INVESTMENT AND BUSINESS CLIMATE

GLOBAL ECONOMIC DEVELOPMENTS AND PROJECTIONS

Although we live in a world of deep uncertainty and rapid changes in global trade amid constant geopolitical tensions, which can have a major impact on growth and inflation, capital still moves across borders in search of profit.

The IMF (2025) predicts a slowdown in global growth in 2025 as the world adjusts to new circumstances characterized by protectionism and fragmentation, with global inflation rates falling further. At the same time, labour supply shocks have intensified due to both an ageing population and a shortage of skilled workers. The world economy's growth will be below the long-term annual average (3.8% in 2000-19) over the next two years. (See table 1).

The pace of global growth is not satisfactory. Projections for the world economy's growth over the next five years are around 3%, a level significantly lower than the pre-pandemic rate of 3.7%.

Global growth has been characterized by slower growth in competitiveness and productivity since the Great Recession of 2008-9. There are two key reasons for this phenomenon:

1. In most countries, there is a lack of innovation, and this can be overcome by significantly increasing investment in R&D in order to achieve the desired level of innovation.

2. In the long term, there has been a tendency to reduce efficiency in the allocation of available resources - labour and capital, in firms and industries, which has been an important source of productivity growth for a long period of time.

	2018	2019	2020	2021	2022	2023	2024	2025*	2026*
World	**3.6**	**3.0**	**-2.7**	**6.6**	**3.8**	**3.5**	**3.3**	**3.2**	**3.1**
USA	3.0	2.5	-1.4	6.9	2.2	2.9	2.8	2.0	2.1
Eurozone	**1.7**	**2.7**	**-5.3**	**4.3**	**3.6**	**1.0**	**0.9**	**1.2**	**1.4**
Germany	1.8	2.0	-3.4	2.0	3.6	-0.9	-0.5	0.2	0.9
Italy	0.9	0.2	-7.8	8.0	4.8	2.3	0.7	0.5	0.8
France	1.5	2.1	-5.9	6.6	2.3	1.0	1.1	0.7	0.9
European PUU[1]	**3.1**	**2.1**	**-2.0**	**6.7**	**0.8**	**3.3**	**3.5**	**1.8**	**2.2**
Russia	2.3	1.3	-3.0	4.7	-2.1	3.6	4.3	0.6	1.0
China	6.6	6.1	2.3	8.1	3.0	5.2	5.0	4.8	4.2
India	6.5	3.9	-5.8	9.7	7.6	9.2	6.5	6.6	6.2
Serbia	**4.5**	**4.3**	**-0.9**	**7.7**	**2.5**	**2.5**	**3.9**	**2.4**	**3.6**

TABLE 1.
GDP RATES OF GROWTH WITH PROJECTIONS

Source: IMF, WEO 2025.

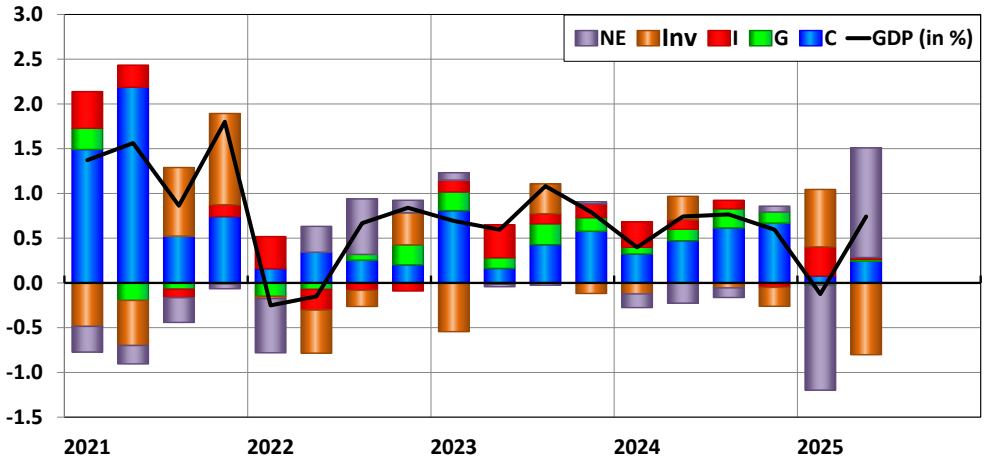

FIGURE 1.
CONTRIBUTION TO THE GDP GROWTH IN THE USA (PP)

Source: NBS, IoI, August 2025.

The United States has continued to pursue ambitious industrial policies through the CHIPS and Science Act and the Inflation Reduction Act (IRA). By mid-2025, over $200 billion has been invested in semiconductor production and AI-related infrastructure, creating new jobs and attracting global companies to relocate production to the US (Figure 1).

