



## Eastern European Countries Step up Borrowing to Sustain GDP Growth Momentum



### CROATIA (to read more, click [here](#))

Nominal GDP growth and contained fiscal deficits laid the groundwork for a truly spectacular fiscal consolidation that still has some runway to go. Public wages will not go up significantly in 2026, meaning that inflation might feel the gravitational pull towards 2.0%. With only local bonds expected to be placed in 2026, we expect favorable supply/demand dynamics to keep a lid on CROATIE I-spreads.



### SLOVENIA (to read more, click [here](#))

Slovenia's growth prospects have weakened slightly due to increased trade uncertainty, US-EU tariffs and delayed spillover effects from German fiscal expansion. Personal consumption remains strong, supported by government reforms. Large infrastructure investments in railway and energy sectors will strengthen medium-term growth. The credibility of fiscal policy remains solid, as evidenced by tight spreads, credit rating upgrades, and successful issuances in both domestic and foreign currencies. EU forecasts place Slovenia among the strongest performers in the CEE region, with a low fiscal deficit and high GDP growth expectations compared to neighboring countries.



### ROMANIA (to read more, click [here](#))

As the first fiscal policies take effect, expectations are high for the ruling coalition to deliver on its promises of meaningful fiscal consolidation. With inflation accelerating and hovering at 9.8%, household spending is likely to remain constrained, and the GDP growth at a modest 1.2% in 2025. While we expect the government to remain stable, risks to the country's credit rating persist, even if ad-hoc policy adjustments appear unlikely. Against this backdrop, attention now turns to the successful implementation of the fiscal consolidation plan and a shift toward more balanced, resource-efficient policymaking.



### SERBIA (to read more, click [here](#))

Serbia's economy is experiencing a slowdown after years of sound growth. Private consumption and FDI inflows remain under the spell of domestic political uncertainty, degeneration of consumer sentiment, and global uncertainty brought by increasing levels of protectionism. Infrastructure projects tied to the EXPO 2027 exhibition may fuel recovery in investment. The central bank is intrepidly navigating the management of its key rates and is adroitly preserving the EURRSD peg. While both external and internal risks persist, Serbia's medium-term outlook hinges on the successful execution of infrastructural projects and improved political stability.



### BOSNIA & HERZEGOVINA (to read more, click [here](#))

Bosnia and Herzegovina's growth has softened but remains supported by consumption, remittances, and real wage gains despite persistent inflation and weaker labour conditions. Fiscal coordination between entities remains fragmented, pushing the 2025 deficit to about 2.6% of GDP, while monetary stability relies on the currency board. Investment is led by green-energy projects, though broader FDI is constrained by political and legal weaknesses. Public debt remains low at 25.3% of GDP but reflects limited market access and structural vulnerabilities.



### MONTENEGRO (to read more, click [here](#))

Montenegro's growth is driven by consumption, investment and wages, though tourism bottlenecks limit potential. Inflation continues easing but may face pressure from rising wages and import costs. Unemployment is falling, yet skills shortages and emigration constrain growth. Public debt stands just above 60% of GDP and is expected to rise toward 64% in 2026 amid heavy repayment needs. Investment remains strong, supported by EU-funded transport projects and energy-transition efforts. EU-accession progress and a stable B+ credit rating reinforce Montenegro's outlook.



### NORTH MACEDONIA (to read more, click [here](#))

North Macedonia's economy grew 3.4% in Q2 2025, driven by services, ICT, consumption, and trade. Growth is expected to ease to 3.1% in 2026 as major infrastructure projects peak and external demand softens. Unemployment continues to fall but structural labour issues persist. Public debt reached €9.7bn (57.6% of GDP) and faces pressures from wages, pensions, and investment needs. The fiscal deficit remains high at 4.5% of GDP, prompting a €950mn Eurobond in 2026. Monetary policy stays cautious amid persistent inflation. FDI remains strong, led by large-scale renewable-energy projects and rising remittances.



### COMMODITY (to read more, click [here](#))

Commodity drivers continue to be heavily dependent on macro factors in 2026. Sensitivity to geopolitical developments and diversification continue to be the leading force in influencing prices, mainly pushing precious metals higher. While the sentiment around oil remains bearish, right tail risk for prices is starting to emerge.



### CRYPTO (to read more, click [here](#))

Institutional adoption via spot ETFs and clearer regulations are stabilizing crypto, while the October flash crash exposed the market's persistent structural weaknesses and high degree of centralization among few liquidity providers (market makers and centralized exchanges). Bearish sentiment and crowded short positioning leave the market vulnerable to sharp moves, as thin liquidity can amplify both downside and sudden upside swings.

## CREDIT RATINGS



### CROATIA

S&P	A-	Positive
Moody's	A3	Stable
Fitch	A-	Stable



### SLOVENIA

S&P	AA	Stable
Moody's	A3	Positive
Fitch	A+	Stable



### ROMANIA

S&P	BBB-	Negative
Moody's	Baa3	Negative
Fitch	BBB-	Negative



### SERBIA

S&P	BBB-	Stable
Moody's	Ba2	Positive
Fitch	BB+	Positive



### BOSNIA & HERZEGOVINA

S&P	B+	Stable
Moody's	B3	Stable



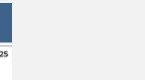
### MONTENEGRO

S&P	B+	Stable
Moody's	Ba3	Stable



### NORTH MACEDONIA

S&P	BB-	Stable
Fitch	BB+	Stable



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## Favorable Supply/Demand Dynamics Put a Lid on CROATIE Spreads Going Forward

Table 1. Overview of Selected Macroeconomic Indicators

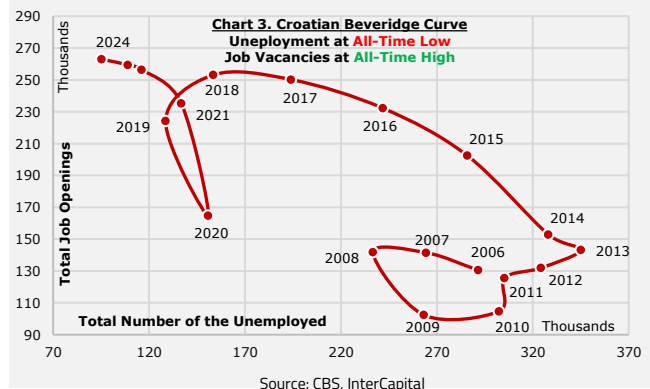
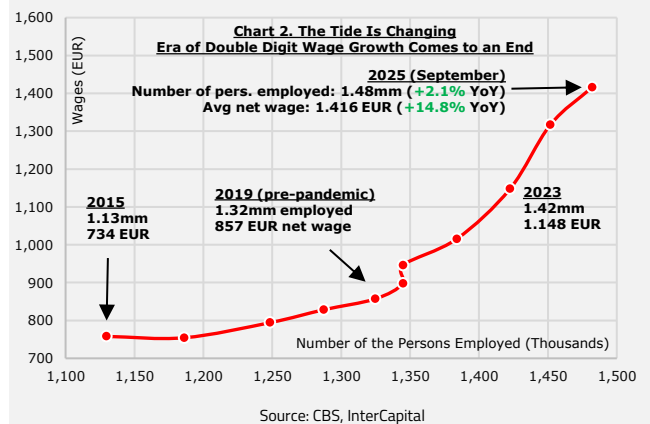
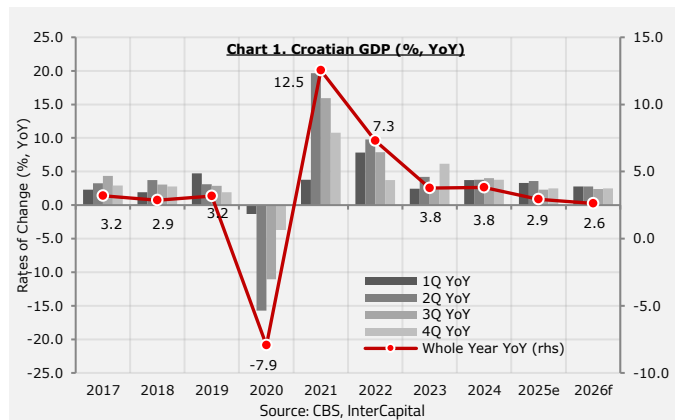
Macroeconomic Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025 (f)	2026 (f)
GDP (real growth rate, YoY)	3.2%	2.9%	3.2%	-7.9%	12.5%	7.3%	3.8%	3.8%	2.9%	2.6%
ILO unemployment rate (average)	11.2%	8.4%	6.6%	7.5%	7.6%	7.0%	6.1%	5.0%	4.0%	3.5%
Inflation rate (CPI, average, YoY)	1.1%	1.5%	0.8%	0.1%	2.6%	10.8%	8.0%	3.2%	3.0%	2.5%
Current account balance (% GDP)	3.4%	1.1%	2.5%	-1.3%	0.5%	-3.5%	0.4%	-2.2%	-2.0%	-2.0%
Fiscal deficit (% GDP, ESA 2010)	0.6%	0.0%	0.2%	-7.2%	-2.5%	0.1%	-0.8%	-1.9%	-3.0%	-3.0%
Public debt (% GDP, ESA 2010)	76.0%	72.6%	70.4%	86.1%	77.5%	68.5%	60.9%	57.4%	57.0%	56.4%

Source: CBS, CNB, Ministry of Finance, InterCapital

**REAL ECONOMY.** In the first two quarters of 2025 it became quite apparent that the real GDP growth in Croatia economy is gradually cooling down, while high frequency data (retail sales, industrial production and tourist arrivals) suggest GDP growth might have dipped below 3.0% in the third quarter. Nevertheless, strong performance in first half of the year (+3.3% YoY and +3.6% YoY in Q1 and Q2, respectively) still places Croatia at the very top of the EU class, together with **Poland** and **Bulgaria** (yes, we turned a blind eye to Ireland). Since the bulk of this performance came from stronger EU fund withdrawal and investment, we believe that real growth rate might actually slow down to **+2.4% YoY** in second half of 2025, putting the overall **FY 2025** real growth rate at **+2.9% YoY**. After it became evident that public wages cannot grow in 2026 at the same pace as they did in the last few years, private sector would probably keep wages at their existing levels in the coming years, meaning that net contribution from personal consumption to overall GDP would be roughly neutral. Nevertheless, RRF funds keep on rolling (until 2027), while vibrant public investment becomes the main engine of overall growth. With this in mind we expect **real GDP** to increase by **+2.9% YoY** in 2025 and by **+2.6% YoY** in 2026.

**PERSONAL CONSUMPTION.** Back in **2024** vibrant labor market was running the show – with 58% of nominal GDP coming from personal consumption, it was easy to explain +3.8% YoY real GDP growth rates at times when personal consumption was growing by **+6.0% YoY**. Savvy macro analysts remember that it was public wages that were moving the needle, while private sector was merely keeping up with the Joneses of public companies. However, the latest fiscal deficit figures prompted thrifter 2026 budget, meaning that the era of double digit wage growth figures might be finally over. It's still worth bearing in mind that starting from January 2026 **minimum gross wage would increase by +8.2% YoY** (from **970 EUR** to **1.050 EUR**), nevertheless on aggregate this won't move the needle that much since merely **70k people receive the minimum wage**. Even though **additional 70k people receive wages that are 50 EUR above the bare minimum** and the two cohorts combined amount to 140k (close to **10% of the total persons employed**), the overall increase still won't be sufficient to preserve the momentum in personal consumption.

One of the clearest indicators that labor market might be getting tighter is clearly the **number of foreign workers that declined from 206k (2024) to slightly below 180k (2025)**. A glimpse below the hood reveals something even more interesting: the **26k total decline** comes almost exclusively from **construction**, where number of working permits dropped from 63.3k to 44.9k (-18.4k). Seasonal hiring is still up on an annual basis, but with **growing minimum wages some of the jobs become more attractive to retired workers** and workers who would otherwise be outside of the labor force. Hospitality and transport are still economic activities where daily operations without foreign workforce look impossible, so reduction in labor permits won't come from here. We stick to the belief that the sharp drop in foreign workforce in construction comes from weaker orders in reconstruction of buildings affected by two earthquakes in 2020 since this activity consumes most of the low-skilled workforce.



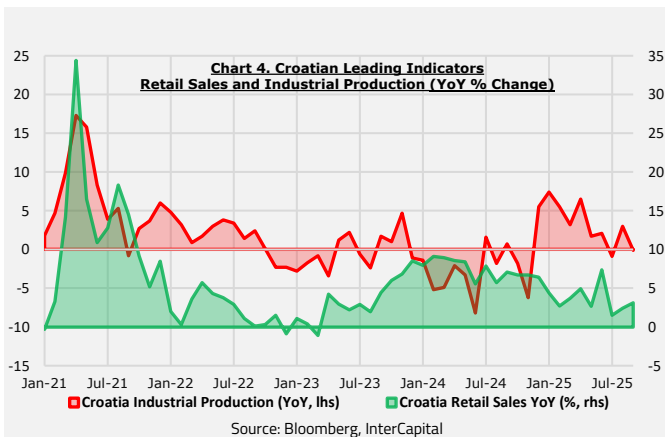


# CROATIA MACRO OUTLOOK

Ivan Dražetić, CFA

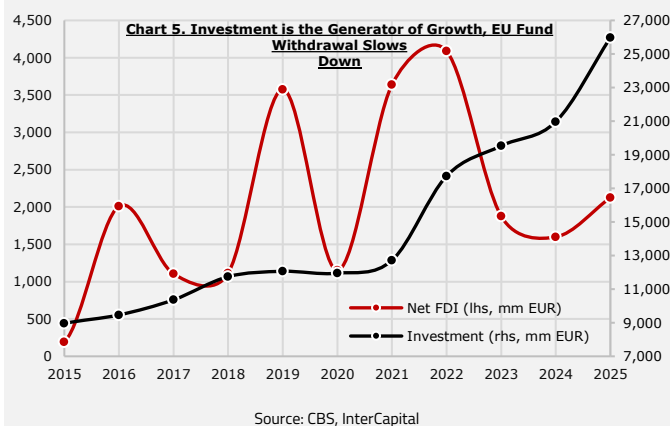


December 2025

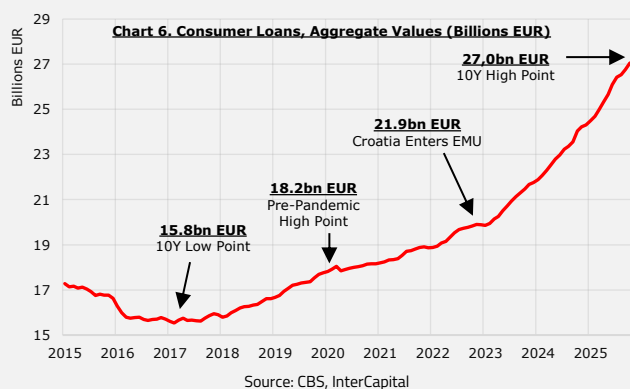


Retail sales and manufacturing point out in the direction of possible slowdown ahead, but these backward-looking data points might be misleading, at least this time. Manufacturing has stalled for most of the year, with one notable spike in April caused by a sharp rise in electricity production. Nevertheless, in July electricity production plunged by -9.0% YoY, dragging overall index further down. Anecdotal evidence such as orderbooks of Croatian blue chip shares tell a different story, however these companies are merely the tip of the iceberg called Croatian industrial production. We see a possible turnaround ahead if ReArm Europe Plan/Readiness 2030 takes effect, however we consider it impossible to quantify the trickle down effects at the current stage. Nevertheless, be aware that rearming Europe might cause tide of manufacturing trend might be reversing – and high frequency data would pick up the signal long before lazy GDP figures/national accounts do.

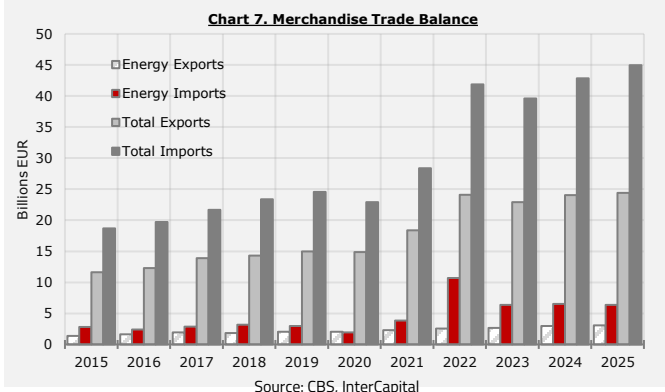
With sluggish retail sales and manufacturing that might turn the corner, but with no confirming signs in the data so far, we estimate personal consumption to increase by +1.5% YoY (2026).



