spending compared with the original budget and in-year reports on budget execution per budget beneficiary. In addition, the 2025 budget was supposed to include for the first time a presentation of tax expenditures, but this was postponed. The absence of these data makes it difficult to see how revenue foregone through the tax code affects overall revenue and the distribution of related benefits. With technical support from the IMF, an analysis of tax expenditures is now being conducted, and the first report on this topic is scheduled to be completed and published in 2026. It would be crucial now also to take policy action to reduce tax expenditures with weak economic justification.

Work to strengthen the medium-term budget framework has progressed, but significant improvements are still needed. Prepared with technical assistance from the IMF, a methodology for developing the baseline budget scenario was adopted in May 2025. Starting with the 2026 budget, the inclusion of a reconciliation table is planned to provide a clearer overview of changes in the budget frameworks. In the 2025 budget cycle, the methodology for 'green' tagging was

applied for the first time, and it is planned to further improve the system and extend it to local government. However, the medium-term budget still lacks some technical features, such as indexing medium-term projections to make them more realistic. Fundamentally, medium-term planning needs to be more binding for policy makers and a true constraint for annual budgetary decisions. This would allow a more strategic approach to budget policies instead of the current, often ad hoc approach.

4. ADDRESSING STRUCTURAL CHALLENGES – THE REFORM AGENDA AND ITS IMPACT ON THE MACRO-FISCAL FRAMEWORK

The Reform Agenda is a key instrument meant to address structural challenges and thereby foster a faster convergence of the Serbian economy towards EU levels. The Reform Agenda was agreed between Serbia and the European Commission in October 2024. Serbia has committed to implementing wide-ranging measures in 2024-27 to improve the business environment, spur private sector development and support labour market and education reforms, as well as the digital transformation.¹⁸ As of February 2026, the European Commission has released EUR 167.6 million in favour of Serbia, of which EUR 111.0 million was provided in pre-financing. In March 2025, Serbia submitted its first payment request. In January 2026, the European Commission adopted a Decision approving the first release of funds to Serbia, having concluded that three out of seven steps had been achieved: the implementation of the Electricity Integration Package, alignment with the EU Toolbox for 5G Security and alignment with the EU visa regime. In July 2025 and January 2026, Serbia submitted its second and third payment requests, respectively. As of March 2026, these payment requests were still being assessed by the Commission.

Completing structural reforms has become particularly important, as Serbia's recent growth model, fuelled by FDI into labour-intensive sectors and matched by employment growth, appears to have run out of steam: the labour market has tightened, wage levels have already converged to that of neighbouring EU member states and long-standing challenges in the business environment remain an obstacle. This is already reflected in reduced FDI inflows in 2025. As Serbia's wage cost advantage in attracting investments diminishes, future economic growth will increasingly depend on higher value-added sectors. In addition, new challenges have emerged in the business environment, such as the government's significant market intervention in the form of the retail-price-margin cap from September 2025 to February 2026. On the positive side, Serbia has several comparative advantages and opportunities to exploit, for example its strong legacy in the technical sciences and university education, its industrial base, its closeness

¹⁸ <https://eur-lex.europa.eu/eli/reg/2024/1449/oj/eng> Subject to the implementation of these reforms, the allocation for Serbia amounts to EUR 1.58 billion with EUR 455.3 million planned in grants and EUR 1.13 billion in concessional loans.

to European manufacturing centres, a strong ICT sector and abundant mineral and agricultural resources.¹⁹

The issues hampering the business environment include weaknesses in the rule of law, public investment management, public procurement procedures and State aid, as well as large and inefficient SOEs. Businesses continue to be affected by a lack of transparency and predictability regarding the adoption of business-related legislation, including through unexpected and non-transparent changes in the legal framework, often without consultation procedures. The retail-price-margin cap measure is a prime example of this problem. Deficiencies in the transparency, assessment and prioritisation of public investment continue to exist, as many large capital projects are exempted from the single pipeline for capital investment management. Public procurement processes are similarly characterised by a lack of transparency and fair competition and continue to be subject to numerous exemptions from standard procedures, including through intergovernmental agreements and special laws. State aid rules, while well-defined, are not implemented consistently due to strong political pressure to provide financial assistance to SOEs and large foreign investors. SOEs continue to dominate many structurally important sectors such as energy, transport, telecommunications and finance, which affects resource allocation and impedes overall competitiveness. Many of them operate with low efficiency and high costs, often relying on direct or indirect government subsidies, which creates major fiscal risks. Often, corporate governance rules are not applied properly.

