Bloomberg Adria

Macro Quarterly Outlook
4Q 2026

Adria Growth Continues Despite Headwinds

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Key Messages

Growth across the Adria region strengthened in the second quarter of 2026, although performance remained uneven. Domestic demand, investment and rising real wages remained the key growth drivers, while industrial activity was generally weaker. Inflation moderated in most markets, but renewed energy and geopolitical risks have pushed central banks toward a more cautious stance.

Bosnia and Herzegovina remained supported by resilient consumption, strong retail activity and real wage growth, while industrial production and investment indicators weakened. The shutdown of Nova Željezara Zenica represents a significant downside risk to industrial output, exports and related sectors. Due to rising energy prices, we are revising our annual inflation forecast upwards to 4,9%.

Croatia's growth slowed in Q2, reflecting weaker household consumption and moderating investment, although retail trade, tourism and the labour market remained supportive. Inflation remains elevated, particularly in services and energy, while softer domestic demand represents a growing headwind in the second half of the year. Due to rising energy prices, we are revising our annual inflation forecast upwards to 4,3%.

North Macedonia's growth accelerated strongly in Q2, supported by construction, investment, resilient domestic demand and continued export growth. Industrial activity remained comparatively subdued, while inflation moderated considerably during the summer. Due to subdued inflationary pressures in the first half of the year, we are revising our annual inflation forecast downwards to 3.4%.

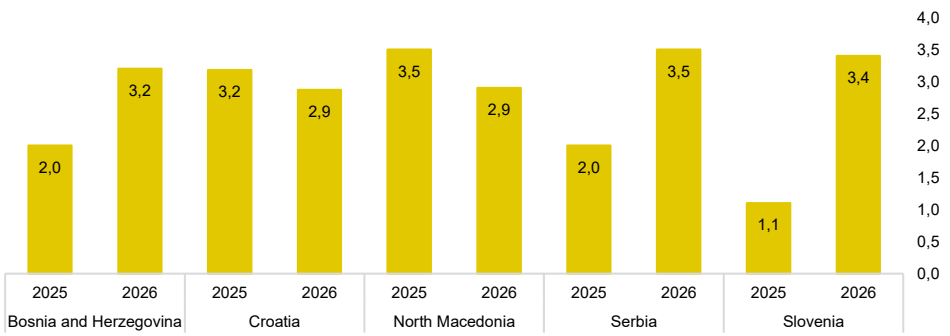
Serbia's economy gained momentum, supported by household consumption, investment and particularly strong construction activity. Inflation moderated and real wage growth remained robust, while Expo-related investment should continue to support construction and broader economic activity despite weak industrial production. Due to subdued inflationary pressures in the first half of the year, we are revising our annual inflation forecast downwards to 3.3%.

Slovenia recorded the strongest acceleration in the region, with GDP growth reaching 5.0% in Q2, driven by household consumption and a sharp increase in investment. Rising real wages and a tight labour market continue to support domestic demand, while softer industrial activity and elevated inflation remain key headwinds. We are upgrading our 2026 growth forecast to around 3.4%, reflecting exceptionally strong economic performance in the first half of the year. Due to rising energy prices, we are revising our annual inflation forecast upwards to 3,4%.

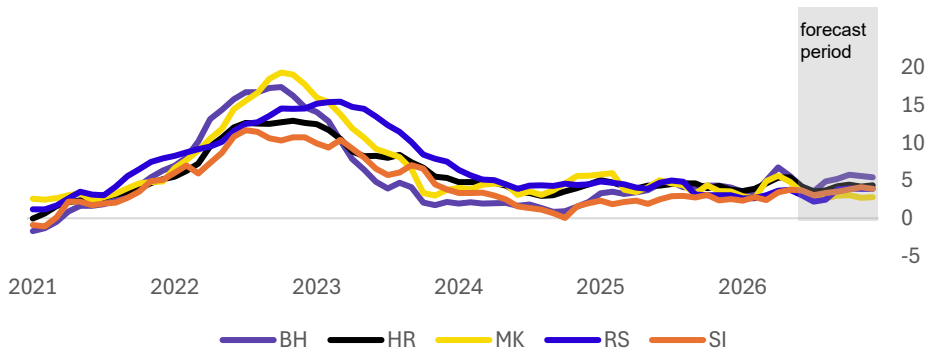
Central banks have shifted toward a more cautious stance amid renewed energy and geopolitical risks. The ECB raised its deposit rate by 25bp to 2.50% in September, while Serbia and North Macedonia kept their key rates unchanged at 5.75% and 4.25%, respectively. We now expect at least one more 25 bps hike by the end of the year and we no longer expect the NBS to cut rates this year