In 2025, the US shook global trade flows with a sweeping tariff change. They have negotiated trade agreements with some countries and secured multiple opt-outs. Most countries have refrained from drastic reactions, trying to keep the trading system more or less open. As a result, the tariff hikes have had a smaller negative effect than expected, but if the war continues, the world economy is likely to be threatened by a recession.

A conclusion on the effects of the tariff hike-induced shock would be premature at this point. (At the time of writing, a summit between two world leaders – Donald Trump and Xi Jinping – was taking place with the first optimistic prospects regarding the easing of tariff barriers.)

The economies of the EU and the euro area are experiencing low productivity and innovation growth, leading to a loss of competitiveness. The recent energy crisis has shown why Europe needs to be competitive, resilient and less dependent on other regions. Mario Draghi's report on the future of European competitiveness and Enrico Letta's report on empowering the Single Market rightly stress the urgent need for policies to boost competitiveness and resilience.

The recently published Competitiveness Compass for the EU, Coordinated and combined efforts, is probably a good guide for swiftly adopting concrete policy proposals. As mentioned above, a more competitive economy is also important for the ECB, as it can support monetary policy in maintaining stable prices, stabilizing the economy and thus increasing the standard of living of all eurozone citizens.

The Eurozone is barely achieving positive growth rates while emerging markets in Europe are performing better (Figures 2 and 3).

The EU is experiencing a fragile recovery in 2025. According to the European Commission's Spring 2025 Forecast, EU GDP is expected to grow by 1.1% (0.9% in the Eurozone), with a gradual recovery projected in 2026. The OECD offers a similar outlook, with growth of 1.0% in 2025 and 1.2% in 2026, supported by stabilizing private consumption and a rebound in exports.

Inflation continues its gradual decline. Eurozone inflation is projected to fall from 2.4% in 2024 to 2.1% in 2025, approaching the ECB's target.

Foreign workers, representing nearly 9% of the EU labour force, have contributed to half of the Eurozone's growth in the past three years, preventing sharper declines in countries like Germany and accelerating recovery in Spain and Italy.

Trade policy developments remain crucial. The new US–EU trade agreement, which introduced average tariffs of around 15% on EU exports, aligns closely with the ECB's baseline scenario but still poses a risk to growth momentum if protectionism intensifies.

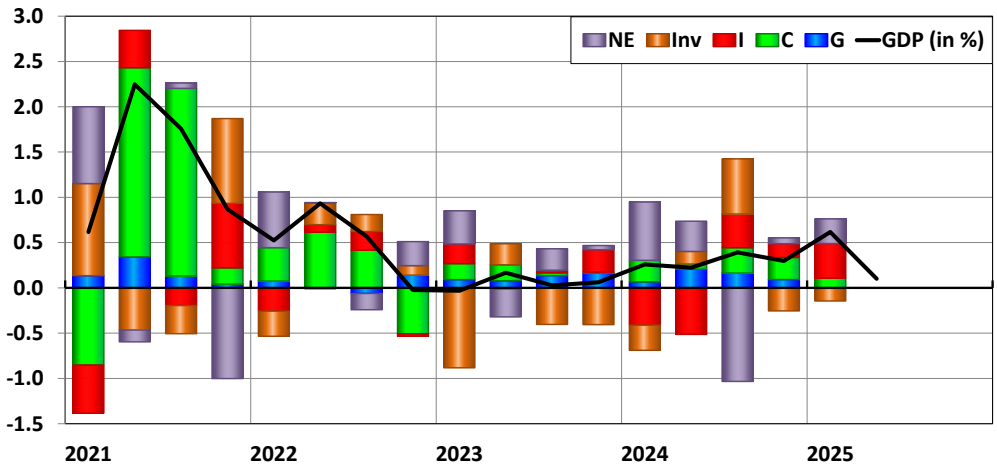

FIGURE 2.
CONTRIBUTIONS TO THE GDP GROWTH EURO AREA (PP)

Source: NBS, IoI, August 2025.

