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REPUBLIC OF SERBIA

December 2017

EIGHTH REVIEW UNDER THE STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF SERBIA

In the context of the Eighth Review Under the Stand-By Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 20, 2017, following discussions that ended on November 7, 2017, with the officials of the Republic of Serbia on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on December 5, 2017.
- A **Statement by the Executive Director** for the Republic of Serbia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Republic of Serbia*
Memorandum of Economic and Financial Policies by the authorities of Republic of Serbia*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND
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FOR IMMEDIATE RELEASE
December 20, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Completes the Eighth Review of Serbia's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) on December 20, 2017 completed the eighth review of Serbia's economic performance under the Stand-By Arrangement (SBA). The completion of the review will make available the cumulative amount of SDR 880.835 million (about €1.05 billion). The Serbian authorities have indicated their intention to continue treating the arrangement as precautionary.

The Executive Board approved the 36-month, SDR 935.4 million (about €1.2 billion at the time of approval) SBA for Serbia on February 23, 2015 (see Press Release No. 15/67). The arrangement will expire on February 22, 2018.

Following the Executive Board's decision, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"Serbia has made significant progress under the Fund-supported economic program. Confidence in the economy has improved, public debt is declining rapidly, external position is robust, and investment and growth are stronger. In addition, labor market conditions continue to improve. Significant progress has also been made in implementing the structural reform agenda.

"Continued prudent policies and implementation of structural reforms, especially deeper institutional reforms, are critical to secure sustainable growth and a faster convergence with Western European living standards.

"The authorities have implemented an ambitious fiscal adjustment, which has placed public debt on a rapid downward trajectory. The 2018 budget allows for some employment-friendly tax reductions, while providing fiscal space for needed capital spending. Reforms should continue to achieve better public infrastructure, improve public administration and delivery of public services, and achieve more effective social protection.

"Monetary policy has succeeded in keeping inflation under firm control and is supporting the economic recovery. The current state-contingent approach to monetary policy is appropriate considering domestic and external uncertainties. The exchange rate flexibility demonstrated recently is welcome, with some overall appreciation reflecting Serbia's improved fundamentals and market conditions.

“Financial sector reforms under the program have strengthened banks’ resilience, and put them in a much stronger position to support the economy. Efforts to reduce NPLs are yielding good results and need to continue, while reforms of state-owned financial institutions need to be accelerated.

“The significant progress with structural reforms has strengthened Serbia’s growth potential and job creation, and reduced fiscal risks. Nevertheless, substantial work remains in SOE governance, management, and investment as well as public administration. Serbia’s business environment has improved due to both macroeconomic stability and a better regulatory environment. Further efforts are needed to address problem areas for businesses, including taxes and parafiscal charges, and delays and uncertainty in the judicial system.

“The approaching completion of the program will mark a successful macroeconomic adjustment and a significant strengthening of Serbia’s economic capacity.”

REPUBLIC OF SERBIA

December 5, 2017

EIGHTH REVIEW UNDER THE STAND-BY ARRANGEMENT

KEY ISSUES

Recent economic developments. Notwithstanding some temporary supply shocks, economic activity remains robust, supported by recovery of private consumption and strong FDI. Significant fiscal over-performance has continued and efforts to address structural weaknesses have been accelerated. This, along with a healthy credit recovery on the back of substantial monetary policy easing, has helped support growth, while low inflation has reinforced recovery in real incomes. Public debt has fallen notably and external vulnerabilities are reduced.

Program status. The 36-month Stand-By Arrangement (SBA) with access of SDR 935.4 million (143 percent of current quota) approved on February 23, 2015 is broadly on track. All end-September 2017 performance criteria (PCs) were met, most with significant margins. Most measures covered by structural benchmarks (SBs) have also been implemented, although some with delays. Completion of the eighth and final review will make available the cumulative amount of SDR 880.835 million. Observance of end-December performance criteria will represent a successful completion of the SBA in February. The authorities intend to continue treating the program as precautionary.

Policy recommendations. The fiscal policy objectives set out in the 2018 budget need to be supported by strengthened implementation of public administration reform and SOE restructuring to safeguard the achieved fiscal adjustment and preserve public debt sustainability. Continuing broader structural reforms are needed to improve the business climate and support Serbia's medium-term growth. The current state-contingent approach to monetary policy is appropriate given the low inflation outlook and expectations, and uncertainties over the external environment.

Approved By
Thanos Arvanitis (EUR) and Petya Koeva Brooks (SPR)

Discussions were held in Belgrade during October 26–November 7, 2017. The staff team comprised James Roaf (head), Ruben Atoyan, Christine Richmond, (all EUR), Pietro Dallari (FAD), Rachid Awad (MCM), Serpil Bouza (SPR), Sebastian Sosa (resident representative), Desanka Obradović and Marko Paunović (Belgrade office). Wiktor Krzyzanowski (COM) and Vuk Djoković (OED) attended some discussions. HQ support was provided by Min Kyu Song and Brett Stewart (both EUR).

CONTENTS

TABLES

APPENDIX

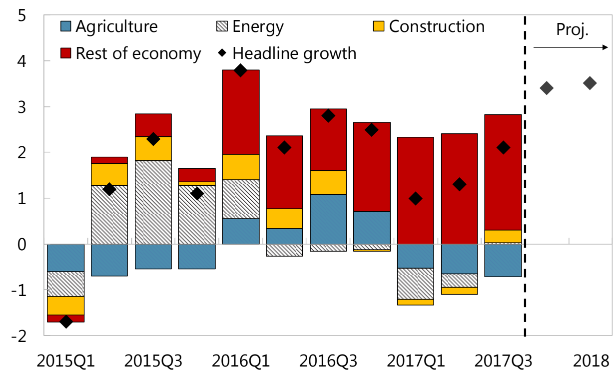
CONTEXT AND RECENT DEVELOPMENTS

1. **The 36-month SBA approved in February 2015—aimed at restoring public debt sustainability, promoting financial sector resilience, and strengthening competitiveness and growth—is coming to an end.** In macroeconomic terms the program has significantly outperformed its objectives: real GDP growth has been stronger than expected, supported by improved confidence and strengthened financial sector intermediation, and a large fiscal adjustment has put public and external debt on much more sustainable trajectories.

2. **In 2017, the strong economic performance continued.** Notwithstanding some temporary supply shocks (a drought and electricity disruptions) that tempered growth in H1, growth is expected to reach 2 percent this year. Broad economic activity is supported by continued recovery of private consumption and strong FDI (Figure 2).[1] Labor market participation continues to improve, with a robust employment growth in the formal sector, and a drop in unemployment (Figure 8). Private sector wages have continued to pick up and an increase in the minimum wage of 10 percent was agreed under the tripartite framework to take effect from January 1.

Contributions to growth

(Percent, yoy)



Sources: SORS, IMF staff calculations and projections.

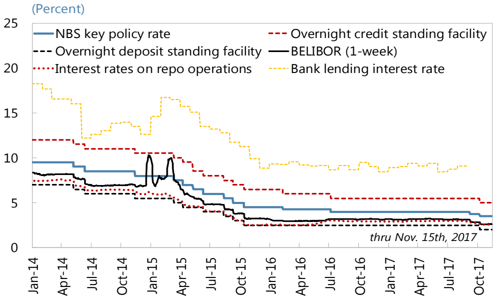
3. **Headline inflation remains near the center of the target band, with core inflation still subdued.** The NBS lowered the key policy rate by 25 basis points in both September and October, to 3.5 percent – the first cuts since July 2016, following drops in headline and core inflation, lower inflation expectations, and significant nominal dinar appreciation (Figure 5). Since the inception of the program, as fiscal adjustment took hold and external financing conditions remained stable, the NBS has reduced the key policy rate by 450 basis points (Figure 7). The accommodative monetary policy stance has supported a revival of credit growth, as demand for loans increased and banks eased their credit conditions.

[1] 2016 national accounts were revised in October 2017. Headline growth was unchanged at 2.8 percent, but the composition of growth changed and nominal GDP was revised up by about 1.5 percent.

Figure 1. Serbia: Key Macroeconomic Indicators: Original Program vs. 8th Review

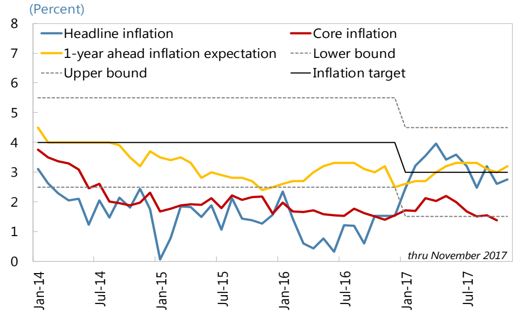
Source: IMF staff estimates.

Serbia: Interest Rates
(Percent)



Sources: Haver Analytics; and National Bank of Serbia.

Serbia: Inflation
(Percent)



Sources: Bloomberg; National Bank of Serbia (NBS); and IMF staff estimates.

4. The external position remains strong on account of robust capital inflows. The current account deficit is expected to widen in 2017 due to lower agricultural exports, higher electricity imports, higher dividend payments on investment income, and some deterioration in the terms of trade.[2] However, net FDI inflows remain strong and, at about 5.8 percent of GDP in 2017, are projected to fully cover the current account deficit (Figure 3). Private sector deleveraging has continued to slow, reflecting higher rollover rates in the banking sector as well as a reduction in deposits abroad. Portfolio inflows have been robust and, since April, the NBS has purchased over EUR 1 billion forex from the market while accomodating about 4 percent appreciation against the euro.

5. Strong fiscal overperformance continued in the first nine months of 2017. The January-September general government deficit outperformed the adjusted program target by 1.5 percent of annual GDP. About half of the over-performance was due to revenues, led by VAT, CIT, and excises (Figure 6). On the expenditure side, capital spending has lagged due to enduring capacity constraints, while subsidies and transfers, including pensions, also undershot projections. General government debt is projected to stay below 67 percent of GDP at end-year. On the back of improved confidence and fundamentals, yields on government securities continue to decline (Figure 4).

