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Link: <https://serbia-business.eu/serbias-growth-outlook-improves-but-export-concentration-and-year-end->

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Teme: Elektroprivreda Srbije (EPS)

Naslov: Serbia's growth outlook improves, but export concentration and year-end inflation remain material risks - Doing - Serbia business country gateway,...

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Raiffeisen Bank has upgraded its forecast for Serbia's economic growth in 2026 and lowered its year-end inflation projection, reflecting stronger first-quarter activity, a better agricultural season and the retreat in global oil prices following the US-Iran peace agreement. The bank now expects Serbian GDP to grow by 2.8 per cent this year, compared with its previous estimate of 2.4 per [...]

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The bank now expects Serbian GDP to grow by 2.8 per cent this year, compared with its previous estimate of 2.4 per cent. Its projection for year-end inflation has been reduced from 6.1 per cent to 5.7 per cent.

The revisions reverse part of the deterioration incorporated into Raiffeisen's April outlook, when the escalation in the Middle East had raised expectations of a prolonged energy-price shock. The new numbers are more favourable, but they do not represent a return to a low-risk growth environment. Serbia's expansion remains dependent on household consumption, government infrastructure expenditure, a small number of export products and the resolution of the ownership and sanctions uncertainty surrounding Naftna Industrija Srbije. Growth of 2.8 per cent would mark an acceleration from approximately 2 per cent in 2025, but it would remain below the rates Serbia recorded during its stronger pre-slowdown period. The forecast is aligned with the International Monetary Fund's projection of around 2.8 per cent, while remaining slightly below the National Bank of Serbia's 3 per cent estimate.

The Serbian economy expanded by 3.2 per cent year on year in the first quarter of 2026, providing a stronger starting point than Raiffeisen had anticipated. Economic indicators for April and May remained broadly positive, although the composition of activity became increasingly uneven.

Household consumption is expected to remain the most reliable component of growth. Real wages are continuing to rise, while remittances provide an important additional source of household income. Consumer spending is being reinforced by public expenditure connected with EXPO 2027 and the wider "Leap into the Future" infrastructure programme.

This combination gives Serbia a relatively resilient domestic-demand base. It also means that the growth model is becoming more dependent on wages, transfers and state-funded construction than on a broad industrial recovery. Strong consumption can support retail trade, services and tax revenue, but it also increases demand for imported consumer goods and equipment, limiting the contribution of net exports to GDP.

The government's investment programme will remain an important stabiliser through 2026 and 2027. Roads, railways, utilities, urban infrastructure and Expo-related construction are supporting employment and orders for domestic contractors. The IMF framework nevertheless requires Serbia to keep its fiscal deficit close to or below 3 per cent of GDP, limiting the room for additional untargeted subsidies or permanent spending increases.

The growth upgrade is therefore meaningful but relatively narrow. Raiffeisen continues to warn that





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actual expansion could fall below 2.8 per cent, particularly in the event of renewed energy-market disruption, weaker eurozone demand or operational problems at NIS.

The inflation revision requires careful interpretation. Serbia's headline inflation slowed sharply to 2.7 per cent year on year in June, from 3.5 per cent in May. This placed the current rate close to the National Bank of Serbia's central target of 3 per cent and comfortably inside the permitted band of 1.5-4.5 per cent. Raiffeisen's 5.7 per cent forecast refers to inflation at the end of the year, rather than the annual average. The bank therefore expects price growth to accelerate by approximately 3 percentage points between June and December, moving above the upper limit of the central bank's target range.

The National Bank of Serbia expects average inflation of around 3.6 per cent in 2026, which is not directly comparable with Raiffeisen's year-end estimate. A year can record relatively moderate average inflation even when the final monthly rate rises sharply because the acceleration occurs late in the period.

The June improvement was driven partly by food. A favourable agricultural season and a strong supply of fruit and vegetables contributed to a 0.6 per cent monthly decline in prices for food and non-alcoholic beverages. Transport-price growth slowed to 0.2 per cent month on month, following an increase of 1 per cent in May, as international oil prices retreated.

The agricultural effect is particularly important in Serbia because food has a relatively high weight in the consumer-price basket. A good harvest can quickly reduce headline inflation, improve real household purchasing power and lower wage pressure. The benefit can also reverse rapidly after poor weather, supply disruption or higher fertiliser and energy costs.