Serbia faces a continuously declining labour force, while the labour market has tightened considerably. Serbia's working-age population has declined by over 12% between 2014 and 2024. Population projections by the Statistical Office of the Republic of Serbia suggest a continued decline by over 9% from 2027 to 2037. Labour market outcomes improved markedly over the past decade, with employment rising on account of declining unemployment and inactivity. However, progress ground to a halt in 2025 as the economy cooled, and the unemployment rate has likely neared its structural limits. Certain industries are already reliant on foreign labour. The continuous tightening of the labour supply implies that sustained labour demand will lead to continued wage pressures in the coming years, and labour market policies will become increasingly important for economic competitiveness. Skills mismatches and brain drain continue to pose challenges for Serbia. Specific challenges relate to high youth unemployment and the share of young people neither in employment nor education or training (NEET) is somewhat above the EU average. However, in 2025 the budget allocations for active labour market policies remained low at around 0.1% of GDP. Greater emphasis would be needed for upskilling and reskilling the existing workforce. Participation in adult learning remains low (5.5% compared to 13.3% in the EU in 2024).²⁰ Both unemployment benefits and subsidised job activation measures are relatively limited compared to the EU average.

A specific challenge that has recently gained renewed prominence is the energy sector's struggles with largely outdated infrastructure, overreliance on coal and high dependency on Russia in the gas and oil sectors. Dominated largely by SOEs, the inefficient energy sector poses a potential liability for the state budget. Serbia's energy-dependence on Russia has recently exposed it to systemic risk regarding gas supply and pricing and the imposition of US sanctions on the oil company NIS in November 2025 due to its Russian-majority ownership. A framework agreement to sell the Russian stake in the company was reached in January 2026, leading to the

¹⁹ OECD, Western Balkans Competitiveness Outlook 2024: Serbia

²⁰ OECD, SME Policy Index: Serbia profile – Harnessing human and social capital for SME development.

suspension of US sanctions, but a final agreement is still being drawn up and will require approval by all stakeholders, including the US Treasury's Office of Foreign Assets Control. Serbia has responded by speeding up work on gas, oil and electricity interconnections with several neighbouring countries, with the aim of diversifying supplies. In December 2025, Serbia adopted the Law on Greenhouse Gas Emissions Tax (GHG), effective in 2026, as a central instrument of climate and fiscal policy. This measure is a direct tax response to the implementation of the European Union Carbon Border Adjustment Mechanism (CBAM). Revenues collected from this tax are directed to Serbia's budget and are used to finance a green and just transition. The current ERP does not yet include any revenue or macroeconomic effects of this measure, as it will only be analysed and incorporated into the fiscal strategy for 2027.