**INVESTMENT.** In the five years preceding the pandemic, transfers from EU budget to Croatian public finances averaged about 2.3% GDP. In the first pandemic year, Croatia was hit by two strong earthquakes (March and December) and reconstruction helped to move that figure up to 5.5% GDP (2020). In the past five years about 4.0bn EUR of funds were directed into post-earthquake reconstruction. Thanks to RRF, the share of EU budget transfers averaged 4.1% GDP from 2021 onwards, with relatively high certainty that EU budget transfers to Croatia might remain within 2.5%-3.0% GDP in the coming two years. This will still be higher than in Slovenia (2.2% GDP), Czech Republic (roughly 2.0% GDP), Poland (1.5% GDP). EU budget transfers are the main reason why Croatian public investment reached 5.7% GDP back in 2024 and it's quite obvious this share would gradually decrease in 2026-2027 time frame. The largest single project that still needs to be finalized is the railway upgrade – roughly 6.0bn EUR within the coming decade (600mm EUR per annum, 0.67% nominal GDP). The value of current projects under way is 1.5bn EUR, with two more railway lines (Dugo Selo - Novska and Hrvatski Leskovac - Karlovac) planned in the near future and estimated at total 1.0bn EUR.



With strong wage growth figures in 2025 and banks announcing stricter conditions for loan approvals, Croatian consumers might have decided to front load loan take up in the current year. Hence mortgages increased by as much as 14.7% as banks were fighting for customers in the first half of 2025 (the aggregate figure has essentially flatlined since September). Cash loans increased by 1.0bn EUR (+11.2% YoY), bringing the overall annual increase in customer loans to 3.0bn EUR (from 24.0bn EUR in October 2024 to 27.0bn EUR in October 2025). It seems that this trend might be running into thin air starting from 2026 as wage growth cools down. We would like to point out that expected wage rises in 2026 affect minimum wage earners (70k people in narrow version, or about 150k in broader definition) and the proposed hikes have very mild effects on their credit potential. Looking at Chart 6. on the left, year 2025 might look like a plateau.



**NET EXPORTS.** Last year merchandise trade deficit amounted to about 18.8bn EUR (22% nominal GDP) and in 2025 this gap is probably going to increase to 20.5bn EUR (22.5% GDP). It's quite curious that looking at the overall merchandise trade deficit, roughly a third (6.5bn EUR) comes from machinery and transport equipment and with oil prices coming down and energy deficit shrinking, this new component represents the strongest impulse to the widening of the trade deficit. Nevertheless, this is still covered by service sector exports, meaning that we expect an overall CA deficit at 2.0% GDP for both 2025 and 2026. An interesting observation was recorder on Croatian 2024 BoP where for the first time in five years primary income turned positive (+254mm EUR versus -85mm EUR in 2023).



# CROATIA MACRO OUTLOOK

Ivan Dražetić, CFA



December 2025

**MONETARY POLICY.** European inflation rates were **firmly on a downward path until October 2023**, meaning that they have been hovering around 2.5% YoY for the past two years. Medium term trend prompted ECB to start cutting rates on June 2024 meeting and the last cut in this cycle was delivered in June 2025 – marking **200bps** of successive cuts. In spite of stronger **spending announcements coming from Germany** and **slightly elevated fiscal deficits across the board in EU in 2026**, inflation expectations remain anchored and with them so does the expected ECB deposit facility rate. **Chart 8. suggests no interest rate cuts/hikes in the coming 18 months.** The picture looks quite different on SOFR/FED funds curve where market is expecting four rate cuts (terminal FED funds rate at 2.75%-3.00%) by March 2027. We remind our readers this is contingent upon new FED Chairman being able to build up consensus within FOMC, as well as tariff effect on inflation being contained.

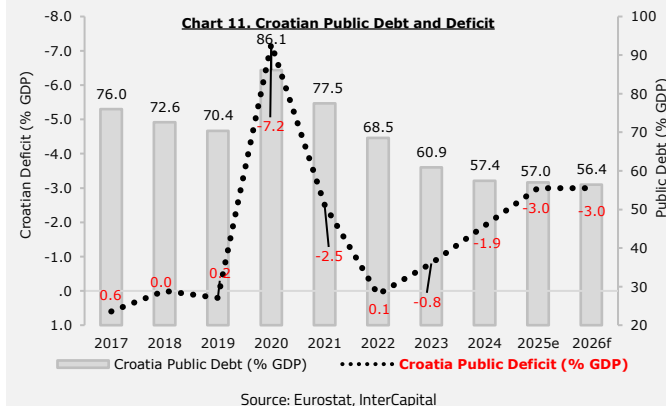
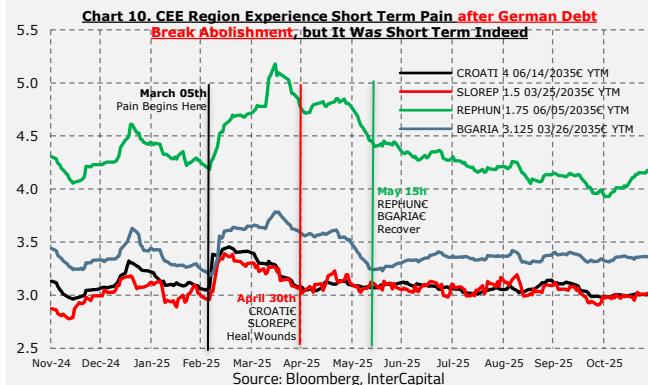
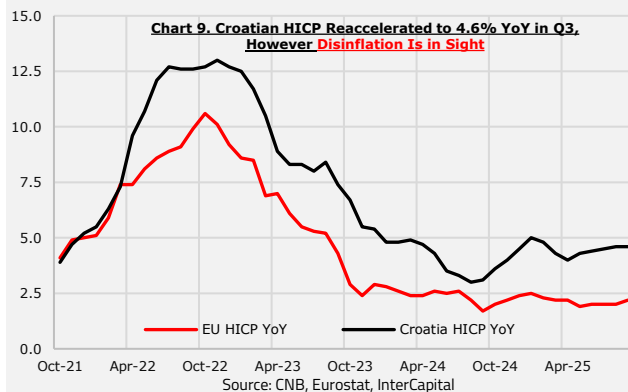
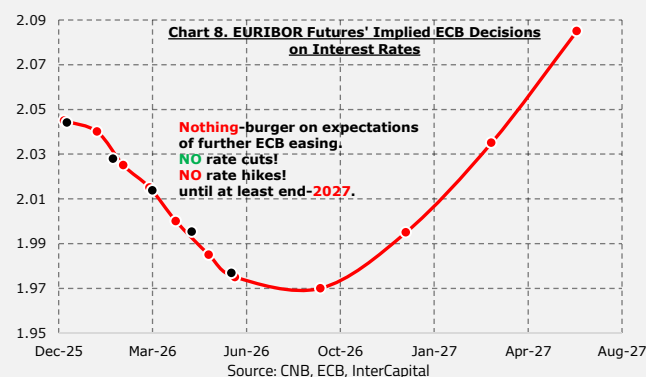
So what's going on with inflation? Stronger **EURUSD might be doing part of the tariff offsetting**, but the main reason why inflation rates appear to be anchored are **weak inflation figures coming from goods** (China is exporting deflation all over again thanks to weak demand at home) which are **partially offset by stronger service prices**. Croatia is no exception to the rule – in the first ten months HICP inflation coming from goods averaged **3.0% YoY**, however service sector inflation averaging **7.4% YoY** did the heavy lifting. In Croatian particular case, it's the wage growth that caused **higher accommodation costs** (+12.5 YoY% in September 2025), however this inflation tailwind appears to be dissipating going forward. On the back of slower wage growth in 2026, but also with a little help of already quite expensive tourist sector where prices ran into thin air and would struggle to grow even higher, we base our forecast that Croatian HICP would continue to converge to EU average, nevertheless would still remain at the very top of the pack.

With all this in mind we expect **Croatian HICP** to reach **+4.5% YoY** (2025) before coming down to **+3.5% YoY** (2026), while CPI will probably stick to **+3.0% YoY** (2025) and **+2.5% YoY** (2026).

**FISCAL POLICY.** The recent budget rebalance envisaged overall **FY 2025 revenues** in size of **33.0bn EUR** versus **overall expenditures** in size of **36.8bn EUR**, resulting in a deficit of **2.7bn EUR** (3.0% GDP) after accounting for other items. In **2026** we expect fiscal deficit roughly the same size as in **2025 (3.0% GDP)**, coupled with virtually unchanged public debt at **56.4% GDP**.

In the past two years the biggest change in Croatian public finances came from funding the deficit, i. e. from retail bonds and treasury bills. It's worth mentioning that the first Croatian retail bond emerged in March 2023 and since then a **total of seventeen tranches** (14 T-bills and 3 bonds) were offered to the public. In November **Croatian retail investors held about 7.5% public debt**, a quite notable increase compared to the state of public finances just two years ago. There is a catch, however. Two catches, to be exact. First of all, **retail investors prefer shorter dated maturities**, usually up to 1Y, since this **mimics their preferences for liquidity regarding the bank deposits** (it's hard to spot bank deposits from retail spanning more than 2Y). This is opposite of what every minister of finance wants, which is to **place paper at the longest point possible** since this is exactly what rating agencies like (the extension of average public debt maturity). The second catch is price since retail investors get preferred treatment versus institutional bid, usually in size of 60bps higher yield to maturity. Still, this is meager price to pay from the perspective of public treasury (3bps annually on roughly 10bn EUR of paper) to get diversification away from big money managers.

Speaking about institutional asset managers, **contained public deficit** and **decreasing public debt** thanks in bigger part to EU funds contributed to **Croatian spreads narrowing down to Slovenian levels** and for most part of 2025 **Croatia was actually trading inside Slovenia**. There's more to it – after Ash Wednesday shock coming from Germans scrapping the decade old debt limit, Croatian and Slovenian bonds were the first ones to return to their pre-shock levels.







## Geopolitics Undercut Hopes of a Quick Manufacturing Revival in a Slow-Moving Europe

Table 1. Overview of Selected Macroeconomic Indicators

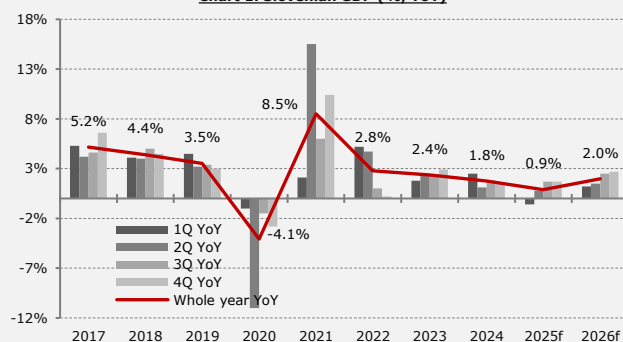
Macroeconomic Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025 (f)	2026 (f)
GDP (real growth rate, YoY)	5.2%	4.4%	3.5%	-4.1%	8.5%	2.8%	2.1%	1.6%	0.9%	2.0%
ILO unemployment rate (average)	6.5%	5.1%	4.4%	5.0%	4.7%	4.0%	3.7%	3.7%	3.3%	3.4%
Inflation rate (CPI, average, YoY)	1.4%	1.7%	1.6%	0.0%	1.9%	8.8%	7.5%	2.0%	2.4%	2.3%
Current account balance (% GDP)	6.3%	6.0%	6.4%	7.8%	3.9%	-1.1%	4.5%	4.4%	3,3%	3,8%
Fiscal deficit (% GDP, ESA 2010)	-0.1%	0.7%	0.7%	-7.6%	-4.6%	-3.0%	-2.6%	-0,9%	-2.4%	-2.6%
Public debt (% GDP, ESA 2010)	74.9%	71.0%	66.0%	80.2%	74.8%	72.8%	68.3%	66.6%	65.5%	64.2%

Source: Statistical office of Republic of Slovenia, Eurostat, InterCapital

**REAL ECONOMY.** Expectations of GDP growth in 2025 (1.7%) and 2026 (2.5%) were significantly higher in the last Macro Outlook Edition released in June than currently expected. **Due to prolonged trade uncertainty, tariffs imposed by the US on the EU and Switzerland resulted in a heavier hit to growth than expected.** Alongside tariff uncertainty, there has been no resolution of the War in Ukraine and no spillover effects of German fiscal expansion yet. Calls for easing EU regulations that are resonating across Europe still haven't yielded any positive effects. Trade uncertainties are behind us, and the positive effects of easier monetary policy and German fiscal expansion should prop up growth in 2026 and 2027. **Huge infrastructure projects that are ongoing in Slovenia, related to railway and energy, and further strengthening of the Port of Koper are the catalysts for future growth.** Fiscal credibility remains strong, supported by tight bond spreads, rating upgrades, and successful international issuances. Slovenia's pension system reform and public wage system overhaul indicate a willingness to pursue solutions to long-term economic challenges. EU forecasts place Slovenia among the top CEE performers with low deficits and solid fiscal buffers. The ECB ended easing in June, holding rates as inflation risks moderate. A strong euro, cheaper oil, and slower wages support disinflation, though trade dynamics and China's deflation may revive cut expectations in 2026. Inflation is driven mainly by food and hospitality, where only tight monetary policy can curb persistent price pressures. Looking ahead, **meaningful fiscal expansion in Germany and resulting spillovers to key trading partners - which together account for roughly half of Slovenia's exports - will be crucial.** A more broad-based recovery may therefore become a story for the second half of 2026 and into 2027. Until then, the resilience of personal consumption and the labour market should stabilize growth at a lower rate.

**PERSONAL CONSUMPTION.** Personal consumption remains resilient, supported by the government's comprehensive wage overhaul in the public sector, which has led to double-digit growth in public-sector compensation. Also, **the introduction of mandatory Christmas bonuses for both public and private sector employees is helping sustain strong wage momentum.** Although nominal wage growth moderated in 2025 compared with 2024 and 2023, inflation declined to the monetary policy target of 2%. **Average nominal wage growth for 2025 stands at 6.78%,** and is expected to rise further once full-year data are released in 2026, as December figures will incorporate bonus payments. Looking ahead, Germany's fiscal expansion - combined with reduced trade uncertainty and a loosening of monetary policy - should keep real wage growth near 5% in 2026. Unemployment is not expected to rise significantly, as **the labour market continues to operate under a low-hire, low-fire dynamic** that preserves the tightness of the labour market. While labour market tightness eased somewhat in 2024 due to a decline in job vacancies, the number of unemployed persons remains stable in absolute terms. Despite the global economic and trade uncertainties experienced in 2025, **job vacancies have remained at roughly the same levels as in 2024, signalling broad stability in economic growth.**

Chart 1. Slovenian GDP (% YoY)



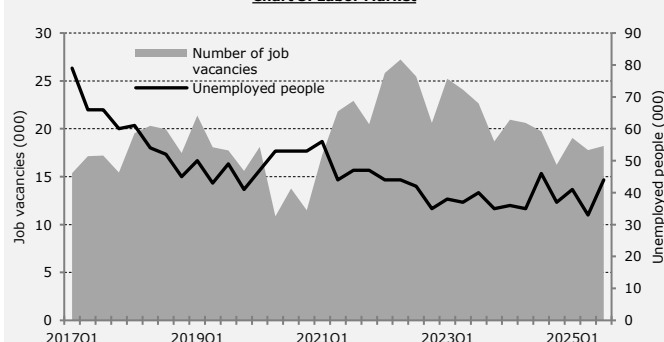
Source: Statistical office of Republic of Slovenia, InterCapital

Chart 2. Gross Nominal and Real Wage Growth



Source: Statistical office of Republic of Slovenia, InterCapital

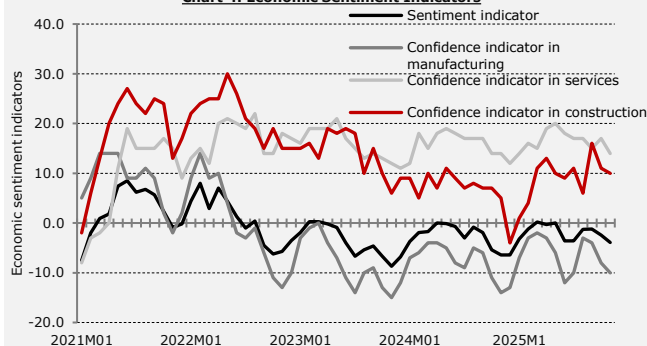
Chart 3. Labor Market



Source: Statistical office of Republic of Slovenia, InterCapital

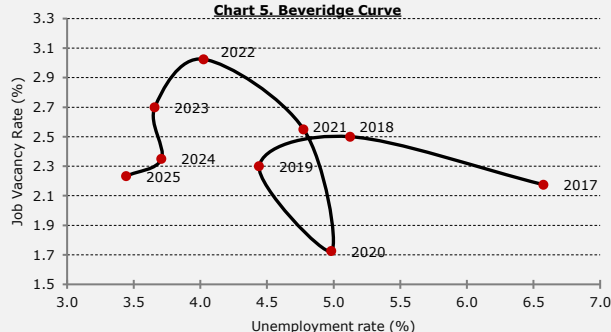


Chart 4. Economic Sentiment Indicators



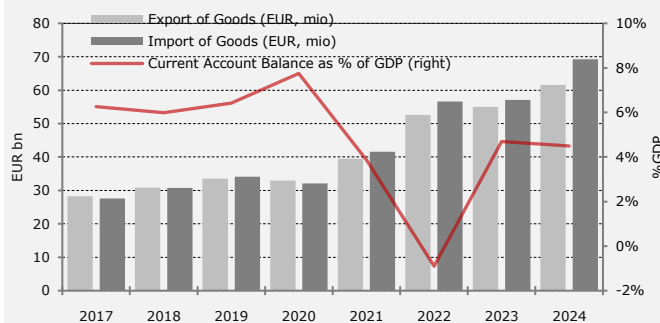
Source: Statistical office of Republic of Slovenia, InterCapital

Chart 5. Beveridge Curve



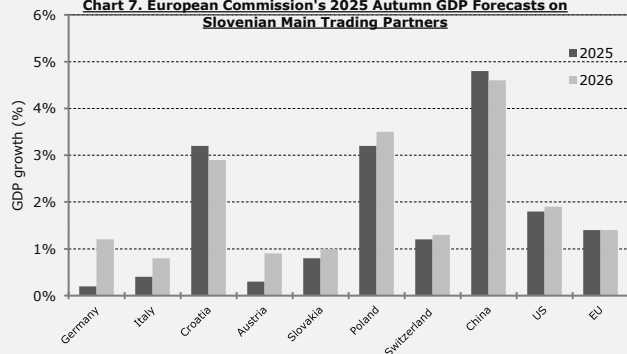
Source: Statistical office of Republic of Slovenia, InterCapital

Chart 6. Export and Import of Goods and Current Account Balance as % of GDP



Source: Statistical office of Republic of Slovenia, InterCapital

Chart 7. European Commission's 2025 Autumn GDP Forecasts on Slovenian Main Trading Partners



Source: European Economic Forecast Autumn 2025, InterCapital

**Economic sentiment indices (ESI)** are broadly improving, driven primarily by better sentiment in construction and services. These sectors continue to support growth, while a **meaningful manufacturing recovery has yet to materialize**. Earlier forecasts that Germany's expected expansion would spill over into other manufacturing-heavy economies have not come to pass, largely due to Germany's slow progress. At this point, any substantive German fiscal expansion appears more likely to emerge in late 2026 or 2027, and even then, it may unfold alongside tariffs that could weigh heavily on European growth.