Serbia General Government Fiscal Operations, RSD billion

	January - September 2017		
	Prog.	Act.	Diff.
Total revenue	**1,367.1**	**1,402.7**	**35.6**
Tax revenue	1,184.4	1,221.6	37.2
of which: VAT	343.3	356.1	12.8
of which: Social security contributions	362.1	364.3	2.2
of which: Excises	201.1	208.4	7.3
Non-tax revenue	174.9	173.3	-1.6
Capital revenue	0.6	3.5	2.9
Grants	7.2	4.4	-2.9
Total expenditure	**1,366.9**	**1,320.8**	**-46.1**
Current expenditure	1,227.5	1,211.8	-15.6
Capital expenditure	110.0	77.1	-32.9
Net lending	6.8	11.2	4.3
Amortization of activated guarantees	22.6	20.7	-1.9
Fiscal balance	**0.2**	**82.0**	**81.7**
Memo:			
Wage bill (excluding severance)	259.6	267.8	8.2
Primary current expenditure of the Republican budget	647.4	616.3	-31.2
General government debt (percent of GDP)	69.3	65.4	-3.9

Sources: Ministry of Finance, IMF staff calculations.
Note: Programmed as of the Seventh Review.

[2] The 2016 current account deficit was revised in October 2017 from 4 percent of GDP to 3.1 percent of GDP, largely on account of imports revisions.

OUTLOOK AND RISKS

6. The economic outlook remains broadly in line with the seventh review scenario (Tables 1–8).

- **Real GDP growth** projections are maintained at 3.5 percent in 2018–19, with the largest contribution coming from investment and domestic consumption.
- **Inflation** is projected to average 3.1 percent in 2017 and remain around 3 percent in 2018–19, with core inflation moving gradually closer to the headline on account of recovering domestic demand and closing output gaps.
- **The current account deficit** is expected to moderate to 4.2 percent of GDP in 2018 as one-off effects of drought and electricity production disruption dissipate, and to remain around 4 percent of GDP throughout the medium term.

7. The outlook is subject to risks. Serbia remains susceptible to spillovers from regional developments and market volatility. Complacency or political resistance in delivering on structural reforms, or failure to maintain fiscal discipline, could undermine confidence and reduce medium-term growth prospects. Moreover, contingent liabilities from the unfinished reforms of the SOE sector may resurface, particularly if international commodity prices reverse recent upward trends. On the upside, growth could outperform near-term projections as the effects of one-off supply shocks reverse. The reforms and macroeconomic improvements achieved under the program have greatly strengthened Serbia's resilience to both internal and external risks.

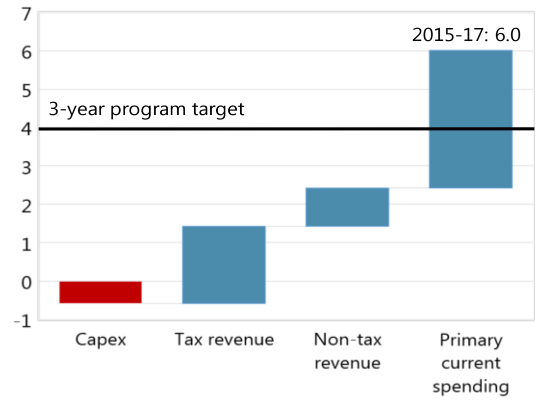
PROGRAM POLICY DISCUSSIONS

A. Fiscal Policy: Preserve Recent Gains to Ensure Public Debt Sustainability

8. The 2017 general government budget is projected to post a slight surplus, compared with a deficit of 1.1 percent of GDP projected in the 7th review. This implies a sizable structural adjustment, of 1.5 percent of GDP (on top of 4.5 percent of GDP in the first two years of the program), achieved through strong revenue over-performance and tight control over Republican level current expenditures, but also due to weak execution of capital projects. Within this strong outcome, there was space to advance limited one-off expenditures at the end of the year that were priorities for the authorities: (i) a one-off pension bonus and targeted public wage bonuses (0.3 percent of GDP); and (ii) severance payments for 2017 to employees of Railways of Serbia (around 0.1 percent of GDP) to facilitate separations.

9. The authorities aim to ensure a low overall deficit in 2018, given the still elevated level of public debt. The budget targets a general government deficit of 0.7 percent of GDP (**prior action**), implying a primary surplus of about 2 percent of GDP, which in staff's view is appropriate to anchor fiscal effort this year and ensure continued reduction in public debt. Its main objectives are:

Serbia: Structural Fiscal Adjustment under SBA, 2015-17
(Percent of GDP)



Sources: IMF staff estimates.

- ***Sustainable wage and pension bills***. The wage and pension compression of the last three years, along with progress in rightsizing the public sector, have significantly improved the structure of the budget.[3] The wage bill has been reduced to around 8.3 percent of GDP (from 10 percent in 2014) and the pension bill to 11.4 percent (from 13 percent in 2014). The 2018 budget maintains the wage bill as a share of GDP at the 2017 level and continues the downward path for the pension bill as a share of GDP. This allows average increases in the wage and pension bills of 6.5 and 3.8 percent, respectively.

Summary Table on General Government Borrowing (RSD billion)

	2017 Original	2017 Proj.	2018 Proj.
Financing needs	696	590	457
Use of financing			
Budget	637	531	400
Project	59	59	57
Financing sources			
Short-term	90	86	22
Medium-long term	622	522	435
Deposits	-16	-18	0
Memo: Issuance of guarantees (EUR mn)	180	60	180

- ***Wage system reform.*** To support implementation of the Law on Public Sector Employees Wage System, the parliament will approve secondary legislation for local governments and public services (health, education, culture, and social protection) (**prior action**). In addition, a decree determining ranges of wage coefficients for different job positions will be adopted by end-March 2018, and secondary legislation for all other sectors (including police and army) is expected by end-2018. The new system for all sectors will become effective in time for the 2019 budgetary cycle.

- ***Improvements in education and health care***. Plans for school restructuring (**end-September structural benchmark**) do not yet include specifics on school network rationalization and teacher numbers for the 2018–19 school year. Progress has been made in reducing the number of technical and vocational profiles. In June, the authorities

[3] As of end-September, permanent public sector employment (including local public utilities) had been reduced by almost 28,600 employees relative to end-2014. However, this has been partially offset by higher fixed-term and contractual hiring (about 16,200).

launched a pilot in 14 hospitals introducing health care financing according to Diagnosis Related Groups. In 2018, additional resources will be allocated to commence performance-based financing.

- ***Employment-friendly tax changes***. The Socio-Economic Council agreed to increase the minimum wage by 10 percent (to RSD143, corresponding to about €1.20 per hour) from January. To avoid impacting competitiveness or low-skilled employment, the budget envisages raising the personal income tax threshold (to RSD 15,000 per month) to offset costs on employers and provide some reduction in the labor tax wedge for low-income workers. The net cost to the budget is estimated at RSD 9 billion (0.2) percent of GDP).[4]

10. Any additional fiscal resources from continued revenue overperformance in 2018 should be directed towards the priorities of improving Serbia's infrastructure or reducing public debt. Notwithstanding the inclusion of all project loans in the 2017 budget and adoption of a government decree enhancing the project appraisal process and establishing a single project pipeline, structural deficiencies in implementing public investment remain significant. The authorities and staff agreed on a need to address impediments in capital spending and accelerate assessment, approval and monitoring of various projects.

11. The government intends to strengthen reform of the state tax administration (STA). In December, the government (i) approved the updated STA Transformation Program to allow the STA to focus fully on its core tax collection activities, prepared in coordination with the IMF technical assistance; and (ii) adopted a decision identifying non-core activities to be transferred or separately managed within the STA (**end-October structural benchmark**). They also plan to tender a public call for an external consultancy to support implementation of the organizational changes envisaged by the transformation plan in 2018–19 in the coming weeks. The authorities are also engaging the World Bank to help revamp the STA's IT system to better tailor to the modern administration's needs. The STA remains committed to introducing changes to improve the audit and debt collection functions, in line with TA advice.

12. While reduced under the program, risks from contingent liabilities remain significant, including from incomplete SOE reform. Discussions focused on actions to mitigate these risks:

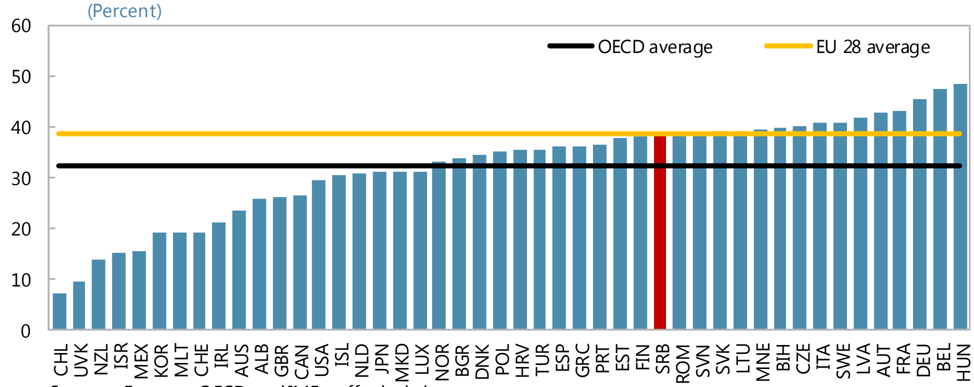
- ***State aid.*** The authorities and staff agreed that there should be no state aid beyond what has already been budgeted to companies undergoing restructuring or resolution, including Srbijagas, Petrohemija, MSK, Azotara, RTB Bor, and Resavica.

[4] Serbia has relatively high total taxes and contributions on wages, especially at lower income levels, inhibiting employment and contributing to the large gray economy (Box 1).