Labour markets across the Adria region have tightened significantly over the past five years, with Croatia recording the strongest improvement. However, ageing and emigration remain structural constraints, particularly in Bosnia and Herzegovina and North Macedonia, while Croatia and Slovenia increasingly rely on foreign workers to address labour shortages.

GDP Growth Forecasts (YoY, %)



Inflation Rate Forecasts (HICP, YoY, %)



Source: BBA Analytics
*CPI

Bosnia and Herzegovina

BiH's GDP in Q1 2026 grew 2.2% y/y. Household final consumption remained the main driver rising 3.2% y/y, while government spending rose 1.8%. Exports increased 0.1% y/y, but imports climbed by 1.3% leaving negative net exports. Gross fixed capital formation grew 1.5% y/y, reflecting continued investment activity. Industrial production lost momentum: January-July industrial production was down 2.6% y/y. By sector, manufacturing production decreased 1.3% y/y, mining output decreased by 15.3%, and electricity and gas supply increased 2.1%. Retail trade turnover remained resilient: from January to July 2026, it rose 11.5% y/y in real terms. Non-food retail sales grew 14.8%, while food, beverages and tobacco were up 8.3%. Wages continue to outpace price growth; net wages rose 8.3% y/y nominally and 2.7% y/y in real terms in Q2 2026. Q2 2026 unemployment rate increased to 12.2%, up 0.8 p.p from the previous quarter but down 0.9 p.p. on y/y. Investment indicators point to a pullback: January-July 2026 saw building permits issued down 5.7% y/y, and down 6.7% in July only compared to average number of building permits issued in 2025 with residential buildings accounting for 97.1% of permits in January-July. From January to July, the number of tourist arrivals was broadly flat, down 0.1%, while overnight stays increased by 2.0%.

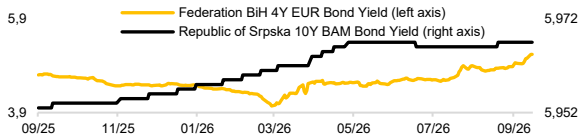
Inflation pressures remain elevated at around 3.6% y/y in July 2026. The main driver of price increases is the transport with 13.0% y/y, followed by the housing and utilities category with 10.8% increase y/y. With price and margin caps extended through end 2026, price pressures are expected to ease. Introduced on 5 June in response to elevated inflation, the FBiH price cap was followed by a 0.4% decline in consumer prices in July. Due to rising energy prices, we are revising our annual inflation forecast upwards to 4,9%.

Nova Željezara Zenica (previously ArcelorMittal Zenica) shut down its integral steel production in April 2026 due to unsustainable financial position. In June 2026, workers held daily protests over unpaid severance pay and holiday allowances. Bankruptcy proceedings were opened on 12 August 2026, and the creditors' examination hearing is scheduled for 8 December 2026.