**The resilience of the services sector has been a defining feature of the 2020s across developed economies.** Meanwhile, significantly lower oil prices are easing some pressure on manufacturing. However, natural gas prices remain elevated and continue to strain industrial activity, but are falling due to the potential Ukraine war resolution. Key challenges persist: high natural gas costs, increasing market share of Chinese automotive manufacturers in Europe – which weakens a strategic European sector and its interconnected industries – and slow decision-making within the European Union. **The lack of timely protective measures against low-cost Chinese imports risks undermining Europe's future manufacturing prospects.** German fiscal expansion alone may not be sufficient without coordinated, proactive policy responses.

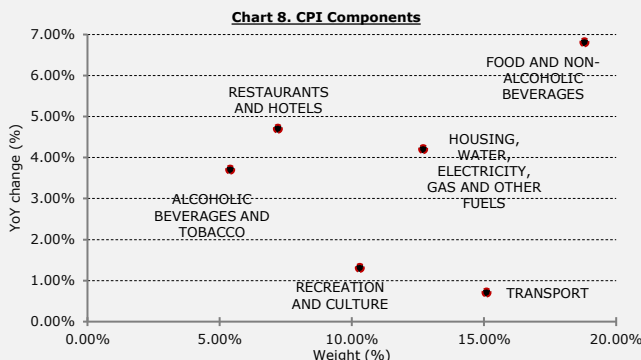
**INVESTMENT.** Slovenia is undertaking a wave of large-scale infrastructure investments aimed at modernizing transport and energy networks and strengthening its integration with the broader European region. According to the European Investment Bank, **the country loses an estimated €145 million annually to competing ports in neighbouring countries due to road congestion and limitations associated with its single-track railway line.** The construction of the second rail track to the Port of Koper is therefore a central strategic project, designed to reinforce Koper's position as a key Adriatic hub within the Baltic–Adriatic Corridor. **Approximately 70% of all cargo handled at the port is destined for Central and Eastern Europe**, underscoring its regional importance. The Port of Koper's role as an automotive gateway is being further enhanced by the expansion of the vehicle storage garage, a €46.7 million project expected to be completed by spring 2028, alongside the ongoing expansion of Pier I and the electrification of quays to reduce emissions and noise. Additional rail upgrades include the €119.7 million renovation of the Jesenice railway station, scheduled for completion within 22 months, and the modernization of the Ljubljana railway junction – one of the country's most important infrastructure projects – valued at €205.7 million, 85% of which is financed by the European Union. Road infrastructure is also improving, highlighted by the renovation of the first tube of the Karavanke Tunnel, a €114.8 million investment supported by over €32 million from the EU Cohesion Fund. In the energy sector, **Slovenia is actively exploring the construction of a second nuclear power plant in Krško (JEK 2).** The projected investment, estimated between €9.6 billion and €15.4 billion, will receive state backing. Meanwhile, **new renewable projects are progressing, including a 140 MW floating solar power plant on Lake Družmirje** – valued at €100 million.

**NET EXPORTS.** Goods exports grew notably in the first nine months of the year, **rising 11.8% overall** – driven primarily by **strong growth in trade with EU non-member countries (+18.9%)**, while exports to EU-27 markets increased 4.5%. In contrast, goods imports declined 5.3% YoY, with sharper declines seen in imports from EU non-member countries (-9.2%) and a modest drop from EU-27 partners (-1.1%). As a result, **the export-import ratio strengthened to 110.7%.** Imports appear to have peaked in Q4 2024 and have been trending downward since. **Trade dynamics continue to be heavily shaped by tariff front-running** and shifts in global trade flows driven by varying US tariff rates across partner countries. Import price growth remains negative, largely due to lower prices for consumer goods (-0.8%) and intermediate goods (-0.1%). The main upward pressure on the import price index came from electricity, gas, steam, and air conditioning, which surged 34.6% YoY. Meanwhile, coal and lignite prices recorded a significant decline of 15.1%. Given that Switzerland is Slovenia's significant export market, the US decision to reduce tariffs on Swiss goods from 39% to 15% may provide a positive impulse for Slovenian exports – or at least reduce uncertainty.

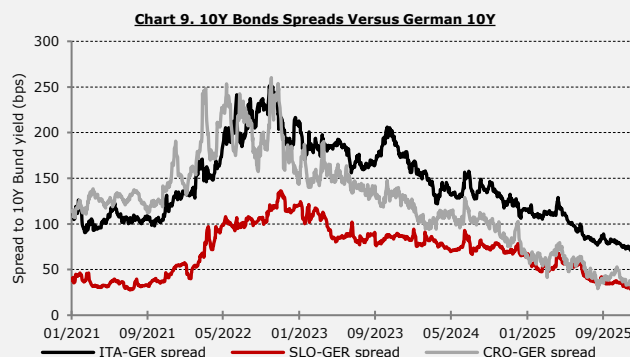


**MONETARY POLICY.** The European Central Bank ended its easing cycle in June, setting the deposit rate at 2.00%. Since then, policymakers have pushed back against expectations of additional cuts, stressing that decisions will remain data-dependent. Upside risks to inflation have eased as wage growth slows, while downside risks have also diminished following the US-EU trade deal, which cemented the 15% tariff framework and reduced uncertainty around trade policy. **A stronger euro and lower oil prices are helping to contain inflationary pressures.** Nonetheless, the prospect of further rate cuts could resurface in the second half of 2026. This would be driven by mounting pressure from US tariff policy and by China's deflationary influence on Europe, as trade flows increasingly shift toward the EU, where protective barriers remain relatively low. Although additional rate cuts could weigh on the euro, the currency has appreciated in recent months, and easing financial conditions for the manufacturing sector should remain a top priority - especially as global inflation continues to cool. **Moreover, new research from the San Francisco Fed indicates that tariffs tend to lower inflation and weaken aggregate demand, potentially prompting central banks to cut rates further when trade barriers against China are introduced** - an approach repeatedly referenced by the German Chancellor amid a more assertive stance on China. **Main drivers of inflation are food and non-alcoholic beverages, which stand at 6.8%** and weigh 18.80% in the index, and Restaurants and hotels, whose concerning rate of 4.7% increase year-over-year might not be falling further due to easing monetary conditions that fuel demand growth. The only remedy for high inflation in the restaurants and hotels category, except for regulation, is monetary policy, which has eased significantly over the past year.

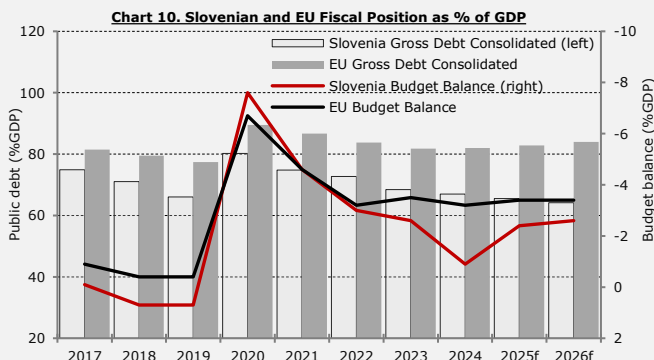
**FISCAL POLICY.** Total government expenditure outgrew revenue growth significantly due to the growth of compensation of employees and social transfers. Revenues grew by 4.8% which is mostly derived from social contributions, which rose 6.8% as well as tax revenue, which grew 3.4%. **Revenue from personal income tax rose 10% on a year-over-year basis due to a rise in tax on corporate income from 19% to 22%.** On the expenditure side, following the public system wage overhaul at the beginning of the year, the compensation of employees was pushed up significantly. **As of the end of Q2 2025, compensation of employees increased 13.2% compared to Q2 2024.** The projected fiscal deficit for 2025 and 2026 slightly worsened compared to June projections. A mandatory Christmas bonus for both private and public companies should prop up personal consumption and therefore fuel further growth. **Confidence in Slovenian public finances is not in danger, as the SLOREP 2035 yield spread to the German 10-year bond is below 30 basis points.** October and November were victory laps for the Slovenian Ministry of Finance as **Fitch upgraded Slovenia to A+**, as the budget remains balanced and notable progress has been made on structural reforms related to the ageing population, strong external finances, and policy stability. On the 21st of November, S&P published an annual review for Slovenia without rating action following the improvement of the credit rating to AA in June 2025. Annual review points to stability of rating component scores compared to June scores. Moody's periodic review of ratings of Slovenia emphasized the significance of pension reform that was approved by the Slovenian parliament in September, as the fifth payment request for the Recovery and Resilience Fund is dependent on the reform's adoption. Following an issuance of a sustainability-linked bond that was issued in July with a step-up/step-down coupon mechanism in case of (not)achieving environmental targets, the Ministry of Finance has made another significant step to financing government debt through the successful issuance of a 3-year Samurai bond at a yield of 1.24% and a currency swap to hedge foreign exchange movements. Total demand was about 50bn JPY, with issue size being 31bn JPY. Following a successful Samurai Bond offering last year, Slovenia continues to deepen cooperation with Japanese investors. European Economic Forecast released in November 2025 forecasts growth for 2026 at the third highest in the CEE region, alongside a low fiscal deficit, with only Czechia forecasted to achieve a fiscal deficit slightly lower than Slovenia. Both at the CEE level and EU level, **Slovenian fiscal policy continues to be responsible, thus leading to more fiscal buffer than others in case of a significant deterioration of economic growth.**



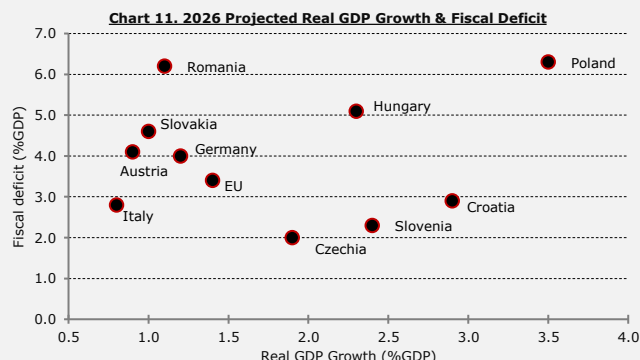
Source: Statistical Office of Republic of Slovenia, InterCapital



Source: Bloomberg, InterCapital



Source: Eurostat, InterCapital



Source: European Economic Forecast Autumn 2025, InterCapital



## This Time Romania Really Needs to Deliver on the Fiscal Adjustment Side, However the Bar for Success Is Much Lower than You Think

Table 1. Overview of Selected Macroeconomic Indicators

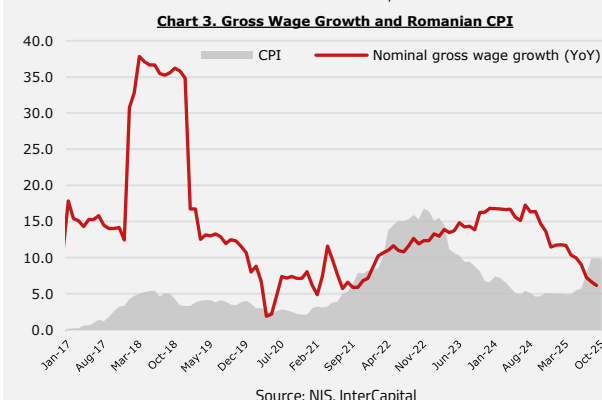
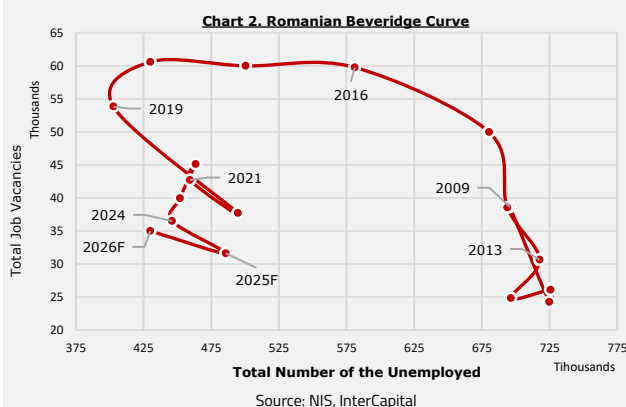
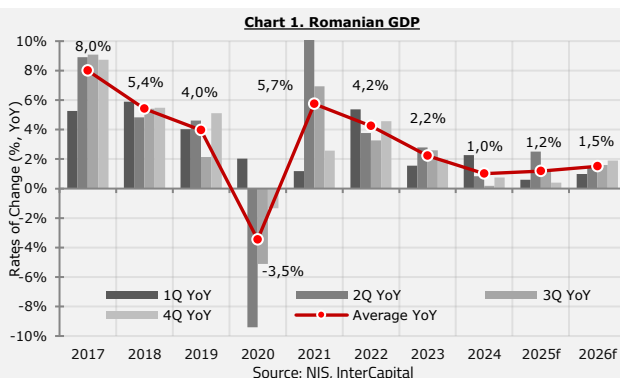
Macroeconomic Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025 (f)	2026 (f)
GDP (real growth rate, YoY)	8.0%	5.4%	4.0%	-3.5%	5.7%	4.2%	2.2%	1.0%	1.2%	1.5%
ILO unemployment rate (average)	6.1%	5.3%	4.9%	6.1%	5.6%	5.6%	5.6%	5.4%	6.0%	5.6%
Inflation rate (CPI, average, YoY)	1.3%	4.6%	3.8%	2.6%	5.1%	13.8%	10.5%	5.6%	7.5%	6.0%
EUR/RON exchange rate (average)	4.56	4.65	4.74	4.83	4.92	4.93	4.94	4.97	5.10	5.20
Current account balance (% GDP)	-3.1%	-4.6%	-4.9%	-4.9%	-7.2%	-9.2%	-7.0%	-7.7%	-7.9%	-7.0%
Fiscal balance (% GDP)	-2.5%	-2.8%	-4.3%	-9.2%	-7.1%	-6.4%	-6.5%	-8.6%	-8.0%	-6.5%
Public debt (% GDP)	35.3%	34.4%	35.0%	46.6%	48.3%	47.9%	48.9%	52.6%	58.5%	60.5%

Source: Statistical Office (NIS), Central Bank (NBR), Ministry of Finance, InterCapital

**REAL ECONOMY.** Fiscal consolidation measures introduced right after this year's elections are set to slow down Romanian GDP growth even further. With the latest flash estimate, **Romanian real GDP** increased by **1.4% YoY** in 2025. With the deadline for the utilization of RRF funds approaching in 2026, the pending pickup in investment is definitely a tailwind for overall output, however fickle it might look. It's worth mentioning that the most recent European Commission statement confirmed that EU will *"not propose the suspension of European funds at this stage."* **Inflation** rose sharply during the summer months, reaching **9.9% YoY**, and it may stay elevated due to increases in energy and food prices and what the Ministry of Finance describes as *"opportunistic price-setting behavior."* With inflation evidently being one of the central issues, we expect slower growth of **1.2% YoY** (2025), followed by a soft pickup to **1.5% YoY** (2026). The growth should accelerate further in 2027 with fiscal and monetary policy easing, as well as with better natural gas deposit exploitation with the completion of *"Neptun Deep Project"*.