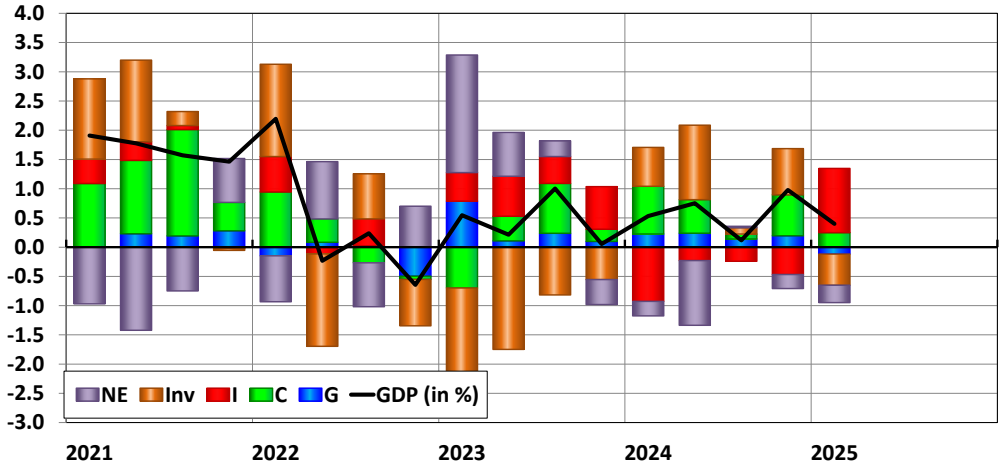

FIGURE 3.
CONTRIBUTIONS TO THE GDP GROWTH CESEE REGION* (PP)

Source: NBS, IoI, August 2025.

* CIJIE -Bulgaria, Czech, Croatia, Hungary, Poland, Romania, Slovenia and Slovakia.

ECONOMIC MOVEMENT IN SERBIA

Economic activity in Serbia during 2025 has slowed due to external and domestic challenges. The economy has been under pressure of global trade tensions, protests, political uncertainty, and sanctions on the oil company, NIS. Growth in 2025 is projected at 2.4% due to lower FDI and weaker public investment and consumption (Figure 4).

	2024	2025*	2026*
Poland	2.9	3.2	3.1
Czech	1.2	2.3	2.0
Hungary	0.5	0.6	2.1
Romania	0.8	1.0	1.4
Slovakia	2.1	0.93	1.7
Slovenia	1.7	1.1	2.3
Croatia	3.9	3.1	2.7
Bulgaria	2.8	3.0	3.1
Albania	4.0	3.4	3.6
BiH	3.0	2.4	2.7
North Macedonia	2.8	3.4	3.2
Montenegro	3.2	3.2	3.2
Serbia	3.9	2.4	3.6

TABLE 2.
GDP GROWTH PROJECTION

Sorce: IMF, WEO, October 2025. * Projection

It is expected that growth will recover to 3% in 2026, driven by continued gains in household disposable income, supportive credit conditions, new manufacturing export capacities, and the resolution of NIS-related energy supply uncertainty.

Inflation is expected to continue to move steadily around targeted level of 3%.

All risks to the projections are very complex and downside oriented. A prolonged resolution of NIS problems and domestic political tensions could weaken economic activity. Significant fiscal and external buffers, including high foreign exchange reserves and government deposits, a resilient banking sector, and moderate public debt, cushion the risks.

Poor agricultural harvests reignited food price pressures, but headline inflation eased in September on 2.9% and October on 2.7% (Figure 5).

NBS has kept the key policy interest rate unchanged at 5.75% having in mind the need to continue implementing a cautious monetary policy, as domestic inflation largely depends on events in global commodity and financial markets, characterized by increased volatility due to geopolitical tensions and escalation of conflicts in the Middle East, as well as growing protectionism. In addition, NBS noted that the rise in prices of certain food commodities on global markets, last year's drought and the resulting reduced agricultural product stocks, as well as unfavorable weather conditions at the beginning of this season, have accelerated year-on-year growth.

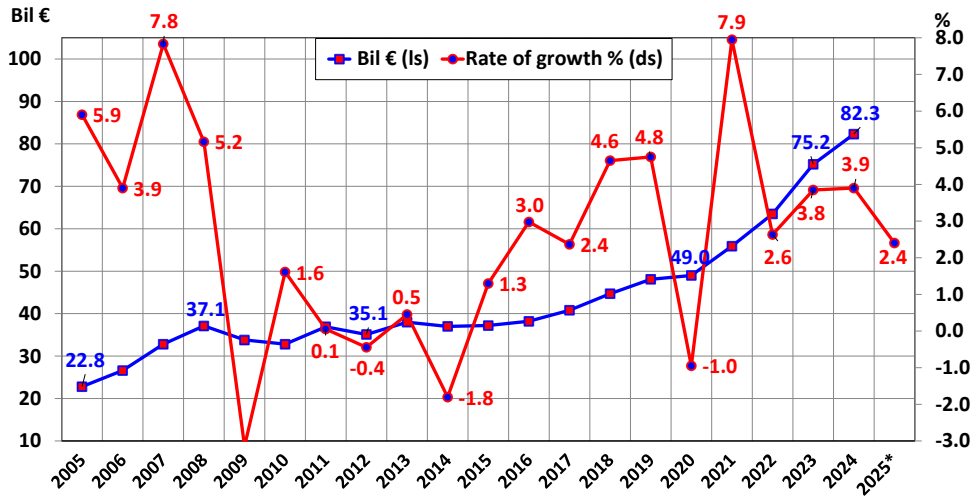

FIGURE 4.
SERBIAN GDP LEVEL AND RATE OF GROWTH

Source: IMF, WEO and NBS, IoI, August2025.