In its 2026 ERP, Serbia provided estimates for the expected economic and fiscal impacts of several key reforms outlined in the Reform Agenda. The analysis of macroeconomic effects is repeated with the same coverage of reform measures as in the previous ERP. In the 2026 ERP, Serbia included for the first time the expected fiscal impacts of the same four key reforms. The first key reform identified refers to the development of an advanced scientific and innovation ecosystem by financing 3 400 researchers and 600 innovative companies in order to increase the private sector's share in total research and development (R&D) investment from 43.7% in 2022 to 50% by the end of 2026. Referring to the findings of empirical studies of a positive correlation between R&D investment and GDP growth, the ERP estimates an effect on long-term GDP growth from 0.067 pps to 0.137 pps and a positive fiscal effect of 0.04% of GDP. A second estimate has been made of the impact of new green energy capacities, namely the installation of at least 1.5 GW of solar and wind energy by December 2026. Citing an investment multiplier of 1.12 to 1.73 for the estimated investment value of RSD 230 billion, the ERP suggests a contribution to potential GDP growth of 2.4 pps to 3.6 pps, the creation of 15 000 jobs and a positive fiscal impact of 0.2% of GDP through macroeconomic effects. A third reform focuses on digital infrastructure. In reference to empirical studies and based on an estimated investment value of around RSD 15 billion in 5G infrastructure, the ERP projects a contribution of 0.35 pps to GDP growth, the creation of roughly 12 000 jobs and a positive fiscal effect of 0.1% of GDP. Lastly, the ERP includes impact estimates for a reform aimed at boosting the employability of young people by improving the legal framework for internship programmes and strengthening the Youth Guarantee programme. With a target of reaching 30% of current NEETs by 2027, the measure is expected to create around 17 000 new jobs, an increase in total employment of 0.6% and a positive fiscal impact of 0.2% of GDP.

The macro and fiscal impacts provided in the ERP seem broadly plausible, with one exception that was already identified in the previous Commission's assessment. While estimates for the reforms mentioned above seem broadly sound, the suggested impact of the reform involving increased production of green energy seems fairly optimistic. The applied investment multiplier of 1.12 to 1.73 seems to be broadly in line with empirical research, which suggests a multiplier for spending on green energy to range from 1.1 to 1.5.²¹ Nevertheless, it is important to point out that the outlined numbers cannot be understood as a net effect on GDP growth, as the estimate does not consider lower electricity production from other sources. The overall net impact on output is therefore significantly lower than described. The newly included fiscal impacts are in line with the effects that typically could be expected from the macroeconomic and labour market effects cited, but again with the exception of the green energy investments, where the fiscal impact appears significantly lower relative to the very large

²¹ IMF (2021). Building Back Better: How Big Are Green Spending Multipliers?.

GDP impact. It is, however, more in line with other reforms in terms of expected job creation effects. The ERP does not explicitly specify whether or not these macroeconomic and fiscal effects have been incorporated into the medium-term projections,²² nor was any additional information provided on the method for calculating the fiscal impacts.

²² The Ministry of Finance has confirmed that the macro and fiscal impacts are not included in the ERP projections and constitute an upward risk. They have also explained that fiscal impacts were estimated via standard tax elasticities.

ANNEX: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2025

Every year since 2015, the Economic and Financial Dialogue between the EU and regional partners has adopted targeted policy guidance for all partners. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year's ERP assessments.

The following table presents the Commission's assessment of the implementation of the 2025 policy guidance jointly adopted at the Economic and Financial Dialogue between the EU and Regional Partners at ministerial level on 13 May 2025.

Overall: partial implementation (61.1%) ²³	
2025 policy guidance (PG)	Summary assessment
<p>PG 1:</p> <p>Keep an appropriately tight fiscal stance in 2025 to counter inflationary pressures, including by containing current spending and using any budget overperformance for stronger-than-planned deficit reduction.</p> <p>Further strengthen public investment management, including by putting in place a unified, comprehensive and transparent</p>	<p>There was substantial implementation of PG 1:</p> <p>1) Full implementation:</p> <p>The fiscal stance has been kept appropriately tight and thus contributed to keep inflation within the central bank's target range. No supplementary budget was drawn up for 2025. The fiscal overperformance in 2025 was used to decrease the fiscal deficit from the planned 3% of GDP to an estimated 2.4% of GDP. However, this was partly due to investment underperformance. At the same time, the current spending of the general government rose by 10.6%, broadly as planned in the budget. The fiscal rule with regard to pension and public wage expenditures has been fully enforced.</p> <p>2) Limited implementation:</p> <p>Serbia has continued working on public investment management (PIM) over 2025, but</p>

²³ For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission's Overview and Country Assessments of the 2017 Economic Reform Programmes. This is available at https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country-assessments_en.