**PERSONAL CONSUMPTION.** Unemployment has increased further since our last analysis, currently standing at **5.9%** (September 2025). This upward year-on-year trend is likely to continue toward the end of 2025 and unemployment might stay elevated or grow driven in part by fiscal headwinds as well as slowing growth and persistently high inflation, but the trend is expected to slow and reverse in the second half of 2026. Moreover, as indicated by the Beveridge curve, even though **total job vacancies declined throughout 2025**, the **number of unemployed persons rose**, clearly signaling a slight weakening in the labor market. A high share of the Romanian working-age population continues to seek better working conditions abroad, creating a labor market void that must be filled by an increasing share of the domestic working-age population and increasing number of foreign workers. This becomes increasingly difficult since **Romania also faces challenges related to labor force participation**, which remains relatively low. Vital statistics also do not contribute positively to the overall population picture, and the natural population increase remains in negative territory. With an aging population and with no trend reversal in sight, the burden on the labor market is set to increase further.

**Gross nominal wages are showing a continued deceleration trend**, partly facilitated by the introduction of the **public sector wage-capping mechanism** at the beginning of the year along with pension reforms. The set of indirect tax increases and the removal of energy price caps pushed inflation higher, placing significant constraints on household consumption, which will likely further compress GDP growth in the near term. With all of this considered, inflation now outpaces wage growth, continuing to place substantial pressure on households. For household consumption to recover, restrictive fiscal measures have to subside and inflation has to show signs of easing which is likely to occur during the second half of 2026 and into 2027.







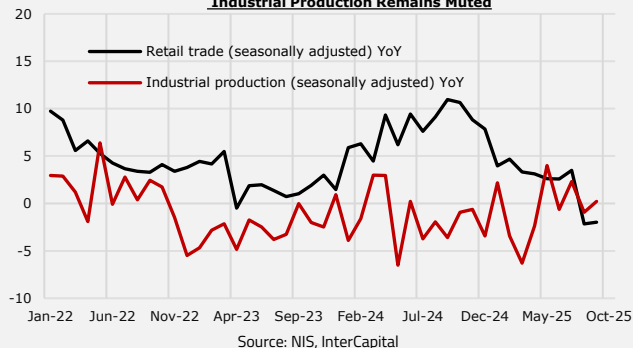
# ROMANIA MACRO OUTLOOK

Ivan Dražetić, CFA & Fran Poljak

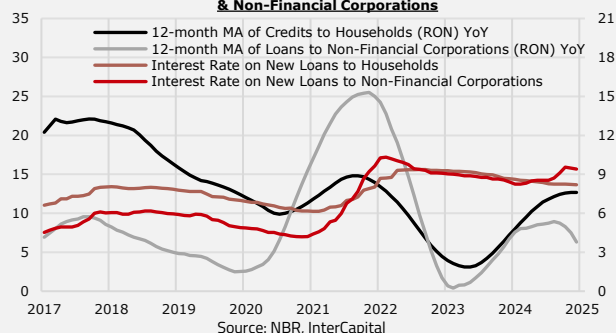


December 2025

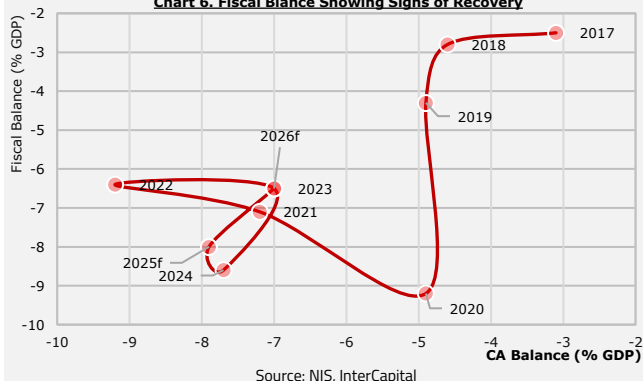
**Chart 4. Retail Trade Slows Further, Industrial Production Remains Muted**



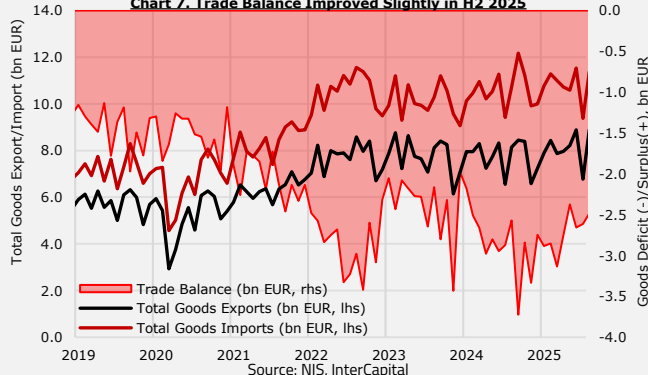
**Chart 5. Interest Rates, Loans to Households & Non-Financial Corporations**



**Chart 6. Fiscal Balance Showing Signs of Recovery**



**Chart 7. Trade Balance Improved Slightly in H2 2025**



**LEADING INDICATORS.** Retail trade declined further in the second half of 2025 (-1.96% YoY in September) as **austerity measures start to bite and households become financially constrained.** With a recent pickup in inflation and continued tight monetary policy, this burden on consumers may remain elevated in the medium term, further creating headwinds for retail trade. In 2025 retail trade has been driven mainly by the sale of non-food products. Recent retail trade managers survey in the sector, indicate a moderate slowdown in turnover, and an increase in number of employees and prices. Industrial production, although showing signs of trend reversal, still remains somewhat muted (**0.21% YoY** in September). Industrial production was mainly driven by increases in manufacturing, mining and quarrying. Business tendency survey of managers from the manufacturing industry highlight a slowdown in production volumes, decrease in the number of employees and price increases. Romania is definitely positioned as one of the key beneficiaries once the EU manufacturing picks up all over again.

Household credit has seen significant slowdown in the second half of 2025. Interest rates on new credit to households remained relatively flat (**8.2%** in September) and elevated during the observed period continuing to put additional pressure on new household borrowing. **Loans to non-financial corporations in 2025 nominally remain higher than in the same period of 2024** but have recently shown signs of slowing year-on-year dynamics. Interest rates on new loans to non-financial corporations increased in the second half of 2025 (**9.4%** in September), which could partly explain the reduced appetite for corporate borrowing. The dynamics of elevated interest rates on new loans are likely to remain unchanged, and until the central bank starts cutting interest rates and fiscal pressures ease we will probably not see any reversal in this trend of subdued borrowing. According to Eurostat the gross household savings rate turned positive in Q1 2025 after a year of negative readings, which may indicate that households are reducing their borrowing and/or have more leftover gross disposable income.

**FISCAL & TRADE BALANCE.** In the period from January to September the **fiscal balance stands at negative 5.4% of GDP.** The broad set of fiscal measures introduced in July and August, which includes VAT adjustments, increases in excise taxes on fuels, alcohol, and tobacco, healthcare tax extensions on the revenue side, and cuts in public administration bonuses, education sector adjustments and health fund measures on the expenditures side, are expected to help narrow the wide budget deficit already in 2025. At the beginning of 2026, additional measures are set to take effect, including the dividend tax increase on the revenue side and the continuation of the public sector wage cap freeze on the expenditures side. With this in mind, continued persistence in implementing fiscal budget and sustained stability of the ruling coalition should bring the **fiscal deficit** closer to **-8.0% GDP** (2025), narrowing further to around **-6.5% GDP** (2026). Although, this is not without risks. Growing debt servicing costs and credit rating uncertainty are putting increased pressure on the government to remain unremitting in the face of a challenging year ahead.

Since our last summer macro analysis, the trade balance has shown modest signs of improvement. In the first nine months of 2025, the trade balance stands at around **1.0bn EUR** higher than in the same period of 2024. This shift in the previously deteriorating trade balance mostly stems from **slower wage growth, higher inflation, currency depreciation** (in exactly that order) and **lower domestic consumption** (consequently). Machinery and transport equipment remain the categories with the highest share of exports at around 46%, followed by manufactured goods and other miscellaneous manufactured articles. On the import side, a similar pattern holds, with the exception of the high share of chemical imports, which account for around 15%. The **current account balance** has mostly remained on an upward trajectory, and in the period from January to September, stands at **-7.5% YoY**.



# ROMANIA MACRO OUTLOOK

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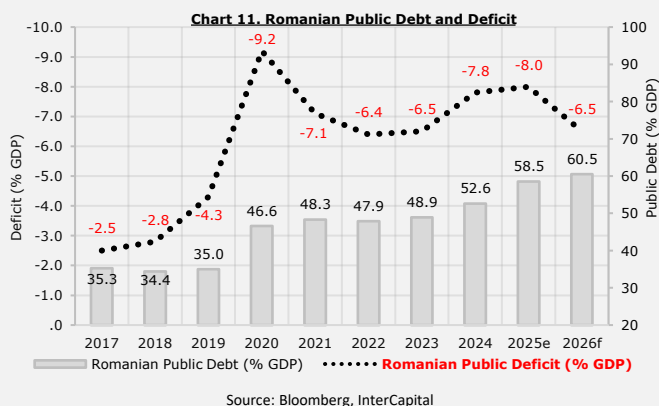
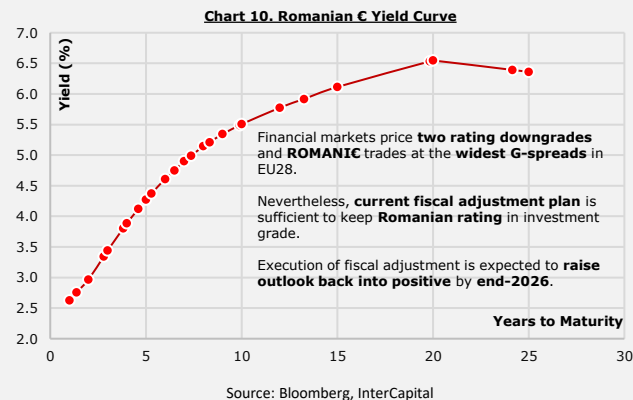
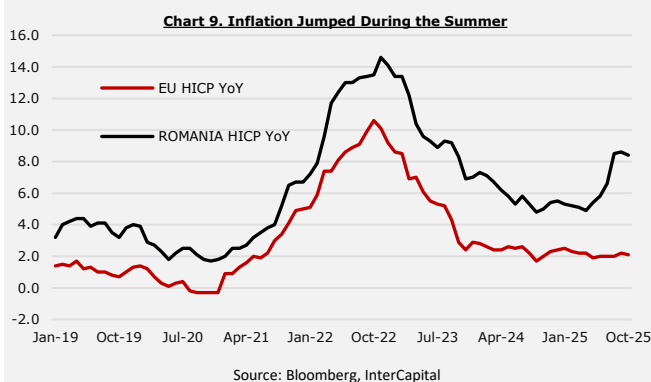
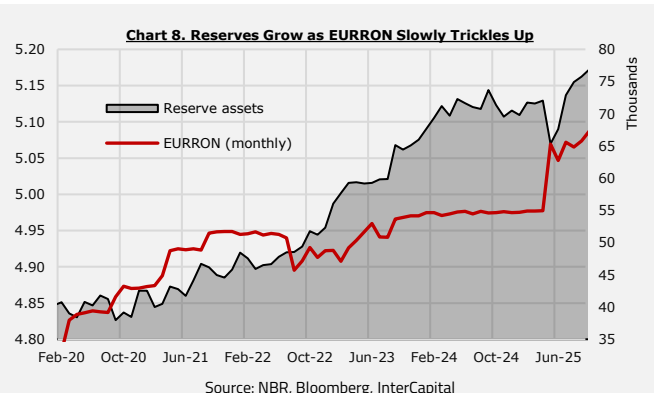
December 2025

**MONETARY POLICY.** After years of **steady depreciation against the EUR**, political turbulence in 2025 finally caused EURRON to break the 5.00 psychological threshold. Even as the **political situation cooled down** (especially after pro-western coalition won the 18th May election), EURRON dropped, but **hasn't managed to get below 5.00** (NBR governor Isarescu thinks we'll never see EURRON below 5.00 ever again). Chances are it won't get there in 2026 as well. A silver lining in the EURRON story is that with recent international bond placements Romanian central bank managed to **increase FX reserves** to an **all time high of 76.0bn EUR** and stands ready to intervene when needed. So far this year 5.15 seemed to look like a line in the sand, however this line would be moved higher next year, probably to 5.25. There is a strong case for EURRON to move higher next year, and the case is built upon a huge **CA deficit (7.0% GDP expected in 2026)**, large **fiscal deficit (6.5% GDP if the consolidation works)**, and a **shift in financing away from international bonds**, espoused with **stronger presence on the local market**.

Romanian inflation rates clearly stand out from EU-28 average and it's quite apparent that this is thanks to domestic factors. Namely crawling depreciation of EURRON is serving as a continuous tailwind to inflation rates, but this year's public wage and pension hikes without backup in productivity growth naturally served as a strong push to inflation rates. Currently, consumer price inflation stands at **9.8% YoY**, while the comparable EU standard HICP is resting around **8.4% YoY**. We believe things will get worse before they get better and with this in mind we base our **Romania CPI forecast at 7.5% YoY aop. (2025)**, followed by a drop to **6.0% YoY (2026)**. Looking at the 2025 figure, since average CPI has been 6.8% YoY in the first ten months of 2025, this would require >10% YoY rates to get us all the way to 7.5% YoY average – but no doubt we will get there. **How realistic is our assumption for 2026?** Once the electricity price cap expires, inflation rates will likely gradually start coming down. Since most of the reduction comes from higher base rate, it's quite likely lower CPI in 2026 would materialize.

Should the fiscal consolidation work and public deficit reaches our base case in 2026 (that's 6.5% GDP), Romanian Ministry of Finance will have **270bn RON** of gross financing needs in 2026 (versus 260bn RON for the current year). This year, in order to fund the budget gap, Romania **placed about 15.5bn EUR** (about 80bn EUR) of international bonds and next year Romania will have to **roll over 3.25bn EUR** of existing eurobonds (750mm EUR in February, 1.56bn EUR in September and 940mm EUR in December). Since rating agencies have been repeatedly flagging the fact that **Romanian rating decision would be contingent upon the execution of fiscal adjustment** and that tangible results might not come until second half of the year and since foreign institutional investors are quite rating sensitive (unlike domestic buyers), we believe the **weight of the financing to switch more on the domestic markets**. To paint that picture with a couple of numbers, Romanian Ministry of Finance will likely tap the international market three times next year and collect about 10.5bn–11.0bn EUR of cash (3.25bn EUR rollover debt and remaining **7.25bn–8.25bn EUR in new debt**).

Should our funding forecast prove right, Romanian Ministry of Finance will have to place about **213bn RON** of new paper on the domestic market. **Who will be the net buyer of new ROMGB's?** Mandatory pension funds have some room to add, however their exposure to government bonds is already at an all time high (close to 70% of assets). It's very likely **the banks will step in** and foot the bill. Although Romanian banks have one of the highest exposures to Romanian government debt (>25%), **central bank is continuously increasing liquidity position in the system** and we believe all that cash needs to go somewhere – in Romania, **ROMGBs appear to be the natural habitat for RON**. Bear in mind that in Romania, more than 30% of banking sector in terms of assets is domestically owned (Banca Transilvania at 23% and CEC at 11%), meaning that banks in local ownership can add on a bit more ROMGB positions than foreign owned banks. With all this in mind we expect Romanian public debt to increase to **58.5% GDP (2025)** and to **60.5% GDP (2026)**.