Key Macroeconomic Indicators and Forecasts

	2023	2024	2025F	2026F
GDP real growth (%)	1,9	2,5	2,4	3,2
CPI (%, annual average)	6,3	1,7	4,1	4,9
Unemployment rate (%, ILO)	13,2	12,7	11,1	12,2
Fiscal deficit (% GDP)	-1,2	-1,8	-0,8	-2
Public debt (% GDP)	29	29,5	30,6	31,6
EUR/USD (average)	1,08	1,08	1,13	1,14
3M Euribor (average)	3,43	3,57	2,2	2,6

FBiH and RSBiH Bond Yield (Current, %)



Source: BBA Analytics, Bloomberg

Since the opening of bankruptcy, around 1,100 workers have been declared redundant. The immediate macroeconomic contraction is estimated at a minimum of 1.1% of BiH's GDP, given that Nova Željezara Zenica was the second largest exporter in BiH in 2025. Consequently, material impact is expected for rail transport (FBiH and RS railways), gas supplier (BH Gas), industrial gases and services (Messer) and port operations (Luka Ploče), generating additional indirect output losses.

We expect 2026 growth to be around 3.2%, while monitoring a potential transportation-sector strike that could disrupt BiH's imports and exports.

Croatia

Croatia's economy slowed in the second quarter of 2026, with real GDP expanding 1.7% y/y, down from 2.2% in Q1. Household consumption increased only 0.5% y/y, while government consumption rose 2.0%. Investment remained supportive, with gross fixed capital formation increasing 1.7%. External trade recovered, as exports of goods and services rose 3.0%, while imports increased 3.4%. Construction activity remained positive, with value added up 3.1% y/y, although forward-looking indicators are softer. In July, 972 building permits were issued, 1.6% more than a year earlier, but the number of permits in January–July was 12.1% lower y/y. Retail trade remains resilient. Real retail turnover increased 3.6% y/y in July, marking the 40th consecutive month of annual growth. Food, beverage and tobacco sales rose 3.9% and non-food sales 4.5%, while automotive fuel sales declined 2.8%. The labour market also remains tight, with the ILO unemployment rate at 4.7% in Q2, down from 5.5% in Q1. Industrial turnover continued to grow strongly, increasing 7.3% y/y in June and 5.0% in the first half of 2026. Tourism also remained supportive during the peak summer season. In August, tourist arrivals topped 5 million in August for the first time, while overnight stays in the first eight month rose 1.0% y/y.

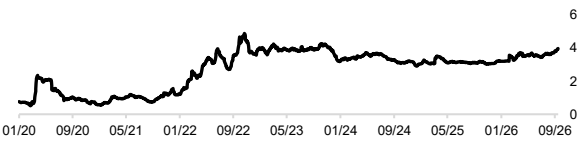
Inflation remains elevated. Consumer prices increased 4.2% y/y in August, driven by transport (+13.5%), housing and utilities (+10.8%) and restaurants and accommodation (+6.1%). Services inflation remained particularly strong at 7.2%, while energy prices increased 17.6%. By contrast, food and non-alcoholic beverage prices declined 0.6% y/y and clothing and footwear fell 5.1%. Harmonised inflation stood at 3.7% y/y. Due to rising energy prices, we are revising our annual inflation forecast upwards to 4,3%.

Overall, Croatia entered the second half of 2026 with slower growth momentum, as household consumption and investment moderated. Retail trade, tourism and the labour market remain supportive, while elevated inflation and softer domestic demand represent the main headwinds to growth. We expect 2026 growth to be around 2.9%.

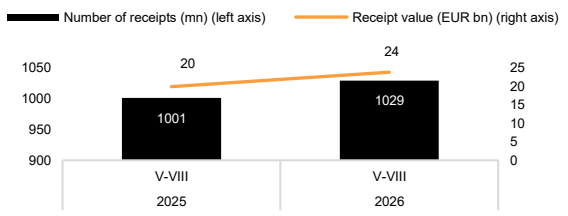
Key Macroeconomic Indicators and Forecasts

	2023	2024	2025	2026F
GDP real growth (%)	3,3	3,8	3,2	2,9
HICP (%, annual average)	8,5	4	4,4	4,3
Unemployment rate (%, ILO)	6,1	5,2	5	4
Fiscal deficit (% GDP)	-0,8	-1,9	-3	-2,8
Public debt (% GDP)	60,9	57,4	56,3	56,1
EUR/USD (average)	1,08	1,08	1,13	1,14
3M Euribor (average)	3,43	3,57	2,2	2,6