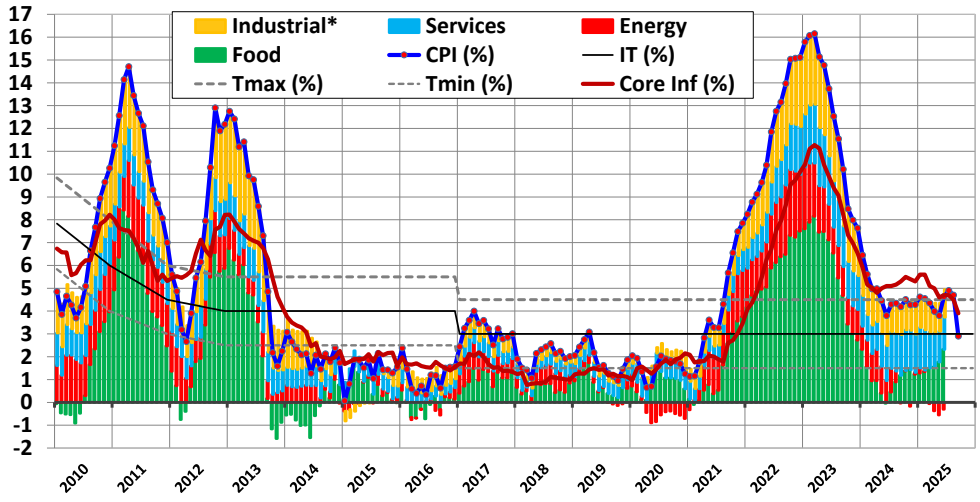

FIGURE 5.
CONTRIBUTIONTO Y-O-Y CPI GROWTH– SERBIA (PP)

Source: NBS, IoI, August 2025.
* Excluding food and energy.

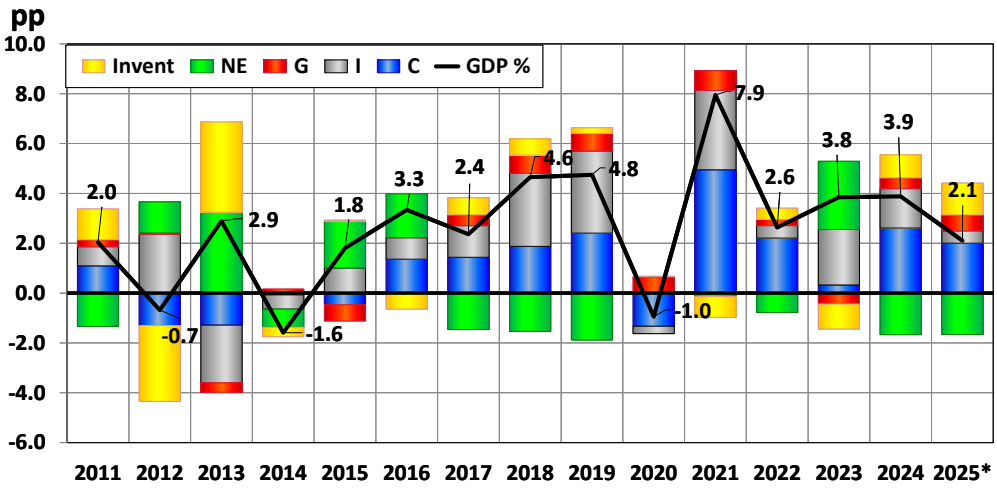

FIGURE 6.
CONTRIBUTIONTO Y-O-Y SERBIANGDP – EXPENDITURE (PP)