# SERBIA MACRO OUTLOOK

Emanuel Evačić



December 2025

## Peak Performance Likely Behind Us, Navigation Through Uncertain Waters Lies Ahead

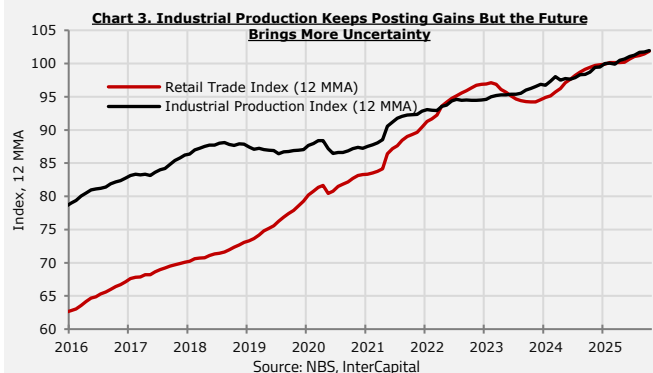
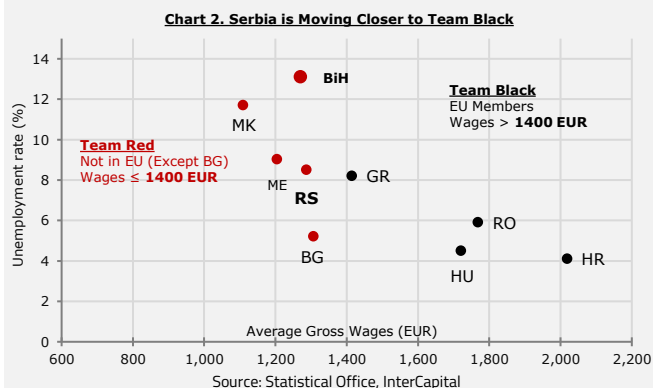
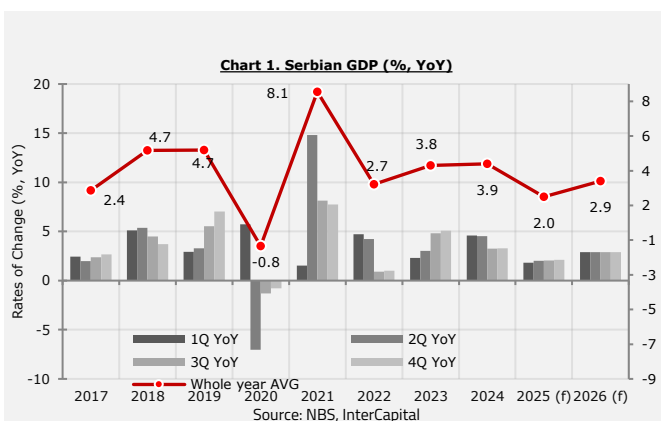
Table 1. Overview of Selected Macroeconomic Indicators

Macroeconomic Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025 (f)	2026 (f)
GDP (real growth rate, YoY)	2.4%	4.7%	4.7%	-0.8%	8.1%	2.7%	3.8%	3.9%	2.0%	2.9%
ILO unemployment rate (average)	14.5%	13.7%	11.3%	9.7%	11.1%	9.5%	9.4%	8.6%	8.4%	8.3%
Inflation rate (CPI, average, YoY)	3.2%	2.0%	1.9%	1.6%	4.0%	11.9%	12.5%	4.7%	3.9%	3.9%
EUR/RSD exchange rate (average)	121.4	118.3	117.9	117.6	117.6	117.5	117.3	117.1	117.2	117.2
Current account balance (% GDP)	-5.0%	-4.6%	-6.6%	-3.9%	-4.1%	-6.6%	-2.4%	-4.7%	-5.4%	-6.2%
Fiscal deficit (% GDP, ESA 2010)	1.1%	0.6%	-0.2%	-7.7%	-3.9%	-3.0%	-2.1%	-2.0%	-3.0%	-4.5%
Public debt (% GDP, ESA 2010)	55.3%	51.2%	49.5%	54.2%	53.8%	52.4%	48.0%	46.7%	45.3%	46.3%

Source: Statistical Office (SORS), Central Bank (NBS), Ministry of Finance, InterCapital

**REAL ECONOMY.** As we take stock of the developments surrounding the GDP growth since our previous macro-outlook was published, it feels like the trend of more pronounced real growth has come to an end, being swapped for a moderate growth rate of 2.0-3.0% as evidenced by the most recent print of 2.0% YoY growth in 3Q25. Private consumption is showing signs of healing, buoyed by strong real gross wage growth, although the most recent print of 3.4% YoY remains below the 2025 average of 5.2%. Government consumption is sitting steadily at 3.9%, only slightly below the 2024 average of 4.1%. In contrast, **real gross capital formation paints a sombre picture, remaining in negative territory at -2.1% and bringing the year-to-date average to -2.3%.** Peering at the last year's average of 7.9% explains where the majority of the drag is surfacing from. Looking ahead, as political skies clear and the rollout of infrastructural projects planned under the Serbia 2027 – Leap into the Future program gains momentum, we see scope for an improvement in the growth outlook. Nevertheless, given the near-term challenges, **we have significantly revised down our GDP growth forecasts to 2.0% for 2025 and 2.9% for 2026.** Effective 1 January, the minimum monthly wage will be increased by 10.1% to €551. This adjustment follows an extraordinary mid-year increase to €500 and forms part of the government's plan to raise the minimum wage to €650 by the end of 2027. As a result, the minimum wage will exceed the value of the minimum consumer basket. In line with earlier commitments, the government will implement a 12.2% increase in pensions. Public sector workers were not excluded from the increases – their remuneration is set to increase by 5.1%. Even before the mandated increases, average net wages expanded by 10.8% during the first eight months of 2025. Given that wage growth is a foremost driver of private consumption, these developments support expectations of an improvement in consumer sentiment. **We therefore project private consumption to grow by 3.0% in 2025, accelerating to 4.7% in 2026.**

**LEADING INDICATORS.** Vis-à-vis the same period in 2024, industrial production rose by 2.7% in the first nine months of 2025, spurred by a strong increase in coal extraction and electricity production. On the positive side, there was also a strong impact from the production of motor vehicles and rubber and plastic products, largely due to the operations of Stellantis' plant in Kragujevac. Even though the EC designated Jadar lithium mine as a strategic one for the EU, **Rio Tinto chose to put the project on hold** for the time being. **OFAC's sanctions on NIS, which operates Serbia's only oil refinery, eventually came into force on October 8.** Croatian JANAF didn't waste any time and suspended deliveries of crude oil while the NBS received warnings that it could fall under secondary sanctions (a payment blockade) if it continues working with a sanctioned entity. If the crisis persists, direct and indirect effects resulting from the necessity to import petroleum products will harm manufacturing and retail trade. Another possible hindrance stems from the EC's introduction of restrictive measures on imports of steel products into the EU as a response to protectionist measures from the US. There has been a slight increase in the retail trade and catering indices, while the number of overnight stays from tourists in 2025 dwindled compared to the same period in 2024.



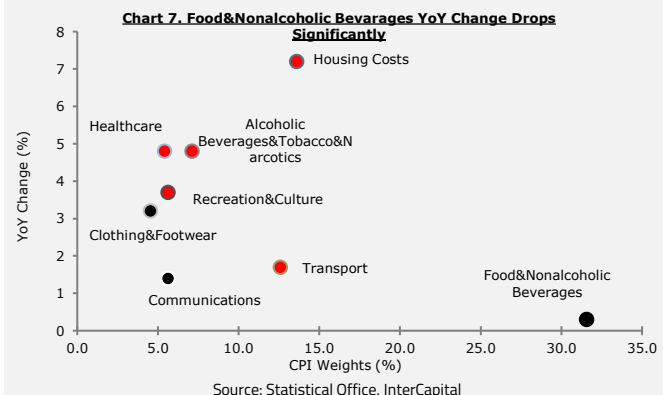
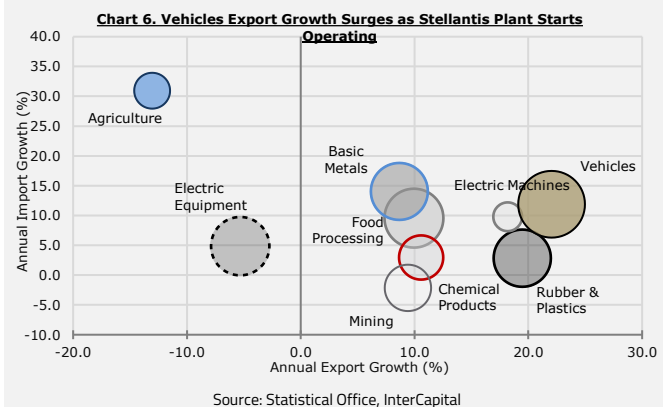
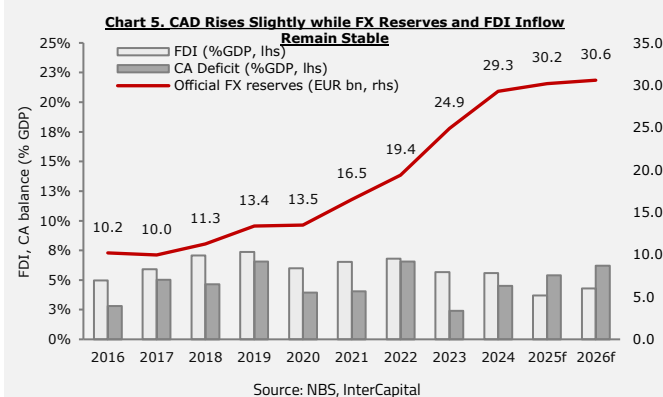
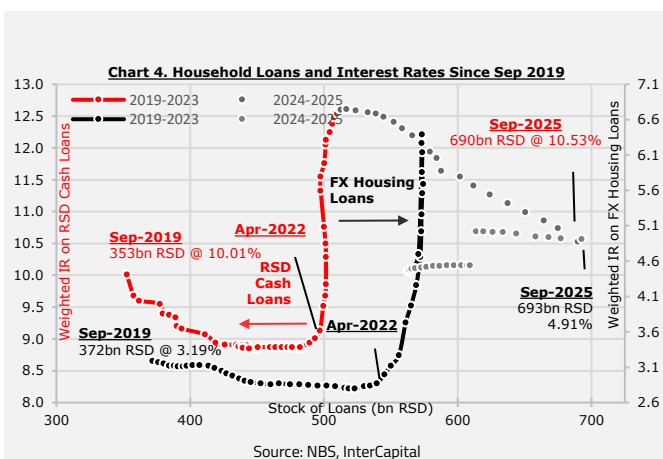


# SERBIA MACRO OUTLOOK

Emanuel Evačić



December 2025



Interest rates on RSD cash loans continue to fall, while the stock of both FX-indexed housing loans and RSD cash loans remains on an upward trajectory. **From January 1, 2026, to December 31, 2027, the existing 5% cap on housing loans rates will be substituted by a new cap calculated as the weighted average interest rate in the same currency, increased by a fifth.** The NBS has also paved the way for further shrinkages in weighted interest rates for households by introducing loans for pensioners and lower-income employees, with interest rates set three percentage points below the average for the same type of credit (floored at 7.5% for employees and 10.5% for pensioners). Another tailwind for credit activity comes from the **Youth Housing Loan Programme, which reduces interest-rates for first-time homebuyers by up to 0.5 percentage points.** The banking sector remains profitable, and the share of non-performing loans in total loans has fallen to a record low of 2.2%.

**INVESTMENT.** The share of fixed investments in 3Q25 stood at 23.4%. Political tensions and social unrest amid heightened geopolitical uncertainty caused by tariffs and increased protectionism among major world economies contributed to a decline in FDI inflows compared to 2024. **During the first nine months of 2025, FDI inflows totalled €2.45bn, while net inflows amounted to €1.52bn as residents increased investments abroad.** The majority of FDI originated from the EU (61.5%), particularly from the Netherlands and Austria. The bulk of the remainder originates from the UK and Switzerland. The principal recipients, sector-wise, remain manufacturing (24%) and ICT (19%), followed by construction, mining and quarrying, and wholesale and retail trade. Notably, members of the German Chamber of Commerce have identified weak enforcement of laws as the main deterrent to investing in Serbia. It remains to be seen whether the generally supportive business climate will be sufficient to overcome the obstacles posed by the current socio-political situation.

**NET EXPORTS.** In the first nine months of 2025, Serbia's net exports recorded a deficit of €6.4bn, marginally exceeding the €6.1bn recorded in the corresponding period of 2024. **Vehicle exports surged as the Stellantis plant commenced its operations, while imports of agricultural products increased by more than 30% due to a harvesting season severely afflicted by drought.** Imports of services also rose sharply. The clearest example is travel: the net amount spent almost doubled, from -€0.7bn in the first eight months of 2024 to -€1.3bn in 2025. Europe remains Serbia's predominant export destination, accounting for 86.1% of total exports. However, the composition of imports has shifted, with China topping Germany to become the leading source, now accounting for 14.7% of all imports. With goods imports still supported by Expo-related capital expenditures and persistently strong demand for services imports, **we project the current account deficit to reach 5.4% in 2025 and rise slightly to 6.2% in 2026, as we do not anticipate a swift rebound in FDI.**

**MONETARY POLICY.** During the summer June-August period, the food and non-alcoholic beverages component of the CPI rose at an average rate of 7.8% YoY. **Under the Government Decree on Special Conditions for Trade in Certain Types of Good, effective 1 September for a six-month period, retail trade margins were capped at 20% for 23 categories of food and household chemical products, which together account for approximately 35% of the CPI basket.** As a result, food inflation slowed markedly, printing -4.5% in September and -0.9% MoM in October, and is currently exerting the smallest upward pressure among the major CPI contributors. Conversely, **the government lowered the electricity tariff limit from 1,600 to 1,200 kWh, with the next adjustment scheduled for January 2027.** The impact became visible in the October inflation reading, with household electricity prices rising by 9.6% both MoM and YoY. **Core inflation (excluding energy, food, alcohol, and tobacco) dropped below 4% for the first time since late 2021, reinforcing the view that underlying inflationary pressures were easing even in the absence of the Decree.** Nevertheless, the central bank cautions that inflation is likely to hover around 4% once the cap on retail margins expires, partly due to lower bases from this year's prints. Accounting for the risk of renewed depreciation pressures on the dinar, **we expect the policy rate to remain unchanged for the remainder of the year, followed by two rate cuts in the next year, bringing the policy rate to 5.25% by year-end.**





# SERBIA MACRO OUTLOOK

Emanuel Evačić



December 2025

During the first five months of the year, the NBS was a net seller of EUR and buyer of RSD, intervening in an amount of €1bn. The undertakings were aimed at curbing depreciation pressures stemming from seasonal increases in energy imports, while the strains were further amplified by reduced global investment confidence and delays in capital inflows caused by domestic protests and blockades, which significantly dampened FDI. **Subsequently, the NBS reversed course and resumed net purchases of euros. Since the beginning of the year, it has purchased a net €505mn, pushing FX reserves to a new record high of €29.4bn.** The widening of the interest rate differential between the ECB and the NBS has helped alleviate **depreciation pressures**; however, they are likely to return to the spotlight as the country grapples with the NIS situation and the growing need to import larger quantities of refined petroleum products. Given these dynamics, **we project the EURRSD exchange rate to average 117.2 both in 2025 and 2026, with risks skewed to the upside in 2026.**

Serbia's entry into the investment-grade cohort remains elusive. Considering that Moody's currently rates the country at Ba2 with a positive outlook, two notches below IG, and that Fitch remained cautious whilst reaffirming the rating at BB+ with a positive outlook on 25 July, it steers us into thinking that **the lingering expectancy of getting two IG ratings (following S&P's upgrade from 4 October 2024) will be a protracted one.** The main concern remains elevated political uncertainty ahead of the 2027 presidential and parliamentary elections amid a deteriorating consumer and investment sentiment. These hindrances are taking a toll on GDP growth and the current account balance. On the contrary, Serbia has made incremental progress on the fundamentals. Public debt has declined modestly, inflation is projected to remain within the tolerance band, and economic activity is expected to strengthen as preparations for Expo 2027 intensify. **Regardless of the existing NIS crunch, the bond market does not appear to view the issue as a material or lasting threat to public finances or the broader fiscal framework.** As depicted in Chart 9, the spread between Serbia's longest-dated Eurobond, €SERBIA36, and the corresponding German Bund has continued to narrow, excluding a short-lived bout of instability in 2Q25.