Box 1. Labor Income Taxation

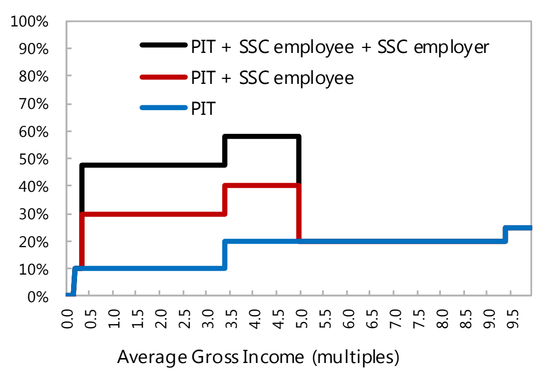
The tax burden on labor income in Serbia is relatively high. At about 40 percent, it is close to the EU average level but notably higher compared with the OECD average or some other Western Balkan peers. Wage earners face two major taxes on labor: the personal income tax (PIT) and social security contributions (SSC). As in regional peers, Serbia has relatively low PIT rates, but high SSC rates.

Labor Tax Wedge at 67 percent of average income
(Percent)

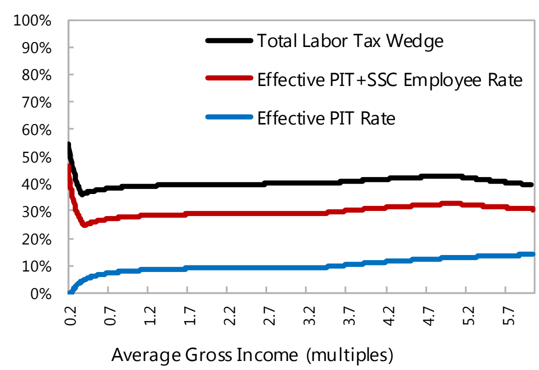


Sources: Eurostat; OECD; and IMF staff calculations.

Serbia: Marginal tax rates on labor income, 2016 1/



Serbia: Labor income taxation, 2016 1/



Source: IMF staff calculations.
1/ Calculated for a single taxpayer with no children.

The progressivity of labor taxation is low. Marginal tax rates on labor income are high and relatively flat for incomes up to five times average level, and drop sharply afterwards due to maximum SSC thresholds. Above this level of income, labor taxation becomes regressive as the effective tax burden falls with income.

The high tax wedge can have significant implications for activity, employment, and informality, particularly at low levels of income. It may discourage individuals to take up formal employment by raising the cost of labor to the employers and reducing the take-home pay for workers. Carefully designing the tax wedge on labor income by revisiting the SSC and PIT schedules could stimulate both demand and supply of labor but may also have significant implications given the link between contributions and entitlements, and tax sharing arrangements between levels of government.

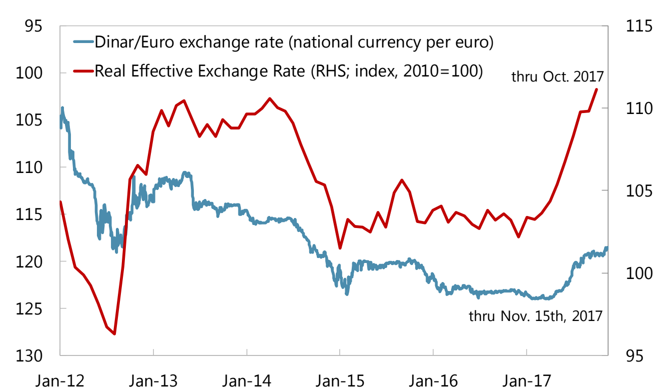
- ***Arrears***. The authorities noted that increased transparency brought about by publishing the top 20 debtors to Srbijagas and EPS, and Srbijagas' decision to disconnect delinquent users, have had a significant positive compliance effect. The authorities also reported on efforts to resolve (i) energy arrears from some public enterprises and SOEs, medical institutions, and local governments; and (ii) municipal pharmacy and health center arrears to drug suppliers. Resolution of these arrears is guided by the overarching principle of eliminating fiscal costs, avoiding adverse incentives, and removing the underlying factors behind arrears accumulation. The authorities are testing a new e-invoice system designed to capture all transactions involving public entities, which they intend to make fully operational in early 2018.

B. State-Contingent Monetary Policy and Strengthening Operational Frameworks

13. The NBS and staff agreed that the current state-contingent approach to monetary policy remains appropriate in view of domestic and external uncertainties. The inflation targeting regime has helped anchor inflation expectations and remains appropriate, particularly given Serbia's improved macro policy framework, stronger credibility of the NBS, and major fiscal consolidation. On the basis of projected inflation and exchange rate developments, gradual mopping up of excess liquidity in the banking system through repo operations—and moving the NBS repo rate closer to the key policy rate—will be warranted. Conversely, if core inflation remains subdued and appreciation pressures persist, further reductions in the key policy rate may be needed. Staff also reiterated the advice to seek opportunities to further strengthen the liquidity management framework (in line with recommendations of the IMF technical assistance) and gradually narrow the interest rate corridor to improve the signaling role of policy rates and enhance transparency.

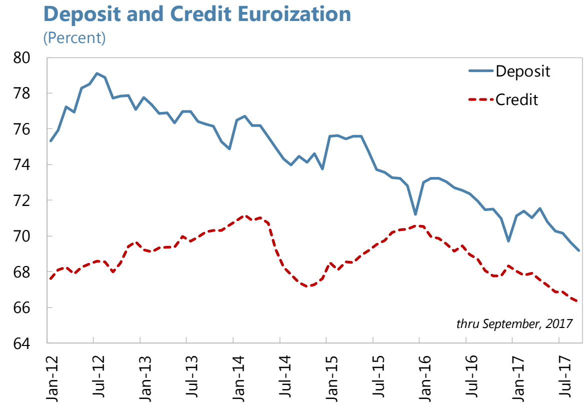
14. The accommodation of some dinar strengthening in recent months is appropriate given improved Serbia's fundamentals and market conditions. The NBS remains committed to the managed float exchange rate policy, which it believes has worked well in the recent period. Staff reiterated the advice that continued increases in exchange rate flexibility would help develop the forex market, counteract perceptions of tight exchange rate management, and support the dinarization strategy. The stock of international reserves remains comfortable.

Serbia: Exchange Rates



Sources: Bloomberg Finance L.P.; and IMF, INS database.

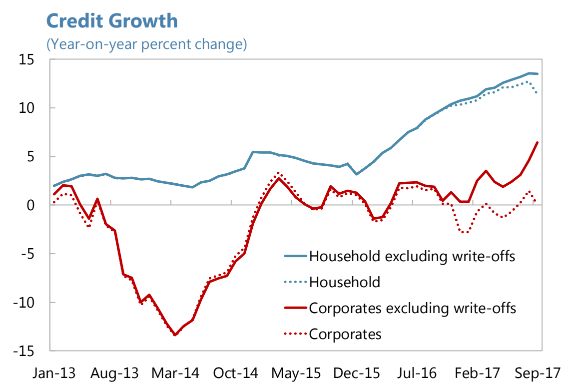
15. Deposit and credit euroization trends highlight that the authorities' dinarization strategy is yielding results, but more efforts are needed to capitalize on this success. Specifically, regulatory measures to manage interest rate differentials and development of local and foreign currency markets would help overcome entrenched euroization motives. Similarly, strengthened monitoring of banks' FX exposures, fuller dissemination of information on risks of FX borrowing, and use of prudential measures would encourage prudent pricing of FX risks. The authorities' plans to implement a primary dealership system in 2018 will increase market liquidity, improve debt distribution in the primary market, and help replace euro-denominated debt with dinar-denominated securities.



Sources: National Bank of Serbia (NBS); IMF staff estimates.

C. Financial Sector Policies: Buttressing Soundness and Enhancing Resilience

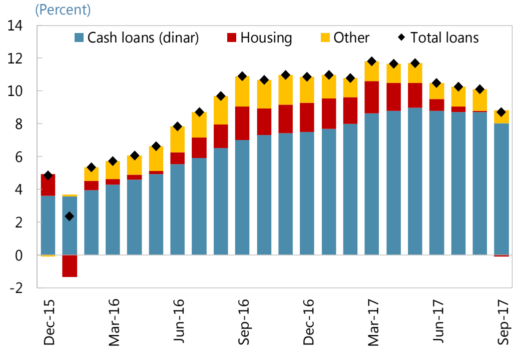
16. The financial sector remains resilient. Banking sector profitability has generally improved. Robust deposit growth has continued and results of lending surveys point to more relaxed lending standards for SMEs amid interbank competition, cheaper sources of funding, and higher risk tolerance. Household loans posted growth of about 10 percent in August. Corporate loans fell by about 1.5 percent, dragged down by the effect of NPL write-offs. Staff welcomed strengthening of the financial sector support to the economic recovery but warned that risks associated with rising household cash loans—especially over longer maturities—warrant close monitoring.



Sources: National Bank of Serbia.

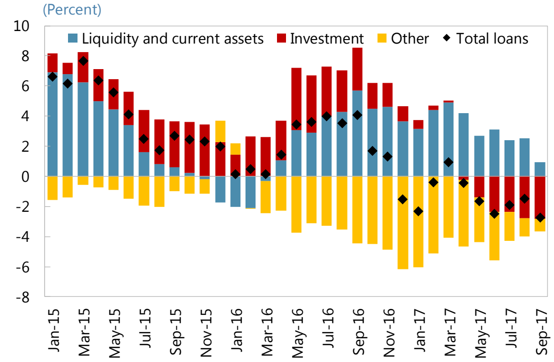
17. The authorities continue making good progress on resolving NPLs, but state-owned banks (SOBs) still lag. The gross NPL ratio dropped to 12.2 percent in September, about 11 percentage points down from its peak in 2015. Data suggest that write-offs were the largest driver, supported by the authorities' comprehensive NPL resolution strategy and the NBS decision on the mandatory accounting write-off of fully provisioned bad assets (Box 2). In addition, the enactment of the corporate insolvency law (**prior action**) and the authentic interpretation of the law on enforcement and security should further facilitate the development of the NPL market and enhance NPL resolution processes.

Serbia: Contribution to Credit Growth to Households
(Percent)



Sources: National Bank of Serbia; and IMF staff calculations.