Raiffeisen expects global oil prices to remain elevated during the rest of 2026, despite the peace agreement between the United States and Iran. Governments will need to rebuild strategic petroleum reserves partly depleted during the crisis, while uncertainty over the implementation and durability of the agreement will continue to create market volatility.

Serbia also temporarily reduced excise duties on petroleum products to cushion the domestic impact of higher oil prices. Raiffeisen expects that measure to be withdrawn as global conditions stabilise. Restoring excise duties would generate an immediate increase in retail fuel prices and feed into transport, agricultural and industrial costs.

A second inflationary effect will come from the statistical base. Serbia introduced measures limiting retail margins in September 2025, temporarily suppressing the measured price level. Once those lower comparison months enter the annual calculation from September 2026, the year-on-year inflation rate will rise even without an exceptional monthly price shock.

The more persistent concern is core inflation. Price growth excluding the most volatile components increased to 4.6 per cent in June, from 4.5 per cent in May. Headline inflation fell, but underlying domestic price pressure did not.

Core inflation at 4.6 per cent points to continuing pressure from wages, services, rents and other domestically determined costs. This makes it difficult for the National Bank of Serbia to respond to the fall in headline inflation with an early interest-rate cut.

Raiffeisen expects the central bank to keep its reference rate at 5.75 per cent until the end of 2026. The policy stance reflects the anticipated autumn inflation increase, elevated energy risks and the need to preserve exchange-rate and inflation expectations.

For Serbian companies, the improved headline numbers will therefore not translate immediately into cheaper financing. Corporate loans, working-capital facilities and investment debt will remain priced against a relatively restrictive domestic rate environment. Smaller companies with weaker collateral and limited access to euro-indexed financing will continue to carry the heaviest burden.

Households will benefit from lower current food inflation and real wage growth, but borrowing conditions are unlikely to ease materially in the near term. The central bank has little incentive to cut rates while year-end inflation is projected above the target band and core inflation remains close to 5 per cent.

Industrial production presents a weaker picture than GDP. Growth slowed to only 0.3 per cent year on year in May, after expanding by 3.4 per cent in April. The loss of momentum was driven by manufacturing, electricity production and weaker mining growth.

Electricity output fell by 8.6 per cent year on year in May, following a decline of 7.7 per cent in April. This reduces the energy sector's contribution to GDP and can increase Serbia's dependence on electricity imports during periods of high domestic consumption or weak hydrological and thermal generation.

Manufacturing was affected by slower production of coke and refined petroleum products. The most important factor remains the uncertainty surrounding the operating licence and ownership structure of NIS, which owns and operates the Pančevo refinery, Serbia's only crude-oil refinery.





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The present OFAC licence allowing NIS to continue operating expires on 31 July 2026. Raiffeisen expects negotiations over the sale of the majority Russian-held ownership to continue until the autumn, and potentially longer.

The delay does not necessarily indicate that the commercial parties are unable to reach an agreement. The transaction requires alignment among Gazprom Neft, Gazprom, Hungary's MOL Group, the Serbian government and the US Treasury's Office of Foreign Assets Control. The process combines valuation, financing, sanctions compliance, governance and regional energy-security considerations.

Each short-term licence extension reduces the immediate threat of supply disruption but leaves Serbian industry operating under continuing uncertainty. Refinery production, crude procurement, pipeline deliveries, banking transactions and investment decisions all depend on a sanctions framework that can change within weeks.

The effect is visible beyond NIS itself. Petroleum products influence transport, agriculture, construction, chemicals and manufacturing. Companies can maintain higher inventories to protect themselves, but that ties up working capital and raises storage and financing costs.

Automotive production remained one of the strongest industrial components, although its growth slowed from 52.2 per cent year on year in April to 30.4 per cent in May. The figures remain high because electric-vehicle output is expanding from a comparatively low base.

The production ramp-up at Stellantis's Kragujevac plant, following a €190 million conversion programme supported by approximately €48 million from the Serbian state, has become a central component of Serbia's 2026 export performance. The plant manufactures the Fiat Grande Panda and represents Serbia's most important move into serial electric-vehicle production.