Source: IMF, WEO i NBS, IoI, August 2024, p. 61.
* -NBS estimation

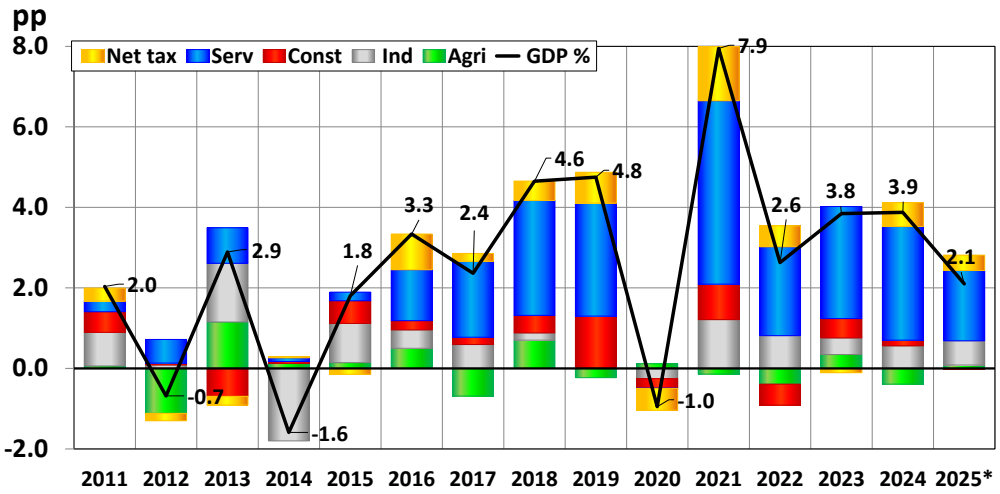

FIGURE 7.
CONTRIBUTIONTO Y-O-Y SERBIANGDP –PRODUCTION SIDE (PP)

Source: IMF, WEO i NBS, IoI, August 2025.
* NBS estimation.

In the context of global fragmentation and recessionary tendencies among Serbia's main trading partners, this year's growth on the expenditure side is primarily driven by domestic demand, especially household consumption and investment in fixed capital. The growth of the expenditure side of GDP was driven by domestic demand (Figure 6), primarily household consumption (blue pillars), which made the largest contribution to the GDP.

Growth on the production side was driven by services, especially ICT and trade, followed by manufacturing , especially automotive. Of course, it remains to be seen what results will be achieved in the last quarter of 2024.

GDP growth of more than 3% is projected for the next two years, and its growth drives will be services (especially ICT) and the manufacturing (especially automotive).

In recent years, Serbia has seen significant growth in both investment (from 16% in 2014 to 24% in 2024) and national savings (from 12% to around 20%), but both remain at an insufficient level (see Figure 8).

The contribution of fixed investment declined in 2025 primarily due to a drop in FDI inflows, but it is expected to grow in 2026 and 2027 (Figure 10). Investments will also grow due to more favorable financing conditions with the reduction of global inflationary pressures, but also due to the implementation of projects in the field of transport, energy and communal infrastructure. For

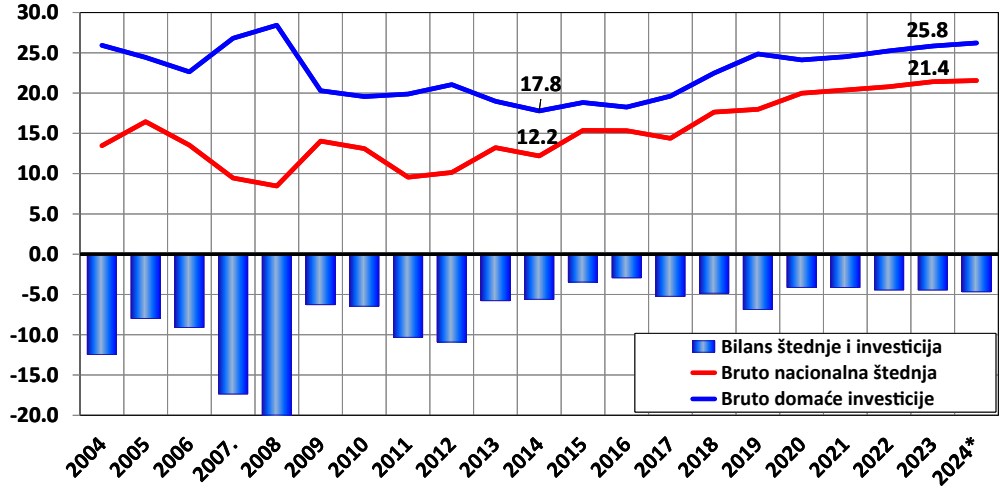

FIGURE 8.
SAVINGS AND INVESTMENT (% GDP)

Source: NBS, IoI, August 2025.

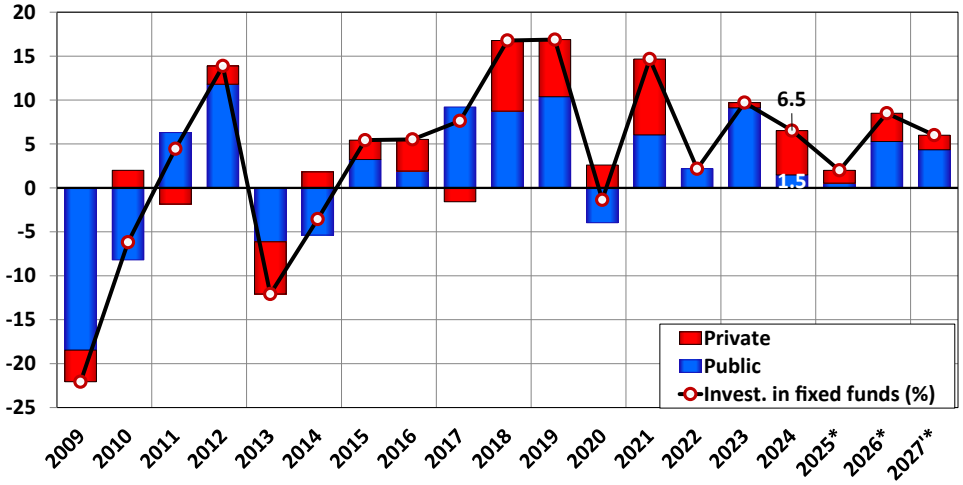

FIGURE 9.
BRUTO FIXED INVESTMENTS (PP)