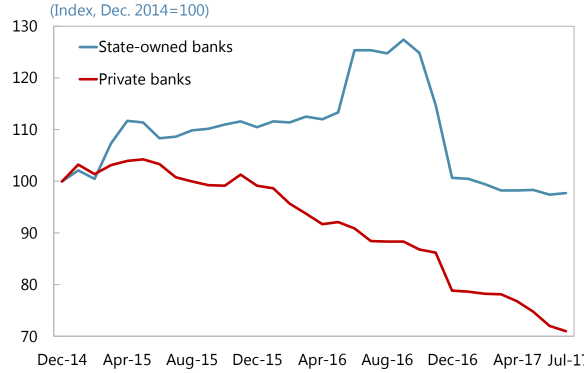
Serbia: Contribution to Credit Growth to Corporates
(Percent)



Sources: National Bank of Serbia; and IMF staff calculations.

18. Implementation of the reform agenda for state-owned financial institutions is advancing, notwithstanding some delays, supported by the updated strategy for SOBs approved by the government in August.

Serbia: Change in Gross NPLs
(Index, Dec. 2014=100)



Sources: National Bank of Serbia; and IMF staff calculations.

- ***Banka Poštanska Štedionica (BPS).*** In November, the external consultants completed their work and the BPS supervisory board adopted the report aimed at supporting (i) the bank's reorientation towards retail banking and small businesses; (ii) improvements to the bank's internal organization and governance; (iii) enhancement of its IT infrastructure; and (iv) the preparation of a business plan for the period 2018–20. By end-December, BPS will complete necessary preparations—including budget allocation and engagement with external consultants—with a view to start implementing the report's findings and recommendations in 2018Q1.

- ***Development Fund (DF) and the export promotion agency (AOFI).*** Independent assessments of the DF and AOFI completed in August identified large losses on the credit portfolios and highlighted weaknesses in the institutions' business policies, procedures, and risk management frameworks. In December, (i) the supervisory boards of DF and AOFI passed decisions recognizing losses on their credit portfolios; and (ii) the government adopted a conclusion to restrict the institutions' exposures to SOEs, implement measures aimed at enhancing risk management frameworks and preventing further deterioration in the asset quality, and establish a timeline to resolve their impaired assets (**end-October structural benchmark**).

- ***Komercijalna Bank.*** The government decision to initiate the privatization process has been delayed. The authorities hope to reinvigorate the process in the coming weeks and expressed their intention to address weaknesses identified by the recent NBS on-site inspection focused on the bank's corporate governance.

- ***Dunav Osiguranje***. The government has not yet decided on the privatization of socially- and state-owned capital of the state insurance company. The company has partially addressed the findings of a recent diagnostic report and updated its business plan for 2017-19.

- ***Smaller state-owned banks.*** Staff urged the authorities to move ahead in implementing the strategic options for smaller SOBs, particularly the transformation of one small bank into a specialized financial institution.

19. The NBS continues to enhance the regulatory, macroprudential, and bank resolution frameworks. The implementation of Basel III capital and liquidity standards started in June, including the application of capital conservation and countercyclical buffers as well as an additional capital buffer for domestic systemically important banks. A 3 percent systemic risk buffer has also been applied to banks based on their contribution to euroization risks. Significant progress has been made in developing internal bank resolution procedures, including the assessment of critical functions and the criteria for determining bank resolution strategies. The NBS is currently updating resolution plans for banks and banking groups.

20. The authorities continue to implement their capital account liberalization strategy. Important pre-conditions for liberalization—strong growth, low inflation, high foreign reserves, and external flows largely dominated by stable FDI inflows—have been achieved. The authorities informed staff that they plan to continue sequencing and pacing the capital account liberalization process in tandem with the country's institutional and financial development. Existing capital flow management measures include the longstanding repatriation requirement of FX funds held in banks abroad, restrictions on short-term financial credits and portfolio investments of residents abroad or non-residents in Serbia, and certain restrictions on performance of financial derivatives transactions. The authorities have already prepared amendments to the Law on Foreign Exchange Operations aimed at liberalizing short term borrowing and portfolio investments by 2018Q1. Financial derivatives transactions and deposit flows will be liberalized subsequently by the date of the EU accession. Staff supported this timing and sequencing of the liberalization steps.

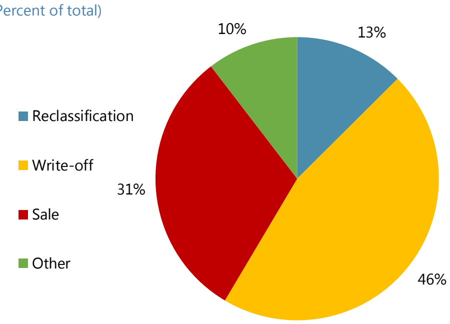
21. The authorities are strengthening the AML/CFT framework. The authorities are addressing the shortcomings identified in the 2016 MONEYVAL AML/CFT mutual evaluation report. An inter-agency working group was established to address the deficiencies and coordinate actions. In September, a plenary meeting of MONEYVAL noted that progress has been made. A new AML/CFT draft law was submitted to the parliament in October, and the working group adopted a national AML/CFT action plan in November. The Financial Action Task Force will discuss progress made by Serbia at its February 2018 meeting and consider follow-up actions.

Box 2. Evidence from NPL Resolution

The implementation of the NPL resolution strategy has yielded good results. The gross NPL ratio of banks decreased from a peak of 23.2 percent in May 2015 to 14.7 percent in August 2017. The recent NBS decision on the accounting write-off of assets with low collectability contributed to another significant decrease of the ratio, to 12.2 percent in September 2017.

While write-offs were the largest driver behind the reduction of NPLs, NPL sales accounted for a third of the reduction between December 2015 and July 2017. This signals significant interest—including from foreign investors—in the Serbian NPL market and increased prospects for its development. The enactment of the authentic interpretation of the Law on Enforcement and Security should clarify ambiguities about buyers' rights in distressed asset sales, further stimulate the NPL market, and enhance pricing mechanisms.

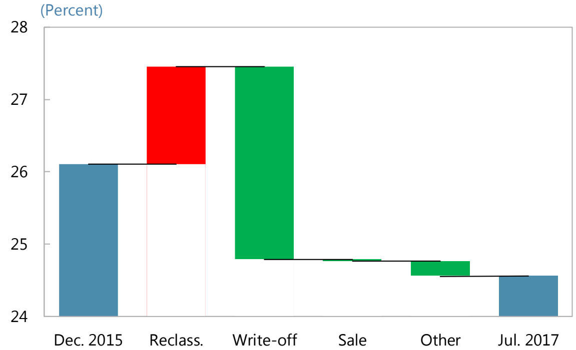
Nature of Changes in Gross NPL Ratio - All Banks
(Percent of total)



Sources: National Bank of Serbia and IMF staff calculations.

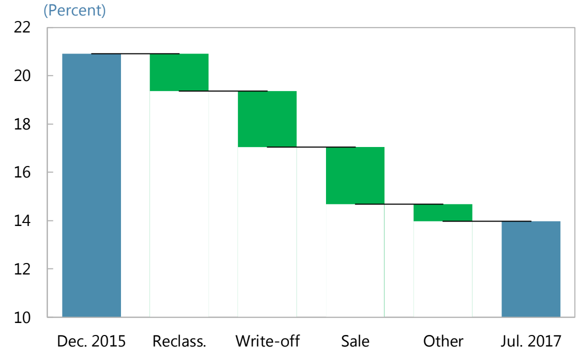
NPL resolution in SOBs lags relative to private banks. The gross NPL ratio remains high for SOBs (24.6 percent in July 2017) with only moderate improvement driven solely by write-offs. For private banks, NPL sales and write-offs were equally important in reducing NPL levels. This partly reflects the preference of SOBs to resolve their NPLs mainly through in-court processes. Timely implementation of the authorities' updated SOB strategy should contribute to more effective and quicker NPL resolution processes.

Change in Gross NPL Ratio, State-Owned Banks
(Percent)



Sources: National Bank of Serbia and IMF staff calculations.

Change in Gross NPL Ratio, Private Banks
(Percent)



Sources: National Bank of Serbia and IMF staff calculations.

Implementing the remaining actions in the authorities' NPL resolution strategy should further reduce NPL levels in the banking sector. These actions mainly include implementing the forthcoming bankruptcy law amendments, amending the civil litigation law, improving the functions of the real estate cadaster, and fully implementing of the law on real estate appraisers.

D. Structural Reforms: Regaining the Momentum

22. Progress has been made in reforming large public enterprises, albeit more slowly than originally envisaged for some. Discussions focused on moving ahead with reform plans, including the privatization of strategic companies.

- **Elektroprivreda Srbije (EPS).** The authorities acknowledged the structural problems facing the company (responsible, along with adverse weather conditions, for the 2017H1 electricity production decline), despite the strong 2016 financial result, noting that the situation had stabilized in recent months. The authorities are engaging the World Bank and EBRD to assist with enhancing corporate governance and management and the first joint steering committee meeting is expected to be held in December. Meanwhile the second round of voluntary separations is underway. The authorities reported the window for applications closed in mid-October and the goal of a net reduction of 1,000 employees by end-2017 would be achieved.

- **Srbijagas.** Payment discipline has improved following the implementation of measures in November 2016 to improve collection rates and prevent future accumulation of arrears. Payment collection stood at 97 percent in September 2017, up significantly from the 84 percent collection rate during 2010–15. A new investment appraisal methodology, based on an economic and financial cost-benefit framework and developed together with the World Bank, is due to be applied to future projects.

- **Railways of Serbia.** In June, updated workforce optimization plans were adopted reflecting the 3,146 redundancies in 2016. In August, all companies adopted new systematization plans and established rightsizing targets for 2017, envisaging a reduction of 2,394 positions by end-2017. Queries for voluntary separations were sent to employees in October and budget support of RSD2.7 billion was allocated towards severance to support these efforts. With World Bank assistance, the government is developing an investment and maintenance plan, and budgeted subsidies would be allocated towards maintenance beginning in 2018.