Croatia 10Y Bond Yield (Generic, %)



Number and Value of Fiscalized Receipts (V-VIII 2025 vs V-VIII 2026)



Source: BBA Analytics, Bloomberg
Note: 2025 vs 2026 data not fully comparable due to Fiscalization 2.0

North Macedonia

North Macedonia's economic momentum strengthened in the second quarter of 2026. Real GDP expanded 4.3% y/y, accelerating from 3.1% in Q1. Construction was the main growth driver, with value added surging 21.9% y/y. Gross capital formation rose 14.5%, supported by higher fixed investment. External trade also remained supportive. In the first seven months of 2026, goods exports increased 8.4% y/y, while imports rose 7.8%. The trade deficit nevertheless remained sizeable, with export coverage of imports at 70.9%. Germany remained North Macedonia's most important trading partner. Industrial momentum remains mixed. Industrial production increased 1.3% y/y in July, supported by a 3.4% rise in manufacturing, while mining declined 5.9% and electricity and gas production fell 19.5%. In the first seven months, total industrial production was only 0.9% higher y/y. Domestic demand indicators remain more resilient. Real retail turnover excluding fuel increased 3.6% y/y in July, driven by a 6.7% rise in non-food sales, while food sales were unchanged. Automotive fuel sales increased 13.2% in real terms. Household purchasing power remains supported by wage growth, with the average real net wage increasing 2.9% y/y in June. Tourism remained supportive, with the number of tourists increasing 5.5% y/y in July 2026. Construction indicators remain volatile despite strong activity, with the number of building permits falling 8.5% y/y in July.

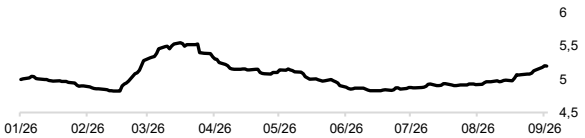
Inflation moderated considerably during the summer. Consumer prices increased 2.6% y/y in August, while monthly inflation stood at 0.4%. The monthly increase was driven primarily by recreation, sport and culture (+3.1%), restaurants and accommodation (+2.5%) and food and non-alcoholic beverages (+0.5%), while transport prices declined 0.8%. Due to subdued inflationary pressures in the first half of the year, we are revising our annual inflation forecast downwards to 3.4%.

Overall, North Macedonia entered the second half of 2026 with stronger growth momentum, supported by construction, investment, resilient domestic demand and continued export growth, while industrial activity remains comparatively subdued. We expect 2026 growth to be around 2.9%.

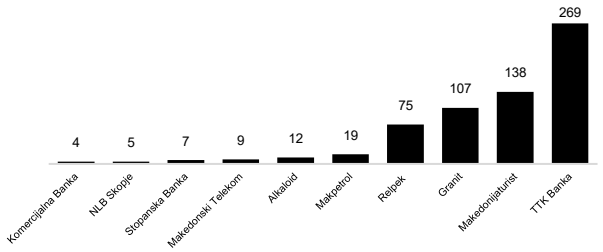
Key Macroeconomic Indicators and Forecasts

	2023	2024	2025	2026F
GDP real growth (%)	2,1	2,8	3,5	2,9
HICP (%, annual average)	9,2	4,2	4,3	3,4
Unemployment rate (%, ILO)	13,2	12,4	12	11
Fiscal deficit (% GDP)	-4,6	-4,4	-4	-3,1
Public debt (% GDP)	58,1	62,4	62,8	63
EUR/MKD (average)	61,56	61,53	61,6	61,6

North Macedonia 8Y Bond YIELD EUR (Current, %)