**FISCAL POLICY.** By the end of September 2025, Serbia's general government public debt had declined to 43.4% of GDP, continuing its descent and remaining aligned with Maastricht criteria. **A real increase in current revenues of 2.1% YoY** was affected by higher proceeds from personal income tax (+5.9%), reflecting favourable labour market developments; a decline in corporate income tax revenues (-10.0%); and a considerable rise in social contributions (+9.4%). Despite growth in disposable income, real VAT revenue remained unchanged YoY. That increase in public revenues was offset by **a heftier expansion of public expenditures, which rose by 5.2% YoY.** This can chiefly be attributed to rises in outlays for wages of public employees (+7.6%), pensions (+8.3%), and purchases of goods and services (+5.1%). The planned reopening of the twelve-year euro-denominated local bond issue, scheduled for December 17, will not take place as the EUR financing needs were fully realized on the July 25 auction in the amount of €250mn. The share of public debt in foreign currency remains elevated at 77.3%. Given that most of that debt is either denominated in euros or swapped into euros using financial derivatives, maintaining a stable EURRSD exchange rate is a vital part of the policy framework. **It remains to be seen whether the government will assume Gazprom Neft and Gazprom's stakes in NIS, valued at over €1bn. To prepare for a potential acquisition, amendments to the 2026 budget have been submitted.** An additional €1.4bn has been budgeted for ensuring the country's energy security and stability. **Financing this outlay will require raising public debt by €1.8bn more than previously planned by an additional €1bn in loans from banks and multilateral institutions, and an increase in Eurobond issuance from €2.2bn to €3bn.** Another potential funding source is the government's deposit with the NBS. These developments pose a clear risk of higher fiscal deficits in 2026, prompting a material revision of our forecasts. Thus, **we forecast fiscal deficit to reach 3.0% of GDP in 2025 before rising to 4.5% in 2026.** In accordance with that, **we project the aftermath to show Serbian public debt at 45.3% of GDP at the end of 2025, before increasing briefly to 46.3% by the end of 2026.**

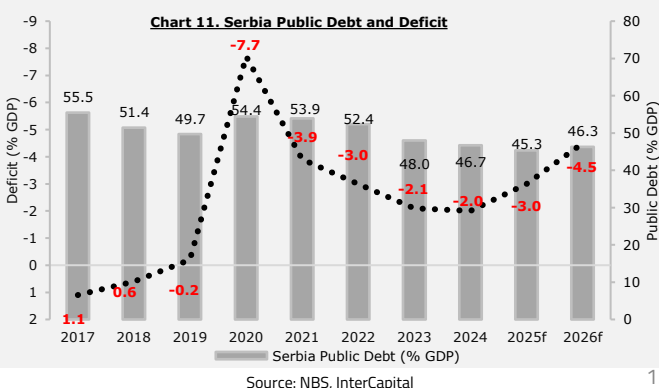
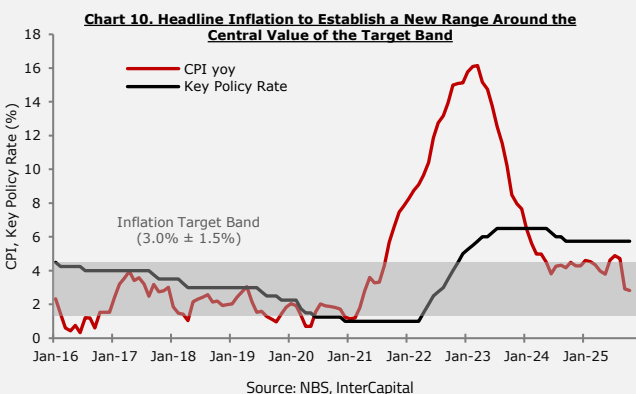
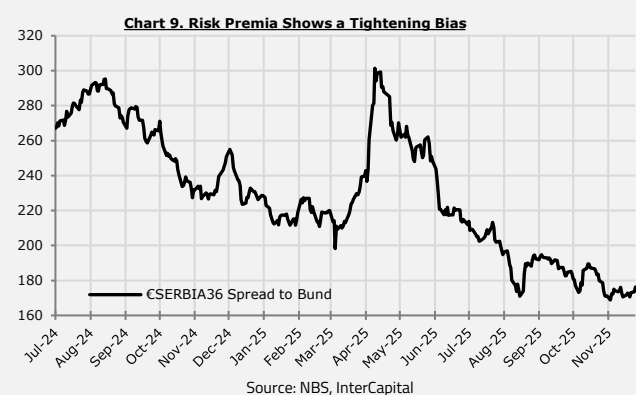
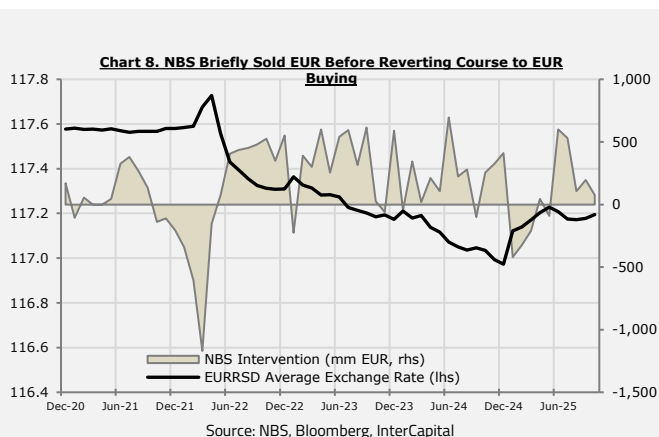
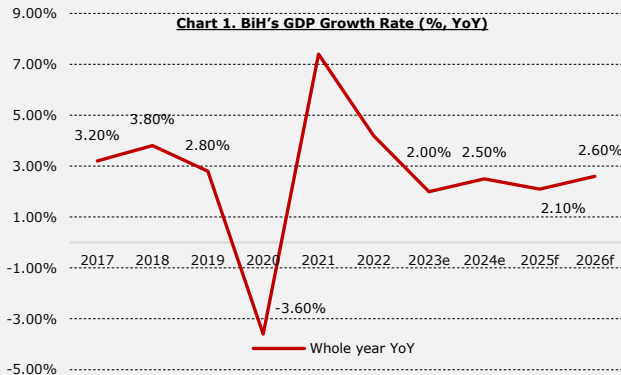


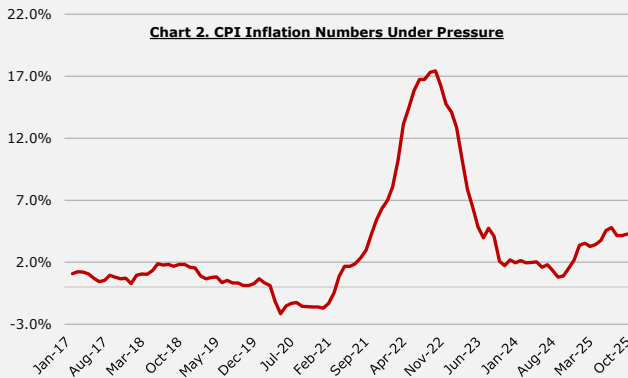


Chart 1. BiH's GDP Growth Rate (% YoY)



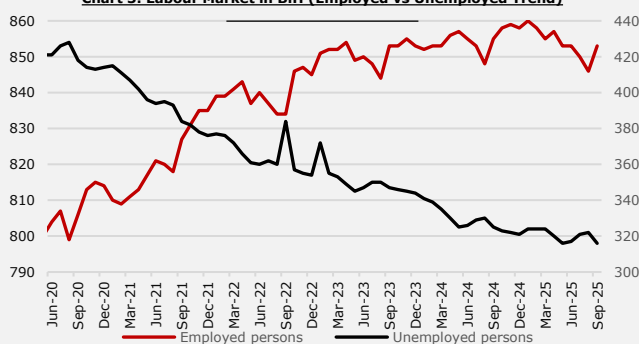
Source: Agency for Statistics of Bosnia and Herzegovina, InterCapital

Chart 2. CPI Inflation Numbers Under Pressure



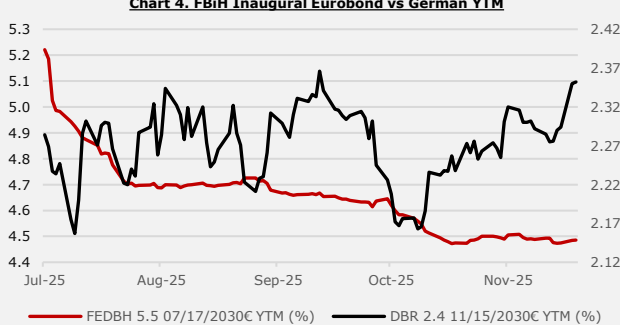
Source: Agency for Statistics of Bosnia and Herzegovina, InterCapital

Chart 3. Labour Market in BiH (Employed vs Unemployed Trend)



Source: Agency for Statistics of Bosnia and Herzegovina, InterCapital

Chart 4. FBiH Inaugural Eurobond vs German YTM



Source: Bloomberg, InterCapital

**REAL ECONOMY.** BiH's GDP growth slightly slowed in the past six months as construction and energy output contracted amid softer FDI inflows and heightened political uncertainty. Even so, we still expect **GDP** to expand, though more modestly, at around **2.1% in 2025 (€28.5bn)**. However, growth should regain momentum supported by resilient household consumption (underpinned by still solid remittances) and real wage growth of roughly 8%, which brings our **2026 GDP growth** projection to **2.6%**. Inflation has remained persistent, with September's annual rate at 4.2% (compared to 4.1% in August and 4.8% in July), driven primarily by supply-side pressures. Food prices rose significantly faster than other categories, largely due to lingering effects of the 2024 floods, broader global market volatility, and the sharp minimum-wage increase introduced in the FBiH at the start of 2025. Labour market conditions deteriorated in **Q1 2025**, intensifying pressure on households already squeezed by higher prices. **Unemployment** rose to **13.4%**, while the activity rate fell to 48.7%, indicating fewer people working or actively seeking employment.

**FISCAL AND MONETARY POLICY.** Fiscal policy coordination remains constrained by the divide between the FBiH and RS, with each entity setting its own budget priorities, debt strategies, and spending commitments. This fragmentation reduces the effectiveness of nationwide fiscal planning and complicates the implementation of counter-cyclical measures, increasing the risk of uneven deficits and delayed reforms. BiH's fiscal stance is easing, although with caution as taking on new discretionary measures could push the deficit higher, expected to reach **2.6% of GDP** in 2025. Monetary stability continues to rest on the currency board, keeping the BAM pegged to the euro at BAM 1.96 per EUR. We emphasize the importance of CBiH maintaining its independence, refining the reserve requirement framework, and implementing IMF guidance to strengthen its ability to respond to shocks. Stronger coordination between entities, creating a Financial Stability Fund, and continuing integration into SEPA will attribute to BiH's resilience and deeper economic integration with Europe.

**INVESTMENT.** BiH continues to attract a select wave of strategic investments, even as the broader climate remains constrained by deep structural and political divisions between the FBiH and Republika Srpska. Remittances, traditionally a key source of household resilience, are softening amid slower European growth. The most dynamic developments are concentrated in green energy and infrastructure. The EBRD has committed **€50mn** for eight solar PV plants (Živinice, Breza and Mostar) under EPBiH, key project in BiH's energy-transition strategy aimed at reducing dependence on coal. Significant private and international investments are also advancing in wind energy, including the **€90mn** Vlašić project, the **€200mn** Poklečani and the **€130mn** Ivovik wind farms. Complementing this, the World Bank's **€78mn** "just transition" loan will support the redevelopment of former coal regions (Banovići, Kreka and Zenica) through clean-energy infrastructure and social-support programmes. Despite these important initiatives, BiH remains a challenging destination for wider FDI as weak judicial protections, heightened political instability and absence of unified economic space further undermine investors confidence.

**PUBLIC DEBT.** BiH has one of the lowest debt-to-GDP ratios in the region, projected at **25.3%**, and is almost evenly distributed between the two largest entities. However, this reflects structural weaknesses rather than prudent fiscal or monetary policy. The country's limited access to international capital markets (despite the **FBiH** issuing its **inaugural €350mn 5-year Eurobond** in July 2025) stems from a weak economy and long-standing investor concerns. Above mentioned FEDBH 5.5 07/17/2030€ was priced on the back of bilateral loans, but the market had other plans and it seems that domestic bid might be pushing the I-spread tighter and tighter. However, borrowing is used largely to maintain budget liquidity, finance ongoing public expenditures (wages, pensions and welfare) and refinance existing liabilities. BiH's non-investment-grade credit rating (S&P "B+", stable outlook as of August) further limits borrowing options. In this context, any new bond issuance would function more as a bridge to meet short-term obligations than as a tool for long-term fiscal strengthening.



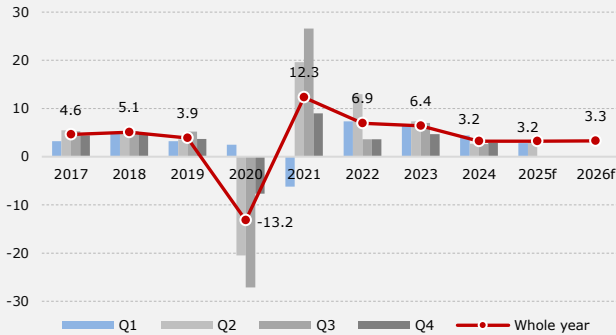
# MONTENEGRO MACRO OUTLOOK

Josip Rimac



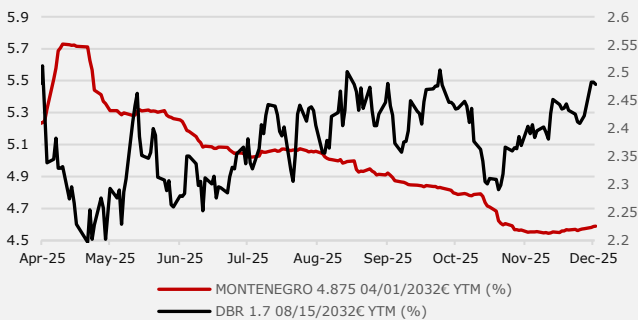
December 2025

Chart 1. Montenegro GDP (% YoY)



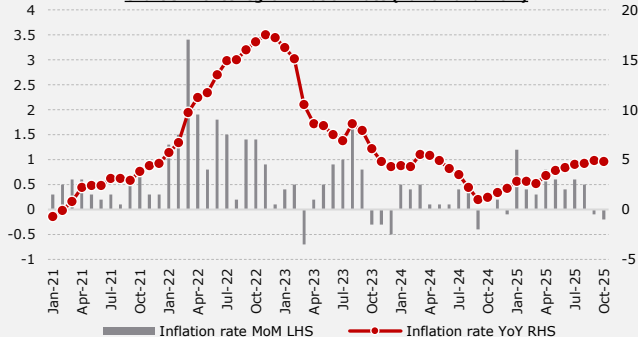
Source: Statistical Office of the Republic of Montenegro, InterCapital

Chart 2. Montenegro vs German YTM



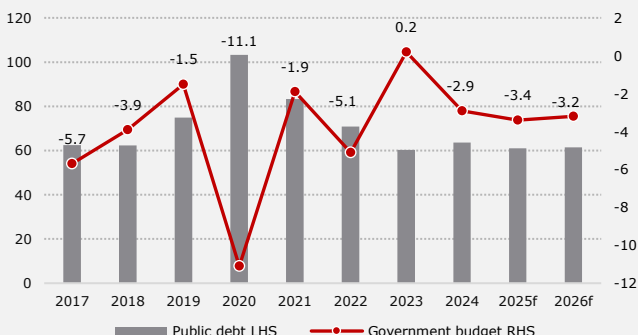
Source: Bloomberg, InterCapital

Chart 3. Montenegro Inflation Rate (% YoY and MoM)



Source: Statistical Office of the Republic of Montenegro, InterCapital

Chart 4. Montenegro Public Debt (% GDP)



Source: Statistical Office of the Republic of Montenegro, InterCapital

**REAL ECONOMY.** Montenegro's economy kept growth momentum supported by resilient private consumption, infrastructure and renewable-energy investments, and sustained wage gains. We project real **GDP growth of 3.2% in 2025** and around **3.3% in 2026**. However, growth remains sensitive to tourism, which accounts for nearly one-third of GDP, and the country still struggles to capitalize fully on rising tourist arrivals. Key setbacks include overwhelming traffic and border congestion from June to August, inadequate international flight connectivity, and rising state-imposed costs (**VAT increase on hospitality services from 7% in 2024 to 15% in 2025**, among other fees). **Inflation** continues a moderate decline; we expect it to average **3.0% in 2025** and trend toward **2.4% in 2026**. Upside risks persist due to continued wage increases, likely to spill over into service prices, and inherited import-price inflation in food and energy. The labour market shows steady improvement, with **unemployment at 9.03% in September**, down from **11.06% a year earlier**, and heading toward an **8.6% average in 2026**. However, structural labour shortages from emigration, skills gaps, and reliance on seasonal foreign workers increasingly constrain potential growth.

**INVESTMENT.** In H1 2025, foreign direct investments in Montenegro reached €235mn, while remittances from abroad were almost double the size and stood at €433mn (up 6.2% YoY), while foreign workers outflows amounted to €99mn, which results in net inflow of €334mn. Strong remittances play a major role for national economy and cover 32% of trade deficit. The highway construction program in Montenegro is in steady progress (Bar - Boljare corridor). Key sections (Mateševo-Andrijevice) are moving from planning into construction, financed by **EU €150mn grant** and **€200mn EBRD loan**, and corridor of Adriatic - Ionian highway is still in early phase of planning and initial tenders. CGES continues with energy transition, investing in transmission grid modernization, (Pljevlja and Brezna substations). Montenegro and Italy are working towards completing second undersea power cable by 2031, project worth over €1bn. This venture involves 415km of power line connection, stretching from Abruzzo (IT) to Tivat (ME).

**EU ACCESSION & CREDIT OUTLOOK.** Montenegro aims to finalise EU accession negotiations by 2028 after having opened all 33 negotiation chapters, remaining a frontrunner among Western-Balkan candidates. Montenegro had closed seven chapters by June 2025, though latest report from European Commission warns that legislative alignment slowed in early 2025, emphasizing rule of law/judiciary and anti-corruption (Chapters 23 and 24), and calls for stronger co-ordination and technical capacity to keep up momentum. As of October 7th, 2025, Montenegro became part of the SEPA payment system, further integrating into European financial space. Standard & Poor's has continued to treat these political and fiscal developments as credit-relevant, reaffirming Montenegro's rating at B+ with a stable outlook in 2025, citing improving fiscal metrics and reform momentum as positives while flagging continued political and project-related fiscal risks.

**PUBLIC DEBT.** The latest figures show Montenegro's public debt at €4.82bn, just above **60% of GDP**. Net debt, after deducting government deposits including gold reserves, stands at €4.19bn, or about 53% of GDP. The structure remains heavily dominated by external debt (**≈90%**), with only 10% tied to central government domestic borrowing. Positive element is the **high share of euro-denominated obligations (≈97%)**, which limits currency risk, while **80-85% of total debt is on fixed interest rates**, helping stabilize borrowing costs. However, public debt as a share of GDP appears more favorable than fundamentals suggest, due to a persistently large foreign **trade deficit**, which reached almost **€2.9bn** in the first nine months of 2025, up from €2.62bn a year earlier. Total repayments of principal and interest in 2025 exceeded **€800mn**, with a particularly **heavy maturity in 2027**, when the **€750mn** Eurobond issued in 2020 comes due. Borrowing needs will therefore rise, and we expect public debt to trend upward toward **€5.4bn in 2026**, or **64% of GDP**. The tightening of the I-spread that happened on the recently placed MONTEN 4.875 04/01/2032€ is a vote of confidence among frontier investors that faster EU accession might unlock stronger growth.