- **Resavica.** The authorities are working with the World Bank to identify the closure timetable for at least four unviable mines. A preliminary analysis was completed in November, considering future investment requirements and social programs, which will be developed further. The company has been accumulating arrears to EPS since January, amounting to more than RSD240 million by September. Staff urged the authorities to include subsidies in the budget to cover the arrears and deregulate coal prices.

- **RTB Bor.** Favorable international copper prices have improved the company's liquidity situation and the company continues to be current on electricity payments. Discussions with potential international investors continue. The authorities indicated that they plan to reach a decision on how to proceed by end-March 2018.

- **Galenika.** The authorities successfully completed the privatization in November with the sale of their 93.7 percent stake to a Brazilian investor.

- **Petrohemija, MSK, and Azotara.** The pre-pack bankruptcy of Petrohemija was completed in late-August. In September, the government adopted the decision to undertake a debt-equity swap with MSK. The company remains current on its obligations to Srbijagas and EPS. Azotara, however, resumed accumulating arrears to Srbijagas in July and is also accumulating arrears to private creditors. The authorities reiterated their commitment to eliminate fiscal risks and noted that several international investors have expressed interest in Petrohemija and MSK. To this end, a privatization tender will be launched for MSK (**prior action**); the government has adopted a conclusion to seek a strategic investor for Azotara by March 31, 2018, failing which the company will be placed in bankruptcy; and a privatization tender for Petrohemija is expected to be launched in 2018H1.

- **Strategic companies in the former Privatization Agency portfolio.** 7 out of the 17 strategic companies whose bankruptcy protection was removed in May 2016 still remain to be fully resolved. The authorities reported that 3 were in progress through either inviting strategic partners or sale. Staff urged the authorities to resolve the remaining companies and include any support to the companies transparently as subsidies in the budget.

23. The authorities continue efforts to improve the business climate and increase employment. Staff welcomed the progress reflected, *inter alia*, in the 2018 World Bank Doing Business Indicators, in which Serbia climbed from 47th place to 43rd. Staff supported the authorities' continued efforts to combat the grey economy, noting measures to improve business inspection, and urged the authorities to evaluate the status of the strategy to make it more effective going forward. Staff also emphasized the importance of on-going reform of tax administration and reform of the judiciary to improve payment discipline and contract enforcement, as well as reducing regulatory burdens and making fees and charges more transparent and predictable. The authorities reiterated their commitment to initiate public debate on the draft Law on Charges (**end-November structural benchmark**), but expect a short delay due to the heavy legislative agenda.

24. The authorities are taking steps to strengthen their existing social protection system. Staff welcomed progress on the amendments to the Law on Social Protection and encouraged continued efforts to improve targeting and efficiency of social benefits. Better targeting of existing social programs can provide additional financing necessary to increase both the coverage and the size of benefit for those in need. Regarding cash social assistance, staff recommended the authorities relax the property size criteria and introduce differentiation between properties in rural and urban areas to ensure the elderly poor in rural areas are eligible for social assistance. In addition, staff look forward to the adoption of the new Law on Financial Support for Families with Children, which will replace the current entitlement to VAT reimbursement for baby food and equipment with increased parental allowances, improving administrative efficiency.

PROGRAM MODALITIES

25. Quantitative program conditionality for the 8th review has been met and structural reform momentum has been broadly maintained (MEFP Tables 1–2).

- **All quantitative and continuous PCs were observed**. The end-September PCs on NIR, the fiscal deficit, and current primary spending have all been met. Inflation has remained near the center of the NBS target band and well within the inner consultation limit. The end-September indicative target on the ceiling on accumulation of domestic arrears by the consolidated general government was missed by a very small margin due to arrears of the Ministry of Justice. Consistent with a similar breach in September 2016, the authorities plan to fully clear these arrears by end-December.

- **Most measures covered by structural benchmarks are expected to be implemented by end-December, albeit some with delays.** In early-December, the government adopted a decision revising the transformation strategy of the tax administration and identifying non-core activities to be transferred or managed separately (**end-October structural benchmark**). In early-December, the supervisory boards of the Development Fund and AOFI passed decisions fully recognizing losses on their credit portfolio and the government adopted a conclusion taking measures to prevent further deterioration in asset quality, and identifying solutions to resolve impaired assets (**end-October structural benchmark**). The initiation of public debate on a new law on charges regulating fees and charges at all levels of government is expected by end-December (**end-November structural benchmark).** However, delays continued on adopting a time-bound action plan for administrative restructuring in the education sector based on World Bank functional reviews (**end-September structural benchmark**).

26. Staff proposes updated program conditionality (MEFP Tables 1–2):

- **Prior actions** were set on (i) the adoption of the 2018 budget consistent with program objectives (to ensure consistency with fiscal program objectives); (ii) parliamentary approval of secondary legislation for local governments and public services needed to support implementation of the Law on Public Sector Employees Wage System (to ensure transparency and reduce wage disparities across the public sector); (iii) issuance of the tender for privatization of MSK (to mitigate fiscal risks); and (iv) the adoption of the amendments to the corporate insolvency law (to facilitate NPL resolution).

- **Performance criteria** for end-September are controlling for the completion of the review. The twelfth and last purchase under the SBA will be made available upon observance of continuous and end-December 2017 PCs (Table 9).

27. Serbia's capacity to meet potential repayment obligations to the Fund is strong. In case of full drawing of the amount under the SBA (Table 9), repayments to the Fund at the end of the projection period would remain modest at 1.1 percent of GDP, or 8.4 percent of gross reserves (Table 11). Although public debt remains elevated, strong program implementation has kept it on a firm downward path. Serbia has a strong record of repayment to the Fund. Staff does not expect Serbia to draw on its SBA arrangement given its high level of reserves.

28. While statistical data are broadly adequate for surveillance and program monitoring, efforts to strengthen data transparency are recommended. Greater clarity on methodological changes and data revisions would be welcome. Serbia should update its subscription to the e-GDDS and prepare to subscribe to the SDDS.

29. Serbia has small sovereign arrears outstanding. It intends to resolve US$45 million in arrears to Libya, which arose in 1981 due to unsettled government obligations related to a loan for importing crude oil, after establishing the appropriate government counterpart. Staff urged the authorities to continue their efforts to resolve these arrears as soon as possible.

STAFF APPRAISAL

30. The authorities' efforts, supported by a three-year SBA have succeeded in addressing large macroeconomic imbalances and restoring confidence. At the start of the program, the Serbian economy faced serious challenges, and notwithstanding the authorities' commitment to break from past policies, concerns were expressed about whether they would be able to implement such ambitious fiscal adjustment and structural reform goals. Three years later, fiscal sustainability has been restored, with public debt now on a firm downward path. Notwithstanding some vulnerabilities, the external position is broadly consistent with fundamentals and desirable policy settings. This has allowed the NBS to sharply reduce interest rates while maintaining low and stable inflation and broad exchange rate stability. The confidence engendered by the improved macroeconomic situation has been reflected in rising investment, both from foreign and domestic sources, and support an economic recovery.

31. Significant progress has been made with structural reforms, but challenges remain. Reforms of Serbia's large state-owned enterprise sector have resulted in reduced fiscal risks from the sector and there has been important restructuring in areas such as the railways and some systemic SOEs. However, a large agenda remains in the energy and mining sectors and in general SOE governance, management and investment. The record on public administration reform has also been mixed. There has been some rationalization of government employment, but public administration still needs to be much better aligned with the requirements of a modern economy in areas such as tax administration, public financial and investment management, and health, education and other public services. The business climate has improved during the program period, because of macroeconomic stability and a better regulatory environment. But more attention is needed to problem areas for businesses including taxes, fees and charges, and delays and uncertainty in the judicial system.

32. Monetary policy has succeeded in keeping inflation under firm control, while supporting economic recovery. The NBS' current state-contingent approach to monetary policy remains appropriate given domestic and external uncertainties. The recent dinar strengthening is in line with Serbia's improved fundamentals and market conditions.

33. Banks are now in a much stronger position to support the economy. The program's financial sector reforms have been pursued vigorously by the NBS, resulting in improved bank soundness, rapidly reducing bad loans, and prudential and regulatory standards that are becoming aligned with EU standards. However, delays in reforms of state-owned financial institutions are disappointing. Staff urges the authorities to move forward expeditiously on their commitments for privatization in this sector.