Number of days to reach one million euros of net income



Source: BBA Analytics, Bloomberg

Serbia

Serbia's economy gained momentum in Q2 2026, with real GDP expanding 3.8% y/y, up from 3.2% in Q1. Household consumption rose 4.0% y/y and government consumption increased 2.5%. Investment also strengthened, with gross fixed capital formation up 3.3%. Exports of goods and services increased 4.1% y/y, while imports grew faster at 5.2%. Construction remained one of the strongest sectors, with value added rising 9.1% y/y in Q2. Forward-looking indicators remain supportive, building permits issued in July were up 8.6% y/y, while the anticipated value of construction works increased 58.0%. Over the first seven months of 2026, the number of permits rose 7.9% y/y and their anticipated value increased 35.5%, pointing to a continued strong construction pipeline related to Expo investments. Industrial activity remains weak. Total industrial production declined 2.3% y/y in July, with manufacturing down 1.6% and electricity and gas supply falling 8.8%, while mining increased 3.0%. However, production in the first seven months of 2026 was still 0.3% higher than a year earlier. Capital goods remained a bright spot, with production up 10.9% in January–July, supported by strong growth in motor vehicle production. Household purchasing power remains supportive, with average net wages increasing 9.4% in real terms in June. Over the first half of 2026, real net wage growth averaged 8.4%.

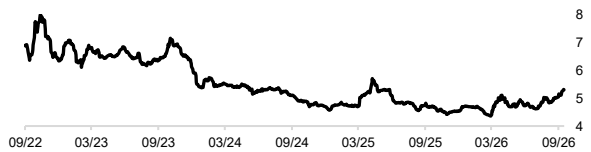
Inflation pressures moderated during the summer. Consumer prices increased 2.2% y/y in August, up slightly from 1.9% in July but well below the 3.5% recorded in May. On a monthly basis, prices increased 0.5%, driven by transport (+1.7%), recreation, sport and culture (+1.3%) and household equipment and personal care (+0.9% each). Due to subdued inflationary pressures in the first half of the year, we are revising our annual inflation forecast downwards to 3.3%.

Overall, Serbia entered the second half of 2026 with stronger GDP growth and robust household consumption, investment and construction activity. Strong real wage growth and moderating inflation should continue to support domestic demand, while weak industrial production and faster import growth remain the main headwinds. At the same time, the investment cycle related to Expo 2027 should continue to provide support to construction and overall economic activity. We expect 2026 growth to be around 3.5%.

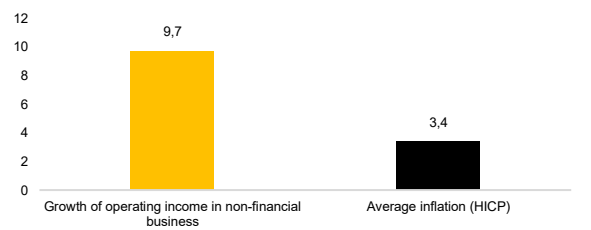
Key Macroeconomic Indicators and Forecasts

	2023	2024	2025	2026F
GDP real growth (%)	3,8	3,9	2	3,5
HICP (%, annual average)	12,2	4,8	4,1	3,3
Unemployment rate (%, ILO)	9,5	8,8	9	7,6
Fiscal deficit (% GDP)	-2,1	-2	-2,4	-4,5
Public debt (% GDP)	48	46,7	44,5	46,3
EUR/RSD (average)	117,25	117,09	117,2	117,15
3M Euribor (average)	3,43	3,57	2,2	2,6

Serbia 10Y Bond Yield EUR (Current, %)



Corporate Revenue Growth vs Inflation (Q2, YoY, %)