Source: NBS, IoI, August 2025.
* estimation.

future development, it is very important that, in addition to FDI, domestic private investment growth be encouraged, which could significantly improve the flexibility of the Serbian economy and expand domestic supply chains within clusters.

FDI inflows in 2025 halved from the record high in 2024. They were predominantly in the form of equity and reinvested profits, with a retained geographical and project structure (Figure 10). The largest share of FDI still comes from the EU, but this share is declining—from 63% in 2015-20 to 41% in 2021-24 (Figure 11).

According to RZS data, the total number of formally employed people slowed y-o-y growth (Figures 12 and 13).

Formal employment in the private sector reached a new record of 1.76 million people, an increase of about 15,000 from a year earlier.

In the private sector, the holders of registered employment are professional, scientific, innovative, and technical services, ICT services, and construction, while the presence in administrative and support services is reduced.

A significant proportion of new employment is generated in companies coming from the EU.

Registered unemployment fell to 350,600 at the end of IIQ25, about 35,000 fewer than in the same period last year and slightly above 8%.

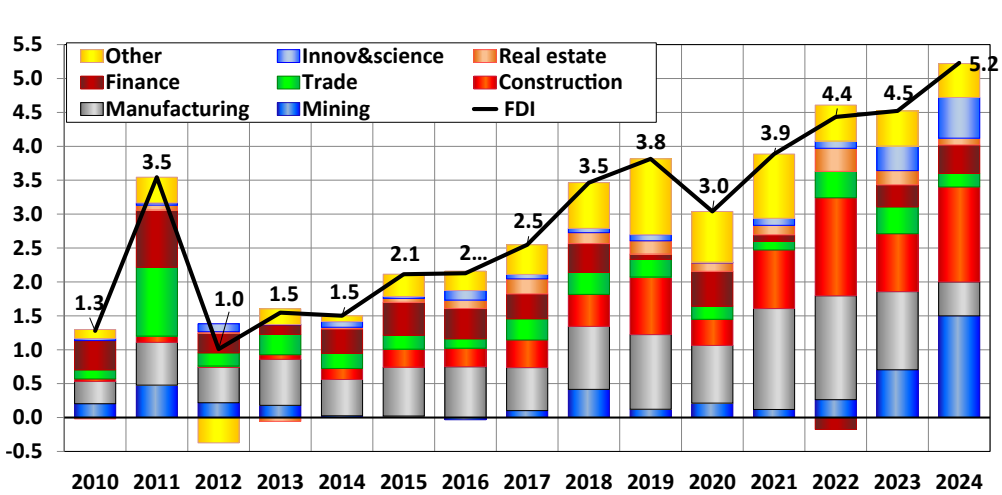

FIGURE 10.
FDI INFLOW IN SRBIA (BIL €)

Source: NBS

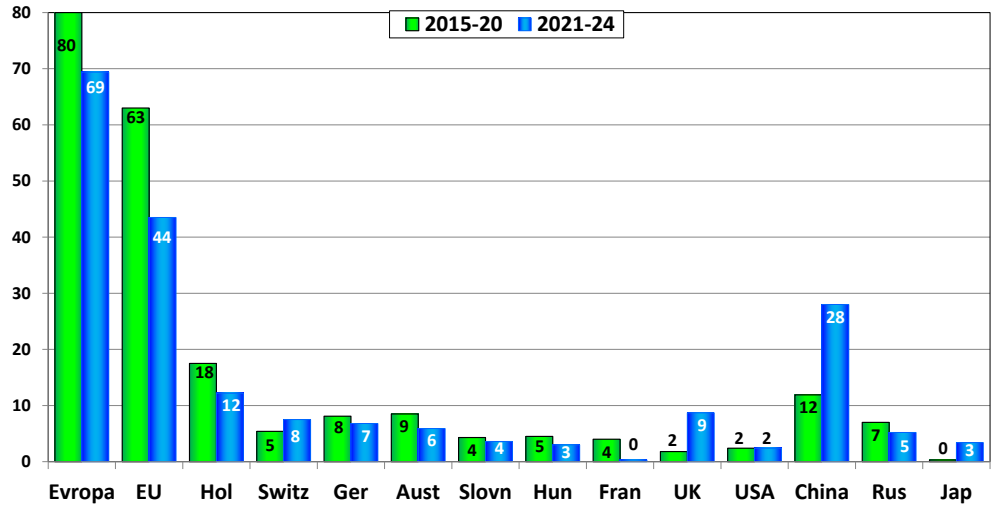

FIGURE 11.
FDI INFLOW IN SERBIA BY COUNTRIES (%)