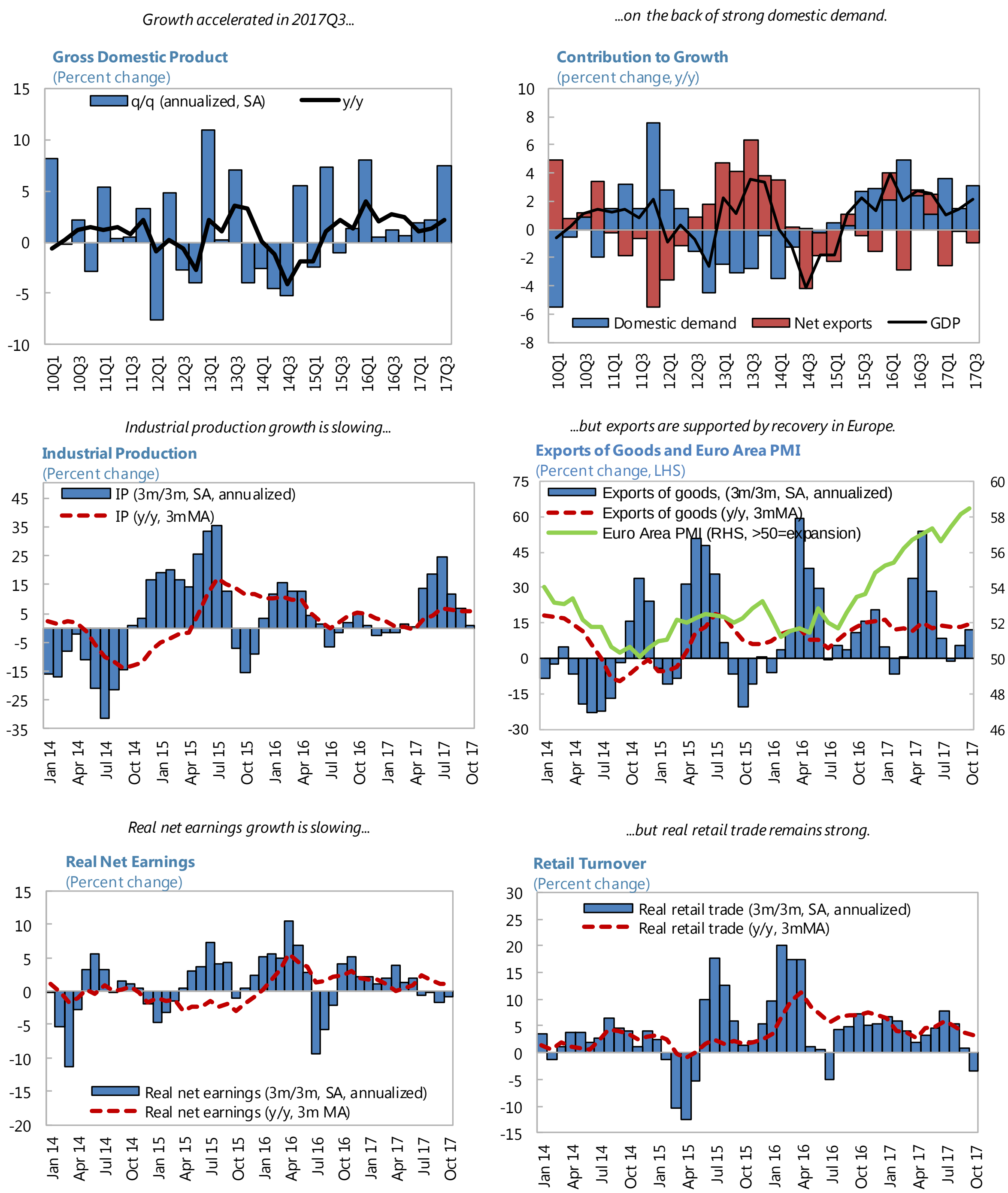
34. Measures undertaken in the context of the final review provide for continued fiscal discipline while advancing the structural reform agenda. The 2018 budget deficit target will support continued public debt reduction. This provides space for reasonable increases in public wages and pensions, and some reduction in labor taxes intended to encourage employment. Structural reforms aim at key program goals, including achieving a fair and effective public sector pay system, rationalizing taxes and charges and refocusing tax administration reform, advancing state-owned financial institution reform and resolving problem SOEs in the energy sector.

35. Looking forward, Serbia needs to build on the achievements of the program, and continue to pursue structural and institutional reforms that are critical to deliver faster convergence with Western European living standards. Serbia will need faster growth to catch up rapidly with advanced European countries and to avoid depletion of skilled labor by emigration. The 2017 Article IV consultation discussed the need to build institutions to support private sector-led growth. These include strengthened fiscal and monetary policy frameworks, better infrastructure through improved public investment management, reducing the informal economy, better SOE governance, improved public administration and delivery of public services, more effective social protection, and strengthening the rule of law. This agenda also dovetails with reforms needed for EU accession.

36. Maintaining strong macroeconomic policies is a prerequisite to allow these reforms to bear fruit. In Serbia, as in other countries in the past, the successful completion of an adjustment program has sometimes been followed by a relaxation of macroeconomic policies, a slowdown in reforms and eventually the re-emergence of imbalances. In this context, it is vital to recognize that the success of the current program is only a first step towards bringing Serbia towards its potential as a strong and vibrant market economy that will be able to compete effectively within the EU and globally.

37. Staff supports the completion of the eighth review under the Stand-By Arrangement.

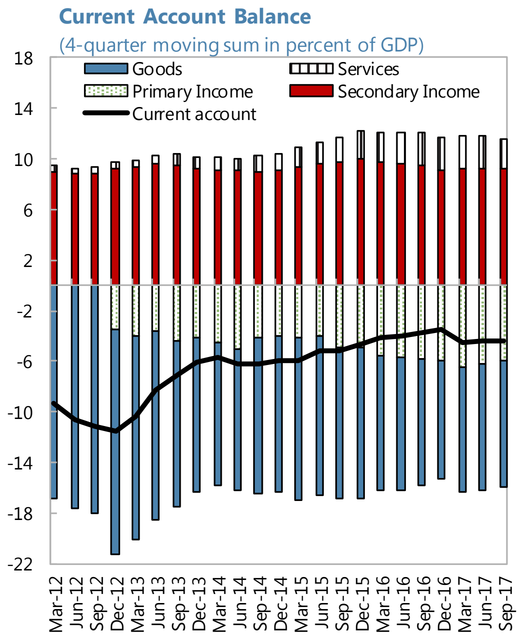
Figure 2. Serbia: Real Sector Developments, 2010–17



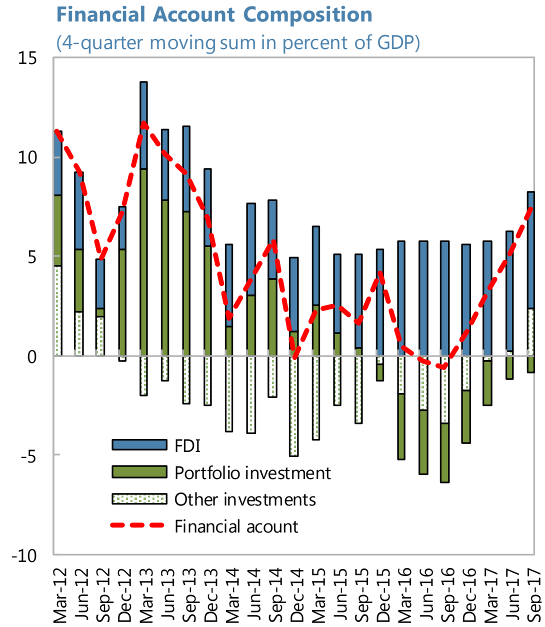
Sources: Haver, SORS and IMF staff calculations.

Figure 3. Serbia: Balance of Payments and NIR, 2012–17 1/

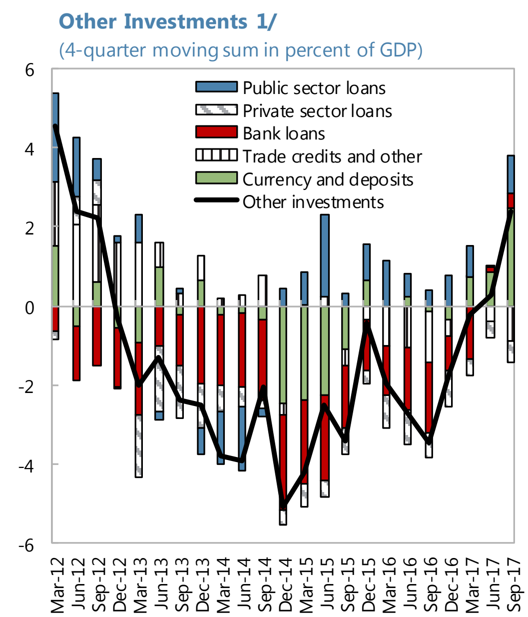
The current account deficit has widened in 2017...



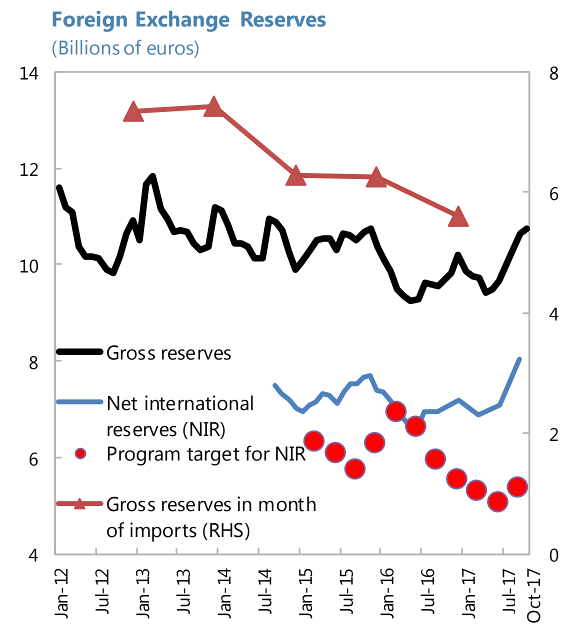
...but remains fully covered by FDI inflows.



Outflows in other investments beginning in 2017Q2 have been driven by private sector loans and trade credits.



International reserves remain at comfortable levels.



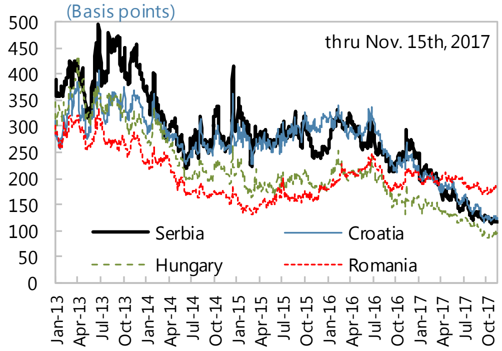
Sources: Haver; and IMF staff calculations.

1/ BPM5 data spliced with BPM6 going forward starting March 2013.

Figure 4. Serbia: Recent Financial and Exchange Rate Developments, 2013–17

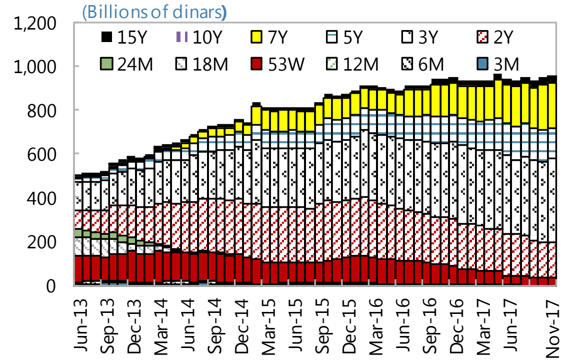
EMBI spreads continue on a declining trend.