Source: BBA Analytics, Bloomberg

Slovenia

Slovenia's economy gained significant momentum in the second quarter of 2026. Real GDP increased 5.0% y/y in Q2, bringing growth in the first half of the year to 4.1% y/y. Domestic demand remained the main driver, with domestic expenditure rising 5.9% y/y. Household consumption increased 3.4%, while gross capital formation rose 12.3%. Gross fixed capital formation expanded 13.2%, supported by a 19.0% increase in investment in buildings and structures and a 10.1% rise in machinery and equipment. Construction remained particularly strong, with sector value added increasing 15.9%. External trade also improved, with exports of goods and services rising 6.4% and imports 7.6%. More recent indicators suggest that domestic demand remained resilient during Q3. Retail trade volumes increased 5.2% y/y in July and were 2.3% higher in the first seven months of 2026. Household purchasing power remains supported by continued wage growth, with average gross earnings in H1 increasing 4.1% y/y in real terms. The labour market also remains tight, with the unemployment rate at 3.8% in Q2. Industrial activity remains more subdued, with total industrial production only 0.7% higher in the first seven months of the year, despite a 4.5% y/y increase in manufacturing output in July. Construction indicators point to some moderation ahead, as 22% fewer building permits were issued in August than in July and the number of planned dwellings fell 48% y/y.

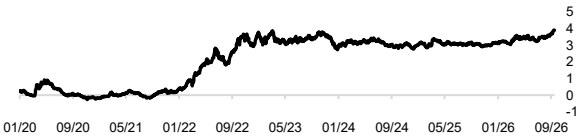
Inflation moderated but remains elevated. Consumer prices increased 3.0% y/y in August, with services prices rising 4.3% and goods 2.3%. Housing, water, electricity and gas costs increased 8.1% y/y, contributing 1.0 percentage point to headline inflation, while transport prices rose 4.7%. Due to rising energy prices, we are revising our annual inflation forecast upwards to 3,4%.

Overall, Slovenia entered the second half of 2026 with considerably stronger momentum, supported by household consumption and investment. Rising real wages and a tight labour market should continue to support domestic demand, while weaker external trade and still-elevated inflation remain the main headwinds. We are upgrading our 2026 growth forecast to around 3.4%, reflecting exceptionally strong economic performance in the first half of the year.

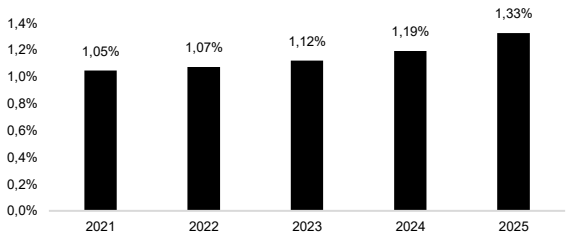
Key Macroeconomic Indicators and Forecasts

	2023	2024	2025	2026F
GDP real growth (%)	2,1	1,6	1,1	3,4
HICP (%, annual average)	7,3	2	2,5	3,4
Unemployment rate (%, ILO)	3,7	3,7	4,1	3
Fiscal deficit (% GDP)	-2,6	-0,9	-2,5	-2,2
Public debt (% GDP)	68,3	66,6	66,1	64
EUR/USD (average)	1,08	1,08	1,13	1,14
3M Euribor (average)	3,43	3,57	2,2	2,6

Slovenia 10Y Bond YIELD EUR (Generic, %)



Pharmaceutical Sector Employment as % of Total Employment



Source: BBA Analytics, SURS, Bloomberg

Monetary Policy

Central banks have shifted from the easing cycle back toward a more cautious and hiking approach, with monetary policy once again becoming highly data dependent amid renewed inflation concerns linked to energy markets and geopolitical uncertainty.

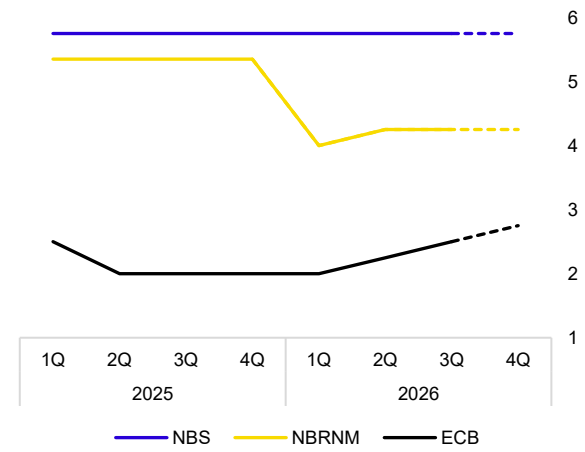
The ECB raised its deposit rate by 25 bps to 2.50% at its 10 September meeting, responding to renewed inflationary pressures from higher energy prices and geopolitical risks. The ECB expects inflation to remain above its 2% target for an extended period. While euro area growth remains fragile, Germany's fiscal expansion should provide some support in last quarter of the year.