Source: NBS

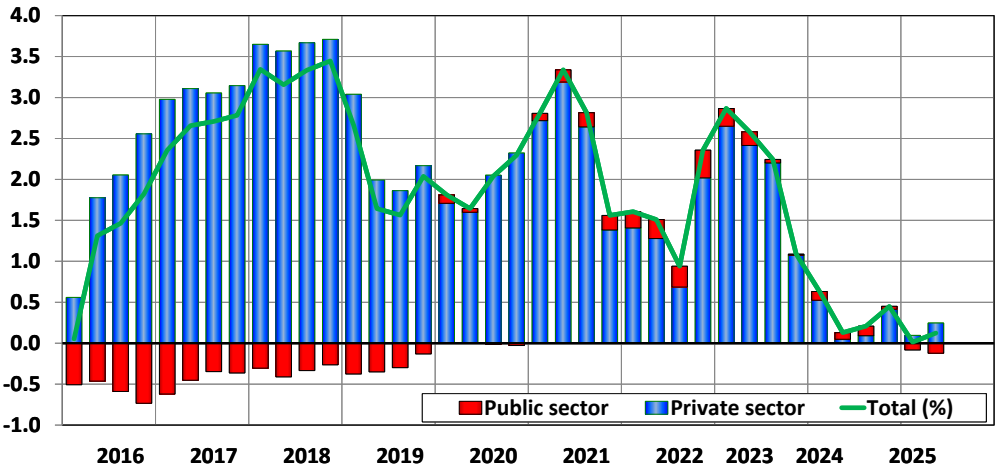

FIGURE 12.
Y-O-Y RATE OF GROWTH IN TOTAL FORMAL EMPLOYMENT (PP)

Source: RZS & NBS recalcutation, lol, August 2025.

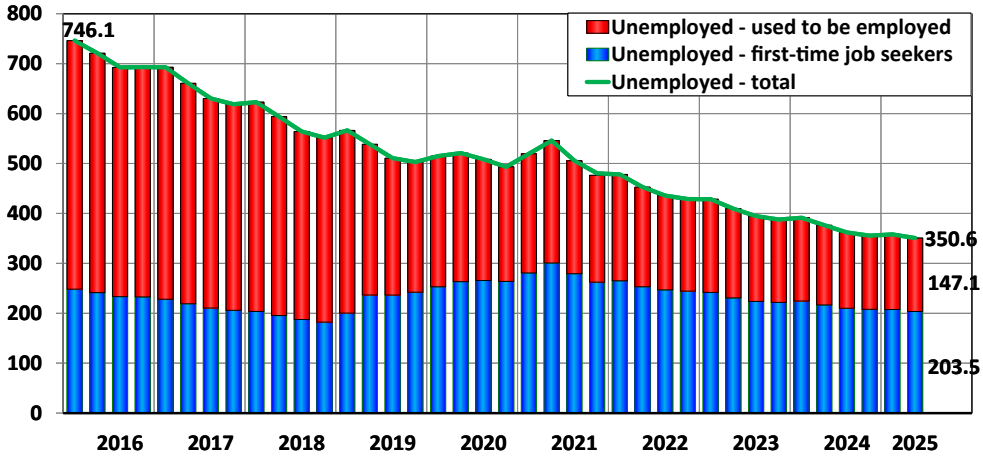

FIGURE 13.
MOVEMENT OF REGISTERED UNEMPLOYMENT (IN 000)

Source: NSZ

For Serbia, maintaining prudent macroeconomic policy is essential to be credible while preserving policy space to respond to shocks. The 3 % of GDP ceiling on fiscal deficits—striking an appropriate balance between current spending needs and investments—is a fundamental policy anchor (Figure 14).

When it comes to government expenditures in the coming period, it is expected that the share of salaries and pensions will be at a stable level, and within the limits defined by fiscal rules (10% and 11%, respectively), and priority will be given to infrastructure and capital projects of the economy.

Exports are expected to continue growing in 2025 and 2026 despite complex global circumstances. This was based on the expected effects of investments in previous years in export-oriented sectors, as well as the gradual recovery of external demand. At the same time, we expect trade surpluses to improve.

Although Serbia is not an EU member, its market effectively belongs to the single European market.

What is clear is that EU companies in Serbia have: (1) a stable business environment and (2) the opportunity to invest.