Sovereign Risk -EMBI spreads
(Basis points)



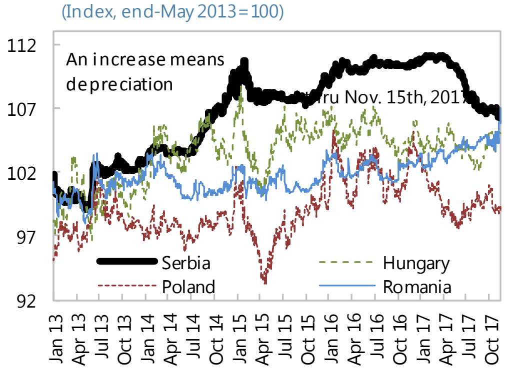
The authorities continue to lengthen the maturity of domestic securities.

T-Bill & T-Bond Stock 1/
(Billions of dinars)



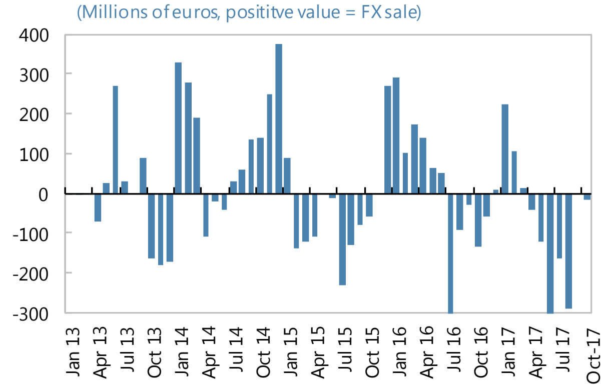
The exchange rate has been appreciating in recent months...

Exchange Rates in the Region
(Index, end-May 2013=100)



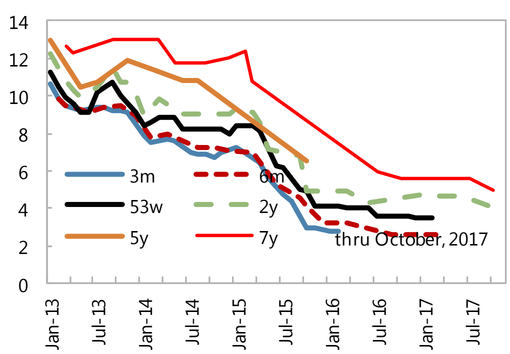
...although some of the pressure was absorbed by intervention.

FX Interventions by NBS
(Millions of euros, posititve value = FX sale)



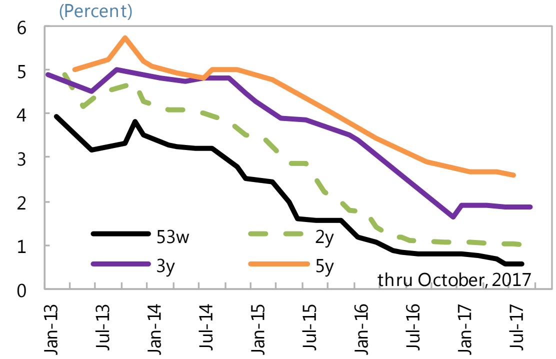
Yields in dinar denominated securities are near recent lows...

Yields on Dinar-Denominated Domestic Securities
(Percent)



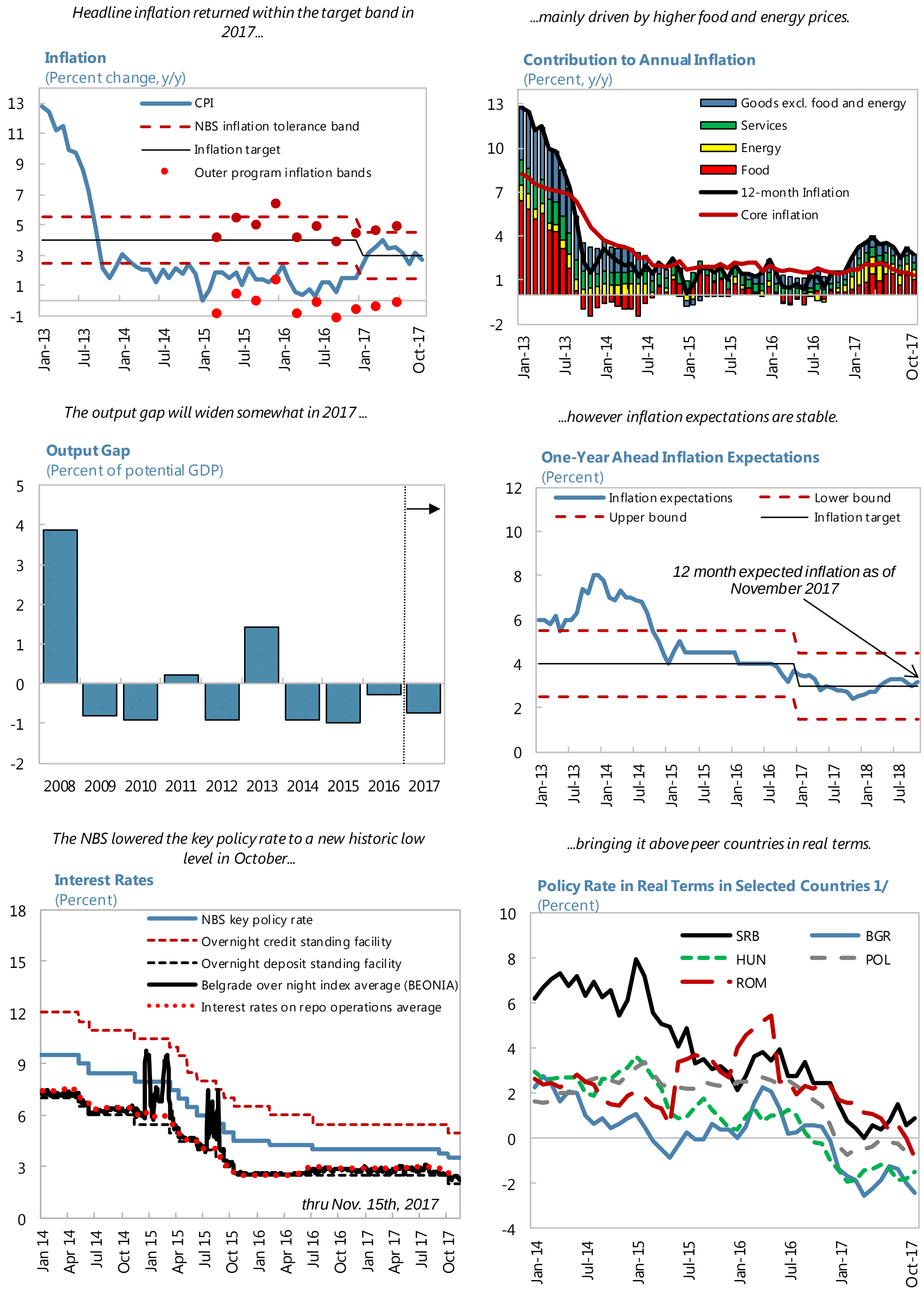
...as well as in euro-denominated securities.

Yields on Euro-Denominated Domestic Securities
(Percent)



Sources: Serbian Authorities; Bloomberg; and Haver.
1/ Sum of dinar and FX-denominated securities at current exchange rate.

Figure 5. Serbia: Inflation and Monetary Policy, 2013–17

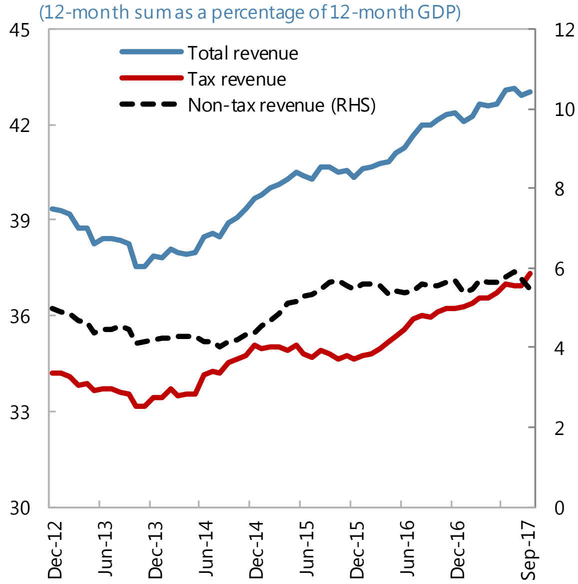


Sources: Haver; Bloomberg; National Bank of Serbia (NBS); SORS; and IMF staff estimates and projections.
1/ Nominal policy rate adjusted by inflation over the past 12 months.

Figure 6. Serbia: Fiscal Developments, 2012–17

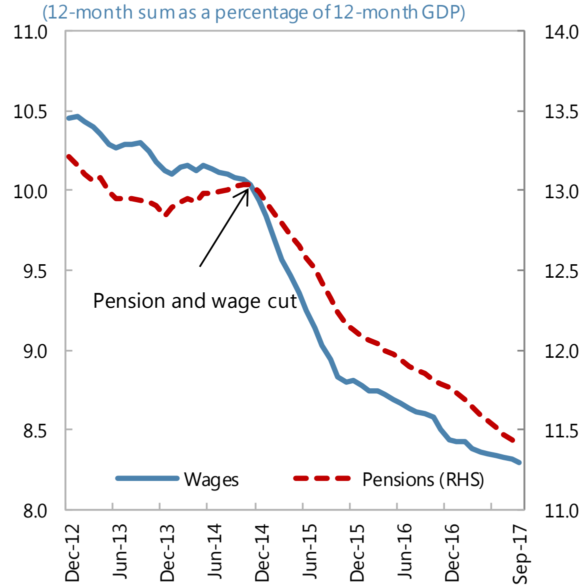
Revenues have been increasing as a share of GDP, with tax revenue playing an increasingly important role…

Total Revenue and its Composition
(12-month sum as a percentage of 12-month GDP)



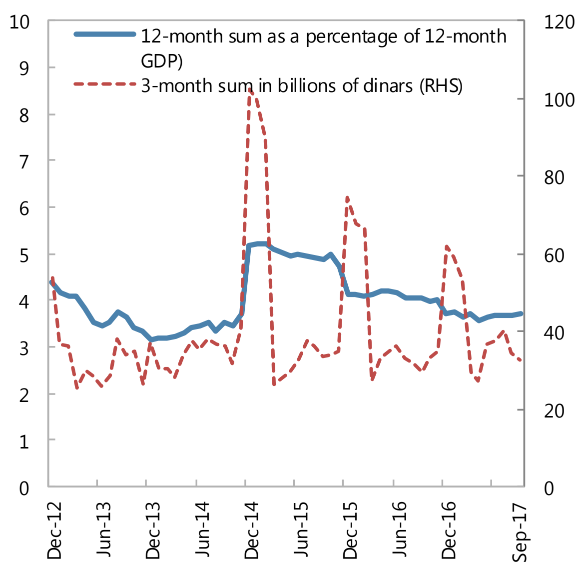
…while wage and pension expenses continue to fall as a share of GDP.