The National Bank of Serbia (NBS) kept its key policy rate unchanged at 5.75% in September. Inflation moderated to 1.9% in July before edging up to 2.2% in August, remaining below the 3% target midpoint. The NBS continues to maintain a cautious stance amid external and geopolitical risks. We expect the NBS to keep its key policy rate unchanged until the end of the year.

The National Bank of the Republic of North Macedonia (NBRNM) kept its key interest unchanged at 4.25% at its September meeting, while inflation rate remains elevated, indicating persistent inflationary pressures and a slower return to historical averages.

Last quarter, when the US–Iran agreement had eased concerns over oil supply, we expected the ECB to keep the deposit rate at 2.25% until year-end. With energy prices elevated again, we now expect at least one more 25 bps hike by the end of the year, taking the deposit rate to 2.75%. For the same reason, we no longer expect the NBS to cut rates this year, as higher energy prices increase upside inflation risks and inflation expectations continue to rise. Our view on the NBRNM remains unchanged.

Key Monetary Policy Rates (%)



Source: BBA Analytics, Bloomberg

Employed per Unemployed Ratio

The employed-to-unemployed ratio measures the number of employed people for every unemployed person, providing an indication of the strength and development of a country's labour market.

All countries in the region recorded an improvement in the ratio over the past five years, reflecting stronger labour market conditions. Croatia recorded the strongest improvement, with the ratio rising from 12 to 27 employed people per unemployed person, while North Macedonia and Bosnia and Herzegovina saw the smallest increase, from 5 to 8 over the same period.

However, the improvement also reflects increasingly tight labour supply. Adria region labour markets continue to face structural constraints from population ageing and emigration.

Employed per Unemployed Ratio Q2 2021 vs Q2 2026



Source: BBA Analytics, local statistics offices

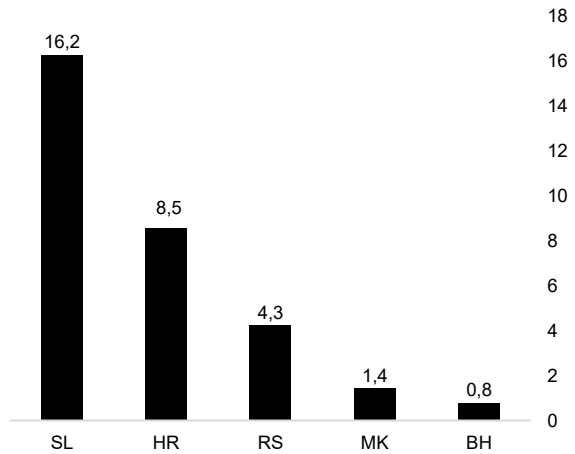
Foreign Workers in Employment

At the bottom of the ranking are Bosnia and Herzegovina and North Macedonia, which remain among the region's largest exporters of labour.

Workers from Bosnia and Herzegovina play a particularly important role in neighbouring labour markets, accounting for almost half of foreign workers in Slovenia and representing the largest group of foreign workers in Croatia.

These trends highlight a growing imbalance within the region: while Bosnia and Herzegovina and North Macedonia continue to lose workers through emigration, tighter labour markets in Croatia and Slovenia are increasingly filling labour shortages through immigration from both neighbouring countries and more distant Asian markets.

Foreign Workers as a Share of Total Employment (%)



Source: BBA Analytics, local statistics offices

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