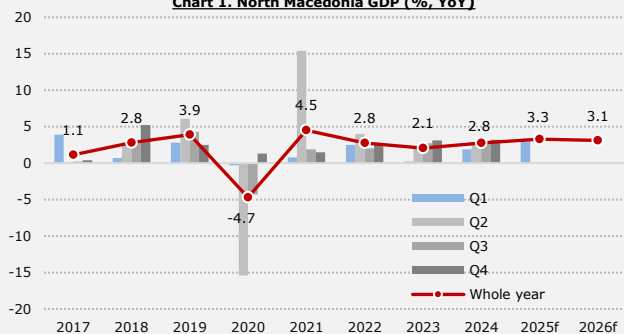
# N. MACEDONIA MACRO OUTLOOK

Josip Rimac



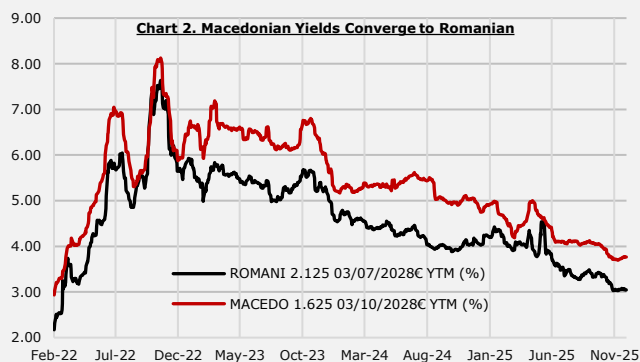
December 2025

Chart 1. North Macedonia GDP (% YoY)



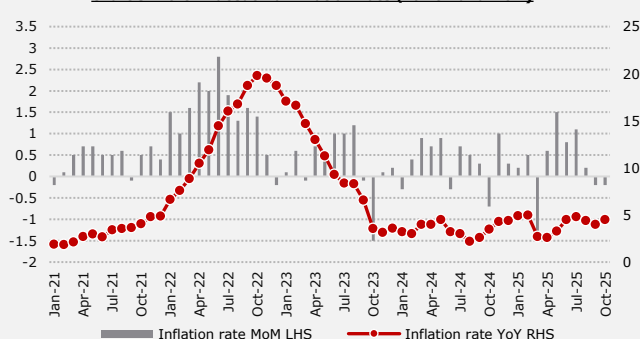
Source: State Statistical Office, Republic of North Macedonia, InterCapital

Chart 2. Macedonian Yields Converge to Romanian



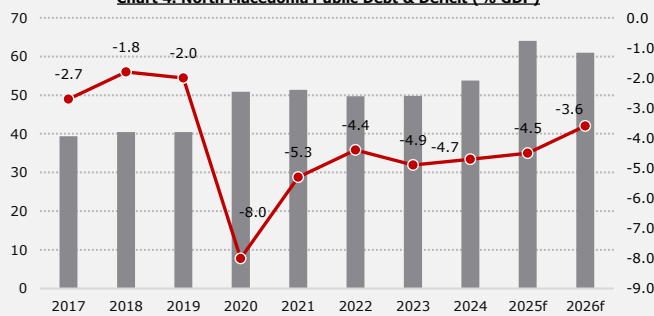
\*interpolation, expected issuance  
Source: Bloomberg, InterCapital

Chart 3. North Macedonia Inflation Rate (% YoY and MoM)



Source: State Statistical Office, Republic of North Macedonia, InterCapital

Chart 4. North Macedonia Public Debt & Deficit (% GDP)



Source: State Statistical Office, Republic of North Macedonia, InterCapital

**REAL ECONOMY.** North Macedonia remained broadly on course since our last publication, with the latest figures showing that **GDP growth reached 3.4% YoY in Q2 2025 (€4bn)**. The services sector continues to be the key engine of activity, now accounting for around 60% of GDP and employing 55% of the total workforce, supported by strong expansion in the ICT subsector. Growth was further supported by robust household consumption and solid external trade dynamics. Looking ahead, we expect growth to moderate slightly as the impulse from major public-investment projects (Corridor 8 and Corridor 10d) peaked in 2025, and we therefore remain at forecasted **3.1% GDP in 2026**. Softer external demand and a gradual shift toward fiscal consolidation are also likely to weigh on momentum. Labour market is improving but remains constrained by structural weaknesses, as **unemployment** continued to decline, with **Q2 2025** rate reaching **11.5%** and we see it easing toward **11.0%** in **2026**. **Public debt** stood at **€9.7bn** at the end of September 2025 (57.6% of GDP), split between €5.5bn external and €4.2bn domestic debt. The main upward pressures on public debt stem from rising wages and pensions expenditures, elevated capital-investment needs, and higher interest costs compared with pre-tightening levels.

**FISCAL POLICY.** On the fiscal front, Macedonia faces a difficult challenge sustaining the recovery through public investment while beginning to reduce deficits that have remained elevated for years. The budget gap is projected at **4.5% of GDP**, and **public debt** at approximately **64% of GDP**, already breaching the national fiscal rule, which heightens consolidation pressures. The government plans to issue a **€950mn Eurobond** in **January 2026**, with €700mn allocated to refinance the June 2026 maturity and the rest for covering part of next year's deficit. Thanks to the proceeds from Hungarian Eximbank, frontier investors are eagerly waiting for the new international bond placement in 2026 with cash on the sidelines. Current spending (particularly wages and pensions) continues to outpace economic growth, increasing the risk that politically driven hikes further constrain fiscal space and complicate coordination with the central bank. Still, authorities aim to protect capital investment in transport, energy, and digital networks, viewing it as vital for long-term competitiveness.

**MONETARY POLICY.** National Bank of Republic of North Macedonia prioritizes cautious normalization strategy, balancing between persistent core inflation pressures with a still-fragile growth environment. **Inflation** is heating up in recent months driven by energy and food prices (**October 2025 4.5%** vs **September's 4.0%**). The central bank kept its benchmark **interest rate** steady at **5.35%**, emphasizing prudence as wage-driven inflation remains stickier than headline figures suggest and signalling that premature easing could undermine price stability and weaken the credibility of its long-standing exchange-rate stability framework, anchored to the euro. We see NBRNM ease with a lag behind euro area, but only if disinflation becomes firmly entrenched and fiscal policy avoids adding demand-side pressure. Foreign reserves reached **€4.84bn** in October 2025, supporting the central bank's ability to defend the currency and maintain the exchange rate at 61.50.

**INVESTMENT.** Momentum has slightly changed since our last publication and 2025 seems slightly weaker in terms of FDI than the record previous year. Still, Macedonia remains the top performer of the emerging Europe in terms of attracting investments. It traditionally attracted FDI in manufacturing and business services, but more recently the **energy sector** has become a key driver – signalling planned shift from low-cost labour-intensive industry. The largest project set to commence is Dubai-based Alcazar Energy's **€460mn**, 400 MW wind farm across the Štip, Karbinci, and Radoviš municipalities, now under active construction. Another major renewable investment comes from Germany's WPD, which is developing the 415 MW "Virovi" wind farm stretching from Staro Nagoričane to Kriva Palanka, with a projected value exceeding **€500mn**. Remittances are projected at **€464mn** for 2025 with an upside projections in the coming years as Macedonia adopted SEPA and become fully operational in October.



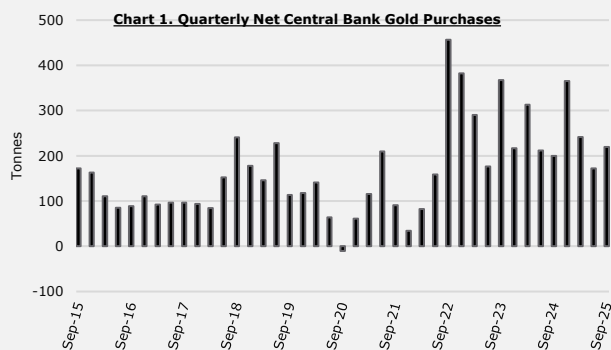


# COMMODITY MACRO OUTLOOK

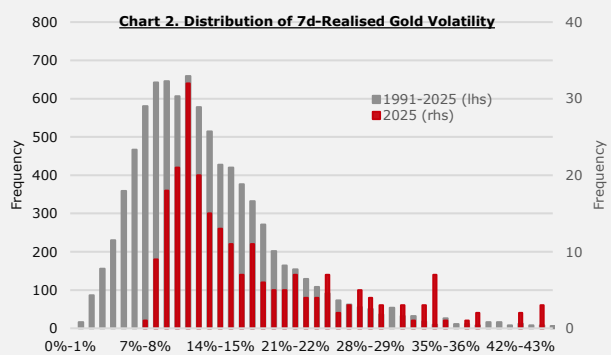
Petar Klarić & Tomislav Užnik



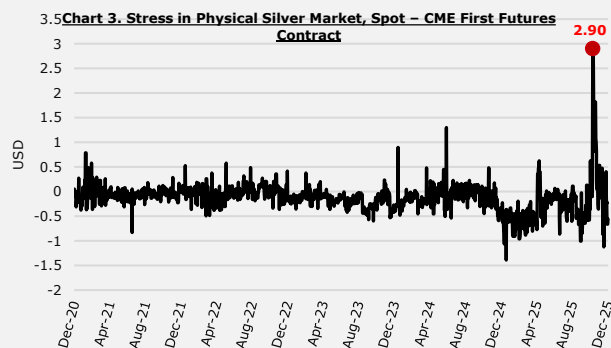
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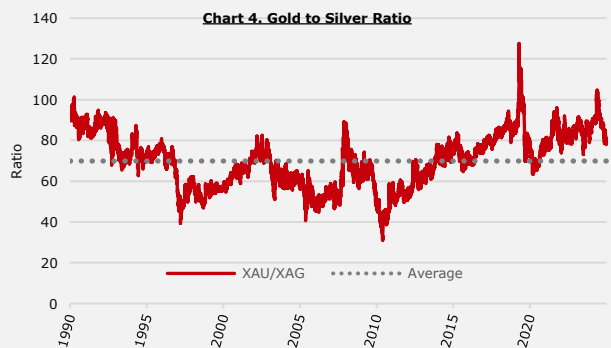
Source: Bloomberg, InterCapital



Source: Bloomberg, InterCapital



Source: Bloomberg, InterCapital



Source: Bloomberg, InterCapital

**CENTRAL BANKS.** Gold demand has remained robust throughout 2025. Fears that higher prices would cause central banks to pause their accumulation have proved to be wrong. **Quarterly net purchases have held steady even after a roughly 60 percent rise year to date** reinforcing that official sector buying is strategically motivated rather than price sensitive. Emerging market central banks continue to diversify reserves away from the U.S. dollar, and the ongoing geopolitical realignment has only strengthened this trend.

**VOLATILITY.** Gold's strong rally came alongside a material rise in volatility. The **3M ATM implied volatility has been holding above 15 for the majority of the year**, well above historical norms, while realized volatility remains elevated as well. The largest single day move in gold futures on record occurred in the third quarter, which is notable given the metal's near **30 trillion dollar market capitalization**. The distribution of short term (7d) log return volatility in 2025 displays a clear shift to the right with **fatter tails** than in prior decades. This has weakened gold's dampening effect on portfolio volatility, with several episodes of synchronized selling alongside risk assets.

Although central bank demand remains surprisingly inelastic, the possibility of price driven demand fatigue cannot be dismissed. Elevated volatility and richer valuations may also deter allocators who view gold primarily as a stabilizing asset. At the same time, this spot - volatility regime combined with otherwise strong macro fundamentals creates a supportive backdrop for gaining directional exposure through **reverse diagonal option structures**.

**GOLD TO SILVER RATIO.** Across the precious metals complex, silver has been leading the catch up dynamic. The gold to silver ratio has compressed below 80, which is in-line with its historical tendency to mean revert. Being still above the 30-year average, **the current physical shortage in silver** has been a key driver of this narrowing. Industrial demand tied to solar panels, electric vehicles, battery technology, and high-performance computing hardware continues to expand. Silver's recent inclusion on the U.S. Geological Survey list of critical minerals also highlights this growing strategic importance.

**SILVER SUPPLY.** Importantly, structural supply constraints are amplifying this dynamic. Since most silver is mined as a byproduct of copper, lead, zinc, and gold, production is relatively insensitive to silver's own pricing. When base metal prices fall below operational viability, mines may close despite favorable silver conditions. As a result, supply growth depends more on the economics of other metals than on silver's fundamentals. This raises the probability that **the gold to silver ratio continues to drift lower in the near term**, particularly while the physical shortage persists.

**WHAT IS NEXT.** However, the **secular trend for the ratio still points higher**. The drivers behind gold remain deeper and more persistent. Central bank accumulation, geopolitical hedging demand, and long-term reserve diversification amongst institutions and retail investors offer structural support that silver lacks. At the same time, silver's higher volatility profile and its reliance on cyclical, industrial demand make it less stable as a long-term strategic asset. These factors mean that while the ratio may continue to compress temporarily, **gold retains the stronger and more durable macro foundation**.

Given this backdrop, investors appear more comfortable holding gold longs as a macro hedge, despite the heightened realized vol environment, than committing to extended silver exposure. The difference in volatility regimes, and the fragility of silver's supply chain make silver exposure more of a tactical short-term strategy. For now, the continuation of the mean reversion in the gold to silver ratio is likely, but the long-term trajectory still favors gold, with the secular trend intact.

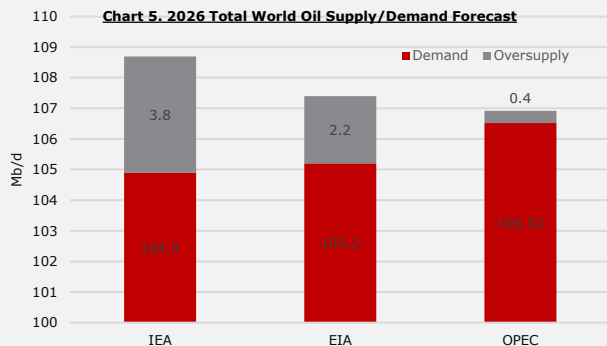


# COMMODITY MACRO OUTLOOK

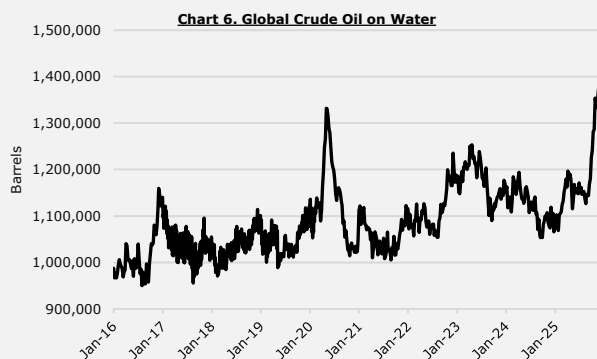
Petar Klarić & Tomislav Užnik



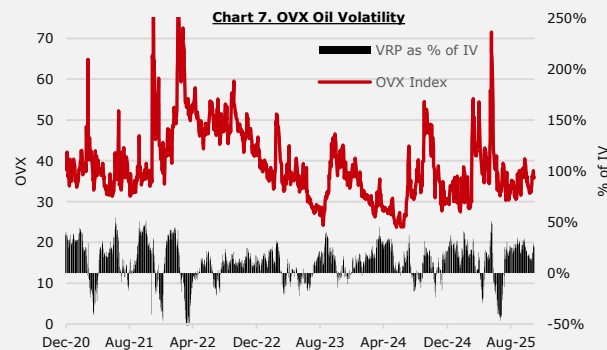
December 2025



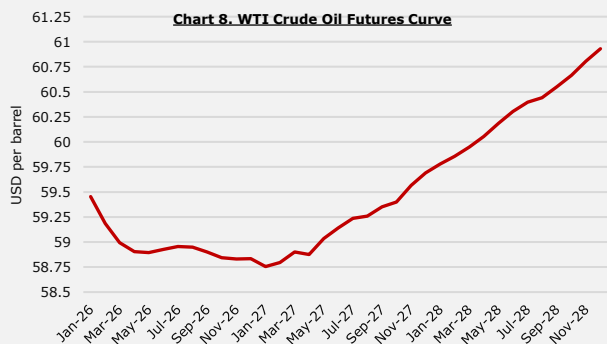
Source: IEA, EIA, OPEC, InterCapital



Source: Bloomberg, InterCapital



Source: Bloomberg, InterCapital



Source: Bloomberg, InterCapital

**OIL GLUT.** The narrative for oil throughout 2025 has been dominated by **fear of an extreme oil glut**, with most of the street expecting sub \$50 Brent prices. This view has somewhat failed to materialize. OPEC's large releases of voluntary cuts did not lift inventories as sharply as anticipated. Part of this is due to several producers failing to meet their higher quota allowances, and part of it is due to unexpected strong demand, amongst which China emerged as a key player, due to stockpiling of oil alongside other key commodities.