WHICH NEW GLOBAL DEVELOPMENT PERSPECTIVES ARE IMPORTANT TO SERBIA

We live in a very complex world. Many countries are adapting to new circumstances. What are the most important elements of the new reality in new circumstances for Serbia? There are three of them.

1. **The importance of industrial policies – to promote growth and stability**

An increasing number of countries are adopting industrial policies to support strategically important sectors and firms as they adapt to new circumstances worldwide. The expected outcome is to increase productivity and the economy's resilience to shocks while reducing dependence on imports. As the experience with industrial policies in the past had different, frequent and unfavorable outcomes, the protagonists of industrial policies in today's circumstances speak of the so-called "smart" industrial policies. An effective industrial policy requires careful targeting and implementation, strong institutions, complementary structural reforms, and the maintenance of macroeconomic stability.

Due to a historically poor experience with the implementation of industrial policy (Picking winners, crowding-out effects, etc.), it is crucial to be careful in targeting and implementing this policy. Maintaining a stable macroeconomic position of the country must not be compromised.

2. **Modern development of new infrastructure components**

Modern development, characterized by digitalization and Gen AI, has significantly expanded the definition of modern infrastructure. It is well known that infrastructure is a critical enabler of long-term global economic growth. But

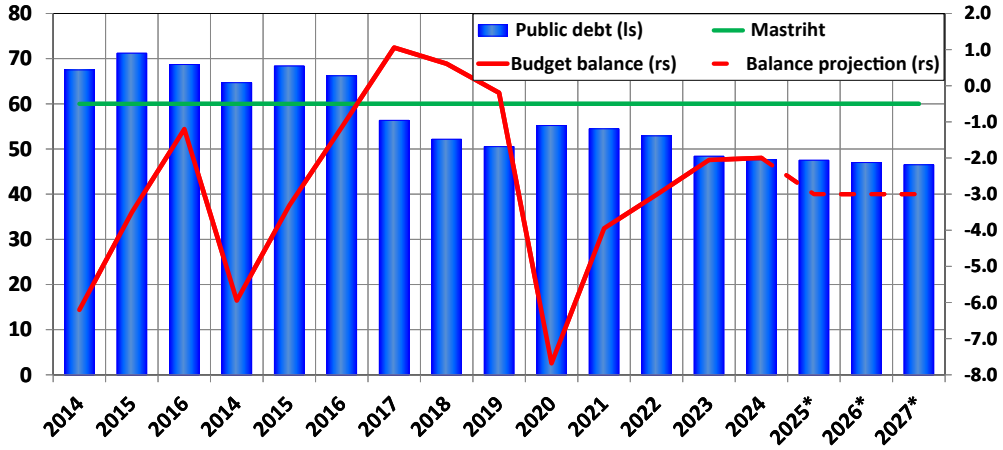

FIGURE 14.
BUDGET BALANCE AND GENERAL GOVERNMENT PUBLIC DEBT (% GDP)

Source: RZS & NBS recalculation, IoI, August 2025

in current circumstances, we need a fundamental mindset shift regarding modern infrastructure.

McKinsey estimates that a cumulative $106 trillion in investment will be necessary through 2040 to meet the need for infrastructure including seven critical infrastructure verticals: transport and logistics ($36 trillion), energy and power ($23 trillion), digital ($19 trillion), social ($16 trillion), waste and water infrastructure ($6 trillion), agriculture ($5 trillion), and defense ($2 trillion).

Traditional infrastructure encompasses the physical assets, from the fundamentals—roads, ports, and bridges — to power grids. Those assets remain important and require significant investment. But modern infrastructure now includes elements such as artificial intelligence, renewables, and electric vehicles.

3. The race to power AI and the importance of data centers

The rapid expansion of AI applications is largely driven by the development of data centers that consume vast amounts of energy. The Gen AI has exploded in the last few years. McKinsey's research shows that the generative AI economy is expected to create $4 trillion of value by 2030. For AI growth, data centers are needed as physical spaces to house and run the necessary technological equipment that consumes significant energy. Right now, we're using about 70 gigawatts of data center capacity globally, but in five years or so, we'll be using about 220 gigawatts, which means we'll have to build new and new data centers.

Serbia needs to adapt to these new circumstances as soon as possible. In this process, it is very important to rely on strong encouragement of innovation, which can be of particular benefit to:

1. Inclusion in AI factories and AI antennas projects that, by applying new modern technologies, using the EU infrastructure, encourage the development of startups and companies,

2. Pay special attention to the development of clean energy in a satisfactory scope and quality, which requires not only intensive economic development, but also maintaining a high level of development and application of AI and

3. To open space for Serbia's inclusion in global and regional industrial value chains, especially those related to the European production network, as the EU has the largest share in Serbia's foreign trade.