Serbia's cumulative export increase during the first five months of 2026 reached approximately €1 billion. At first sight, this indicates a strong external-sector recovery. The underlying composition is much more concentrated.

Exports of electric vehicles increased by €818.1 million, while exports of metal ores and metal waste rose by another €287 million. Together, these two categories contributed approximately €1.105 billion, exceeding the total increase in Serbian exports.

The arithmetic implies that the combined contribution of most other export sectors was negative by roughly €105 million. Several industries either recorded lower sales than in the previous year or expanded only marginally.

This concentration makes the GDP forecast more sensitive to the operation of individual industrial facilities. A production interruption, weaker European demand or supply-chain problem at the Kragujevac plant would have a visible effect on national export growth. The metal-ore contribution is similarly exposed to commodity prices, individual mine production and demand from international processing companies.

Strong vehicle exports are positive for manufacturing employment and the trade balance, but the domestic value added must be distinguished from the gross export number. Imported batteries, electronics, components and production equipment reduce the net contribution to GDP. The long-term economic benefit depends on Serbia's ability to increase the share of locally produced components, engineering services and supplier activity.

The wider automotive sector also faces weaker European demand and changing EU industrial policy. Serbia's producers are closely integrated with German, Italian, French and Central European manufacturing networks. Slower eurozone consumption, weaker car sales or trade restrictions can therefore reach Serbian factories quickly.

Exports of rubber products and non-ferrous metals lost momentum. Their increase fell to €47.1 million, compared with €187.6 million in the corresponding period of 2025. Raiffeisen linked the slowdown to weaker eurozone demand and US sectoral tariffs affecting European and Serbian products.

Electricity exports also deteriorated. During January-May, their value fell by €189.4 million, compared with an increase of €122.6 million in the corresponding period of the previous year. The decline coincided with weaker domestic electricity production and the introduction of the EU's definitive Carbon Border Adjustment Mechanism in 2026.

CBAM changes the economics of Serbian electricity exports because carbon-intensive power delivered into the EU market carries an embedded-emissions cost. Serbia's coal-heavy generation mix therefore faces a growing discount against electricity produced from lower-carbon sources.

The pressure will become more material as CBAM reporting, verification and certificate-purchase obligations mature. Serbian electricity remains commercially valuable during regional scarcity periods,





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but its export margin is increasingly affected by carbon intensity, evidence quality and the ability to distinguish renewable or low-carbon generation from the broader national mix.

This creates a structural investment requirement for Elektroprivreda Srbije, independent renewable producers and transmission operator EMS. Wind, solar, hydropower, storage and grid investment are no longer only decarbonisation projects; they affect Serbia's future export competitiveness and the energy costs faced by domestic manufacturers selling into the EU.

The improved Raiffeisen forecast therefore contains two different economic signals. Domestic demand, agriculture and a small number of industrial projects are performing better than expected, supporting a growth rate close to 3 per cent. The wider industrial and export base remains exposed to weak European demand, carbon costs, trade restrictions and geopolitical uncertainty.

Serbia's sovereign position provides some protection. The country holds an S&P investment-grade rating of BBB- with a stable outlook, while Fitch rates it BB+ with a positive outlook and Moody's Ba2 with a stable outlook. Fitch reaffirmed its assessment in July, leaving open the possibility of a future move to investment grade.

The upgraded GDP forecast and lower inflation estimate support the credit story, but rating agencies will look beyond the headline improvement. Public investment discipline, NIS, the current-account balance, state-owned energy companies and the fiscal cost of EXPO-related projects remain central.

Raiffeisen's new 2.8 per cent growth projection is more credible than the earlier crisis-driven 2.4 per cent estimate, but it is not yet evidence of a broad industrial acceleration. Consumption and public investment are carrying the domestic economy, while the export improvement is concentrated in electric vehicles and metal commodities.

The inflation revision from 6.1 per cent to 5.7 per cent offers similar reassurance with a limit. June's 2.7 per cent headline rate gives households temporary relief, but 4.6 per cent core inflation, the expected restoration of fuel excise duties and an unfavourable base effect point to renewed price pressure in the final months of the year. Serbia's macroeconomic picture has improved, while the central bank's 5.75 per cent policy rate remains the clearest indication that the risk cycle has not ended.