**MISSING BARRELS.** A point of even greater importance has been the volume of **unaccounted production**. The IEA recently reported that it could not reconcile roughly 1.47 million barrels per day in its global balances for August, the equivalent of more than one percent of annual demand. Historically, gaps of this scale tend to be resolved through **upward demand revisions**, which is what we expect once again, and a key reason why crude has retained its bid despite persistent bearish sentiment. These revisions are not unusual. Earlier this year the IEA made significant adjustments, including raising 2024 consumption by 350 thousand barrels per day, which flipped a previously reported surplus into a deficit. The agency has repeatedly underestimated demand for more than a decade, and the **current divergence between major industry forces forecasts illustrates this uncertainty** even more. The IEA sees next year's demand at 104.9 million barrels per day, while OPEC has its forecast 1.62 mb/d higher.

**FLOATING STORAGE.** Floating storage is another critical factor of concern. **Oil in transport has risen above levels last seen in 2022**, reaching about 1.4 million barrels per day. Although longer trade routes and shifts in tanker usage explain part of the increase, they do not explain all of it. An interesting fact is that more than a quarter of this oil on water originates from **sanctioned producers**, primarily Russia, Iran and Venezuela. This creates a dynamic where the headline picture of oversupply is less straightforward than it appears.

**GEOPOLITICAL RISK.** It is difficult to determine how much geopolitical risk is priced into oil at the moment. The OVX falling into the low thirties does signal that the **market has significantly discounted geopolitical uncertainty compared to its peak**. Popular betting markets assigning roughly a fifty percent chance of a ceasefire by late next year further reinforce the idea that **risk premia has compressed**.

**FUTURES CURVE.** The **front of the WTI futures curve has remained in persistent backwardation** for most of the year, reflecting a market that still prices near-term tightness despite the broader bearish narrative. While the roll yield is relatively muted, **offering limited positive carry**, it doesn't demotivate long exposure. This creates a stable base for expressing directional views or owning convexity at the front part of the curve without suffering meaningful structural decay.

**STRUCTURAL SHIFT.** A key theme for 2026 will be **the continued shift toward non-fundamental drivers of short-term price movements**. As futures volumes on commodity exchanges grow, and with roughly 70% now driven by quantitative and algorithmic strategies, traditional fundamentals such as inventory levels are becoming less influential in near-term pricing. As a result, tracking the positioning and behavior of major speculative market participants and their strategies is becoming increasingly important.

**RIGHT TAIL.** The current environment has limited room to accommodate an unexpected rise in demand or disruption in supply. The majority of spare capacity is being held by OPEC+, amounting to 3.7mb/d, 60% of which is by Saudi Arabia. This is almost half the amount at the start of the year. We see the mentioned factors resulting in meaningful **right tail risk for oil prices**. Therefore, we see fit owning exposure to upside convexity. Sell-offs that are accompanied with rises in skew are an opportunity to gain right tail exposure through cheap risk reversals.

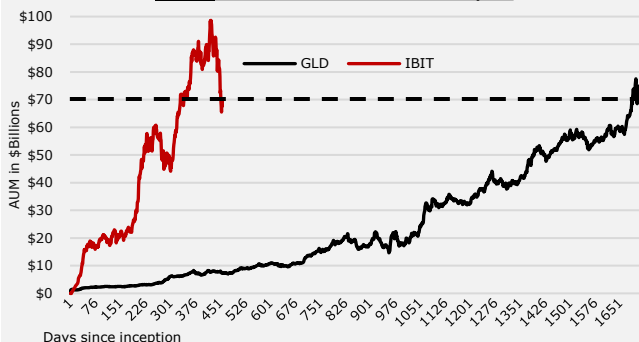
# CRYPTO MACRO OUTLOOK

Petar Klarić & Tomislav Užnik



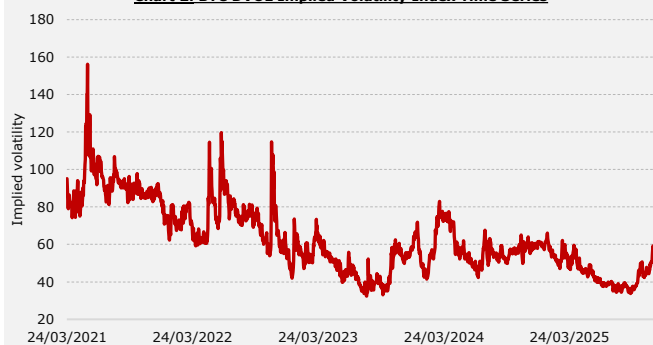
December 2025

Chart 1. IBIT vs. GLD ETFs AUM Since Inception



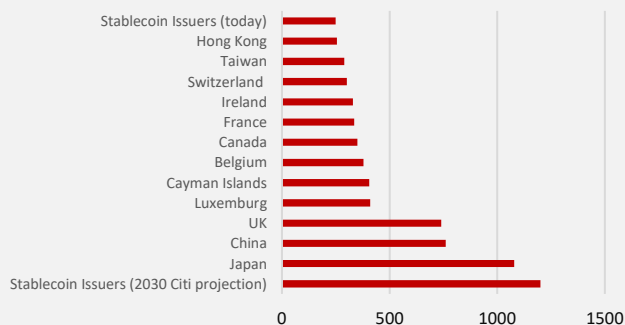
Source: SPDR, NASDAQ, InterCapital

Chart 2. BTC DVOL Implied Volatility Index Time Series



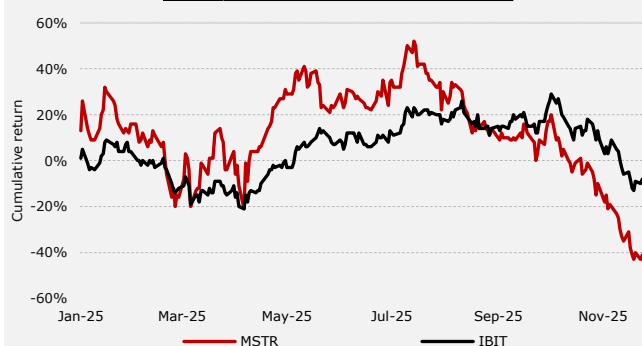
Source: Deribit, InterCapital

Chart 3. Stablecoin Issuer's UST Holdings \$ Billions



Source: Bloomberg, InterCapital

Chart 4. MSTR vs. IBIT YTD Cumulative Return



Source: NASDAQ, InterCapital

**ETFs.** Since January 2024, the crypto landscape fundamentally changed with the introduction and fast adoption of Bitcoin **spot ETFs enabling institutional money inflows** which were previously constrained with lack of regulated on-ramp to buy and hold on-chain BTC among other limitations. Blackrock manages the largest BTC spot ETF IBIT with roughly \$67B AUM and 775k BTC, holding roughly 3.7% of total maximum BTC supply. IBIT broke GLD's record in terms of AUM growth, **reaching \$70B in 341 days** as opposed to 1691 days for GLD. The effect of **institutionalization** in the crypto markets is materially visible in the derivatives markets, where we see a **structural downtrend in implied and realized volatility**, as well as **skew slowly shifting more from the initial retail hype-like call skew towards a more familiar equity-like put skew**. This is expected, considering high positive correlation with equity, basically acting as a **high-beta NASDAQ** bet.

**STABLECOINS AND REGULATION.** In July, **GENIUS Act** was signed into law with bipartisan support as a first official crypto-related legislation, **enabling and regulating payment stablecoin issuance**. Stablecoins are the lifeblood of crypto because they provide a stable, universally accepted medium that powers trading, payments, and DeFi, keeping the entire ecosystem liquid and functional. **Stablecoin Issuers are currently estimated to hold more than \$200 billion of US debt**, where estimates from US government and Citigroup range **from \$1.6 to \$3.7 trillion for the potential market size for stablecoins by 2030**. The law prohibits Stablecoin Issuers paying interest directly to the holders. However, an individual can still earn competitive yield indirectly by depositing USDT or USDC to a DeFi (Aave, Compound) or a CeFi (Coinbase, Deribit) platform offering crypto "rewards". Looking forward, there is a more important piece of legislation for the crypto markets, the **CLARITY Act**, passed by the House and awaiting Senate approval, which **aims to end regulatory ambiguity** by assigning regulatory oversight of digital assets to either the SEC or CFTC, depending on their classification, also defined by the law. By removing much of the regulatory uncertainty enforced by the previous administration<sup>5</sup>, **the Act could boost investor confidence and restore capital flows across the whole crypto market**, supporting more stable digital asset prices.

**MICROSTRATEGY.** Before IBIT, MSTR as a BTC holding/treasury company was the only regulated way to gain liquid leveraged exposure to BTC via standard equity rails. Among other reasons (retail frenzy buying, episodic short and gamma squeezes during sharp BTC upmoves), MSTR mNAV<sup>1</sup> expansion, peaking after US presidential elections in November 2024<sup>2</sup>, was primarily driven by the leverage effect<sup>3</sup>. However, since mid-July, **mNAV compression was also driven by the leverage effect, but in reverse<sup>4</sup>** (acting erosive instead of accretive), accelerating during the US government shutdown in October, coinciding with the 10<sup>th</sup> October flash crash and the ongoing downturn in crypto. Looking forward, it **seems difficult to picture a meaningful re-expansion of the mNAV towards 2024 levels** in an institutionalized BTC market. Also, it seems equally difficult to see mNAV collapsing meaningfully below 1. Of course, extremely explosive upside moves in BTC price, accompanied with the comeback of retail hype seem like sole candidates to drive mNAV higher again. On the other hand, prolonged bear market and a higher BTC price drawdown would drive investors to re-estimate default risk of MSTR which could lead to massive dumping of shares, compressing premium further. However, **with mNAV below 1, investors and arbitrageurs can effectively buy BTC for a lower price than in the market, barring default risk**. Investors should also keep a close eye on the MSCI delisting risk, which could result in anywhere between \$2.8B-\$8.8B in outflows for MSTR, with a final decision expected on 15<sup>th</sup> of January 2026.

<sup>1</sup> Market cap premium to BTC holdings value.

<sup>2</sup> The exact top in mNAV coincides with the rollout of exchange-listed options on IBIT which began trading on 19<sup>th</sup> of November 2024.

<sup>3</sup> Namely, MSTR was advertised and seen as a financial engineering prodigy which claims to issue convertible debt and equity accretively, meaning they are expanding their balance sheet in a way that growth of "BTC per share" metric is outpacing the dilution of shareholders and increasing default risk, as the company's owner and architect Michael Saylor famously labelled "bitcoin yield" which adds value to shareholders.

<sup>4</sup> Seems that the dilution of shareholders, increasing default risk and negative sentiment weighed on the stock, which underperformed BTC more than 30% YTD. When share issuance occurs at times when the premium is already under pressure (rather than at lofty valuations), it tends to dilute more value than it adds — compressing the premium. Adding to the premium compression is the erosion of the "scarcity/leverage premium" as alternatives proliferate.

<sup>5</sup> From April 2021 through 2024, the SEC under Gary Gensler pursued aggressive enforcement treating many tokens as securities, creating what many saw as an "anti-crypto" regulatory climate with over 125 crypto-related actions.

Chart 5. IBIT and QQQ Rolling 30-day Correlation YTD



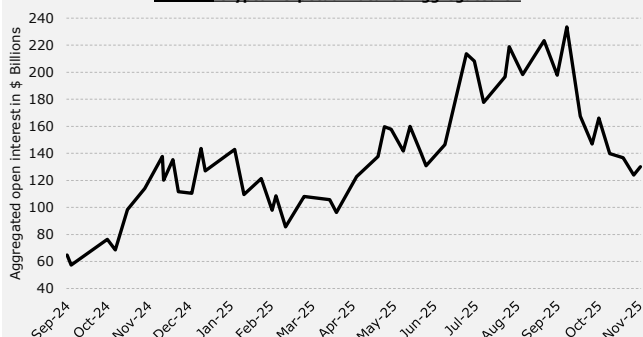
Source: Bloomberg, InterCapital

Chart 6. Aggregated Long/Short Perpetuals Liquidations



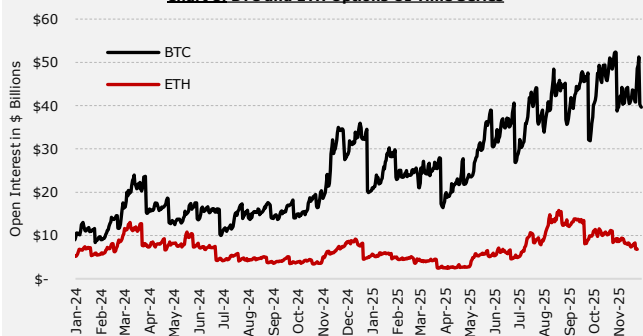
Source: CoinGlass, InterCapital

Chart 7. Crypto Perpetual Futures Aggregated OI



Source: CoinGlass, InterCapital

Chart 8. BTC and ETH Options OI Time Series



Source: Deribit, InterCapital

**FLASH CRASH.** On 10<sup>th</sup> of October 2025, the cryptocurrency market experienced one of its **most violent episodes in recent years**, revealing a market structure that was more speculative than truly capitalized: an environment where price is often only a function of available liquidity, not the fundamental value of the asset. Hedging algorithms stopped quoting, real liquidity instantly evaporated, **exposing the highly centralized nature of a system that claims to be free of centralization**. In less than an hour, **BTC and ETH lost 18% and 22% respectively, and most altcoins plummeted 60% to 90% in matter of minutes, recovering over the next 15 minutes**. When the spot price becomes inconsistent due to a lack of real liquidity, liquidation algorithms continue to execute mechanically, forcing sales at any price, regardless of fundamental value. This distortion was enough to cause a complete dislocation of liquidity: the price of Bitcoin briefly diverged by more than \$2,000 between different spot markets, with market makers partially suspending their hedging algorithms for several minutes. **In a massive deleveraging episode, more than \$19 billion in derivative positions were liquidated across all centralized platforms within 24 hours - a record since March 2023**. On the decentralized side, cumulative liquidations amounted at \$480 million, less than 3% of the total observed, confirming the greater stability of the on-chain segment in the face of the shock. **Total aggregated crypto perpetual open interest almost halved, falling from \$233B in early-October to roughly \$125B late-November**.

**TRADITIONAL FINANCE vs. CRYPTO.** The incident exposed the structural flaws in crypto liquidity. **Unlike traditional finance, where order book depth is ensured by multiple market makers, clearing houses and regulated stabilization mechanisms, crypto liquidity relies on a fragmented but interconnected ecosystem dominated by a handful of centralized players<sup>6</sup>**. In less than 45 minutes, more than \$8.6 billion was liquidated on the BTC futures markets; thousands of long positions were deactivated by margin calls; and some winning short positions could not be executed as counterparty systems lost all price consistency. This failure reveals a fundamental limitation of CEXs: **price formation on derivatives depends on spot stability, not the other way around**. **Unlike traditional regulated markets, centralized digital asset exchanges still lack protective mechanisms:** no circuit breakers to suspend trading in the event of panic, no clearing houses to cushion counterparty defaults and no ex-post supervision of execution conditions. The liquidation cascade on 10<sup>th</sup> of October reflects a systemic leverage effect, amplified by derivatives, lending protocols and interconnected aggregators. **Such a disruption would be impossible in a traditional regulated environment, where liquidity is guaranteed by multiple intermediaries and where the temporary suspension of trading acts as a firewall**.

**LOOKING FORWARD.** Key takeaway is that a **digital asset's value lies in the strength and sustainability of its liquidity across all exchanges**. Market makers tend to reduce inventory, widen spreads and limit posted size when macro uncertainty clouds directional conviction. Currently, funding rates are negative and fear and greed index is in the extreme fear territory, indicating **crowded short positioning and bearish sentiment**. The persistence of ETF outflows, the ambiguity around December rate policy and the general lack of strong fundamental catalysts have all contributed to a cautious stance. Now, due to thinner order books, **small amount of capital can move spot markets in either direction**. Lower liquidity also leaves the system more vulnerable to liquidation cascades but can also amplify upside moves if risk appetite returns.

<sup>6</sup>While major exchanges (Binance, Bybit, OKX, Coinbase, Kraken) operate on separate order books, they are closely correlated by liquidity aggregators and cross-exchange market makers. During a sudden price shock on one exchange, arbitrage algorithms turn off their automated quotes to avoid getting filled at unfavorable prices. Because those algorithms normally provide a huge portion of the liquidity, turning them off caused depth disappearing across multiple exchanges at the same time, huge inconsistencies in prices across exchanges and data websites (CoinMarketCap, TradingView, Kaiko) unable to compute a reliable average price because markets weren't synchronized for several minutes. On 10<sup>th</sup> of October, this interdependence caused a cascade of desynchronization on the main exchanges. Some traders couldn't get into the market, even though they already had orders placed. At the same time, several exchanges, such as Binance and Bybit, experienced significant API issues and briefly halted market order execution, making it even harder for traders to know what was really happening.





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