<p>system for prioritising and selecting all public investments, regardless of type and source of financing and in line with the highest international standards.</p> <p>Develop capacity for assessing the long-term financial sustainability of the pension system and carry out a comprehensive analysis of the Serbian pension system.</p>	<p>crucially, it still plans to exempt many projects from standard procedures, such as those of national importance, public-private partnerships, concessions as well as related to SOEs. A unified, comprehensive and transparent system for all public investments has yet to be put in place.</p> <p>3) Substantial implementation:</p> <p>The Ministry of Finance, in cooperation with the Fiscal Council, has progressed well on developing a model for the long-term sustainability of the pension system. A comprehensive analysis is still being carried out, planned for publication in the first quarter of 2026. The government also plans to expand this analysis to include long-term health spending needs.</p>
<p>PG 2:</p> <p>Launch technical work on the presentation of a comprehensive tax expenditure review and share a first draft of the report with the European Commission.</p> <p>Based on the implementation of the fiscal risk monitoring methodology, continue to expand fiscal risk reporting within the fiscal strategy, including by strengthening the capacity of the Fiscal Risks Monitoring Unit and by further improving forward-looking fiscal risk monitoring to support fiscal planning.</p> <p>Prepare a concept paper for a public sector wage reform, outlining its objectives, scope and features, along with a concrete timeline for implementation.</p>	<p>There was partial implementation of PG 2:</p> <p>1) Substantial implementation:</p> <p>The Ministry of Finance has started preparatory work with the help of IMF. The first draft of the review is planned for spring 2026.</p> <p>2) Substantial implementation:</p> <p>The Ministry of Finance has continued to expand its fiscal risk monitoring methodology, in cooperation with the World Bank and IMF. Progress is visible in the 2026-2028 fiscal strategy on the analysis and presentation of fiscal risks posed by a number of SOEs and court decisions, as well as potential natural disasters. Work on public-private-partnerships (PPP) is less advanced, but is planned to continue. Stand-alone fiscal risk reports have still not been published.</p> <p>3) Limited implementation:</p> <p>The preparatory phase of the wage reform continued in 2025, with some required legal changes and the development of an analytical reporting platform for salary simulations and potential models for reform. However, the actual reform model has not yet been chosen, nor given a concrete timeline.</p>
<p>PG 3:</p>	<p>There was partial implementation of PG 3:</p>

<p>Continue to calibrate monetary policy appropriately to achieve sustainable price stability and anchor inflation expectations.</p> <p>Implement a credit registry to align bank loan information with the EU standard format and ensure that measures affecting market pricing of risks, such as interest rate caps, are well-targeted and appropriately designed so as not to induce moral hazard.</p> <p>Continue efforts to promote the use of the domestic currency, including by enhancing long-term financing in domestic currency, further encouraging forex hedging and raising awareness of risks related to forex lending.</p>	<p>1) Substantial implementation: The central bank has continued to carefully assess the evolution of prices, and inflation has remained within the target band, helped by a sufficiently tight monetary policy stance. However, the retail price cap played a large role in temporarily suppressing inflation, which complicates the analysis of underlying inflationary pressures.</p> <p>2) Limited implementation: As part of the rollout of the new credit registry, some banks are currently submitting data for testing purposes. Temporary measures affecting market mechanisms in setting mortgage and consumer credit interest rates have been extended in scope in 2025 and 2026, with a potential to induce moral hazard.</p> <p>3) Substantial implementation: The authorities continued fostering the development of local bond markets and encouraged dinar-denominated deposit and loan growth. Notably, the central bank applies lower reserve requirements on dinar sources, pays interest on mandatory reserves held in dinars (but not on those held in foreign currency), favours dinar in capital-adequacy calculations, applies higher buffer requirements for foreign currency exposures, allows banks to conclude bilateral swap transactions as a form of support in managing both dinar and foreign currency liquidity and overcoming insufficient limits for interbank trading. The NBS continues to publish the quarterly Report on the Dinarisation of the Domestic Financial System and the semi-annual Analysis of the Profitability of Dinar Savings, aimed at promoting increased use of the domestic currency. The government issued several dinar-denominated bonds in early 2026. Nevertheless, currency substitution remains relatively high.</p>
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