Wages and Pensions
(12-month sum as a percentage of 12-month GDP)



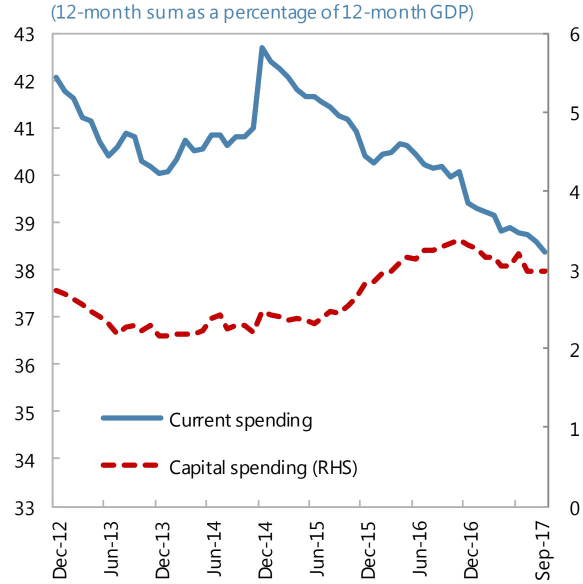
State aid has been on a declining trend…

State Aid 1/



…supporting the adjustment of current spending and creating space for capital spending to expand.

Current and Capital Spending
(12-month sum as a percentage of 12-month GDP)

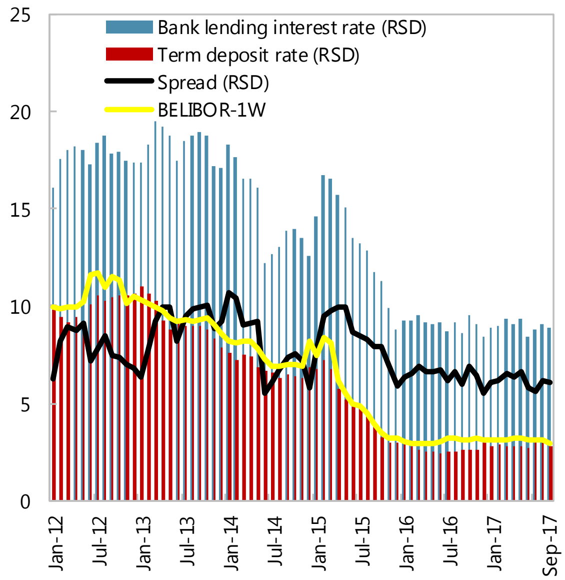


Sources: Ministry of Finance; and IMF staff calculations.
1/ State aid includes direct subsidies, net lending through the budget, assumption of SOE's debt, and the service of guaranteed debt called by creditors.

Figure 7. Serbia: Selected Interest Rates, 2012–17

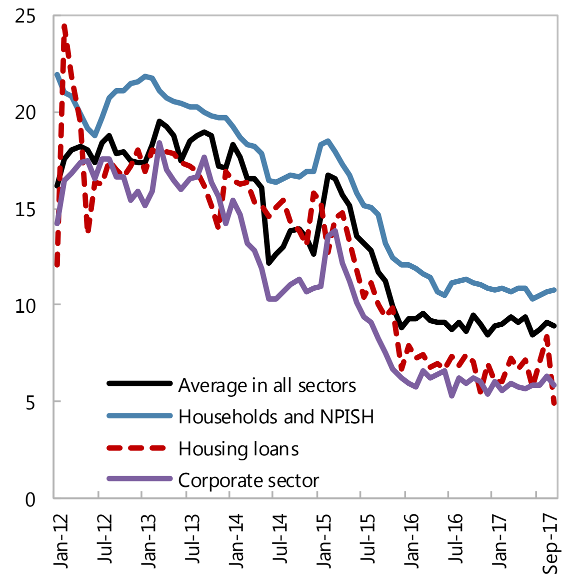
Easing of monetary policy has led to a decline in dinar interest rates...

Selected interest rates (RSD)
(Percent)



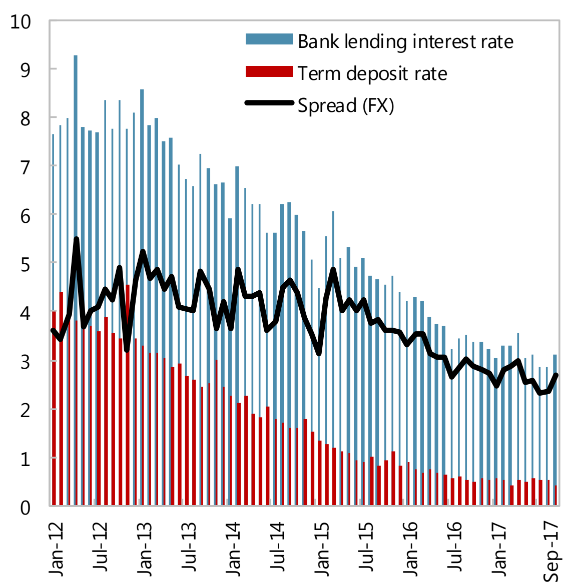
...in both corporate and household markets.

Bank lending interest rates: RSD
(Percent)



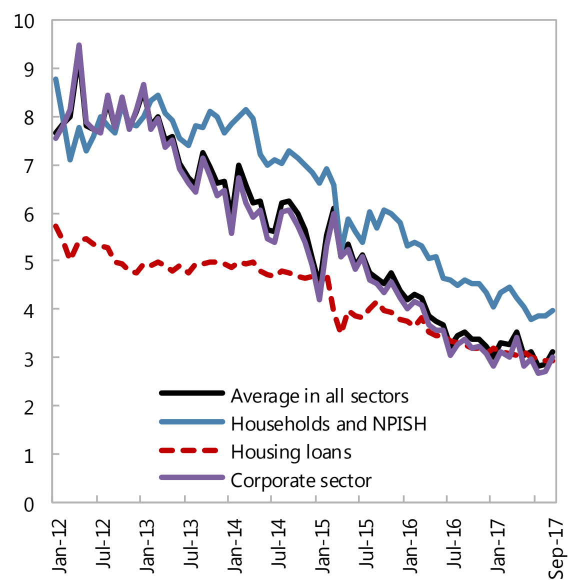
FX (or FX-linked) interest rates have been declining, too...

Selected interest rates (FX and FX-linked)
(Percent)



...most recently on account of lower lending rates to the corporate sector.

Bank lending interest rates: FX and FX-linked
(Percent)

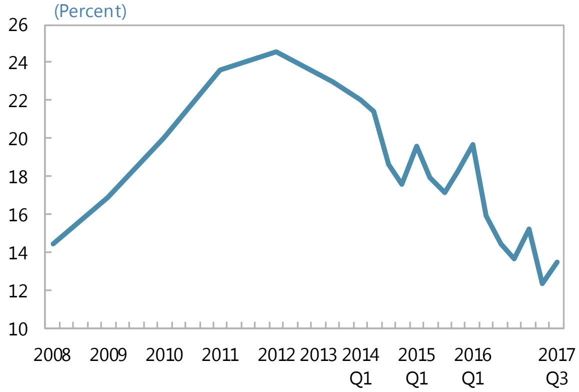


Source: NBS.

Figure 8. Serbia: Labor Market Developments, 2008-17

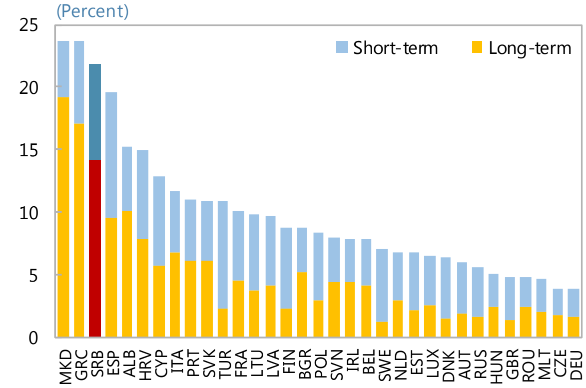
Unemployment is near historic lows and declining...

Unemployment Rate
(Percent)



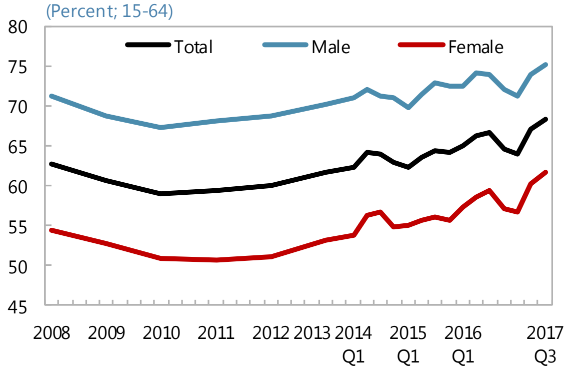
...however, long-term unemployment is a problem.

Unemployment Rate , 2016
(Percent)



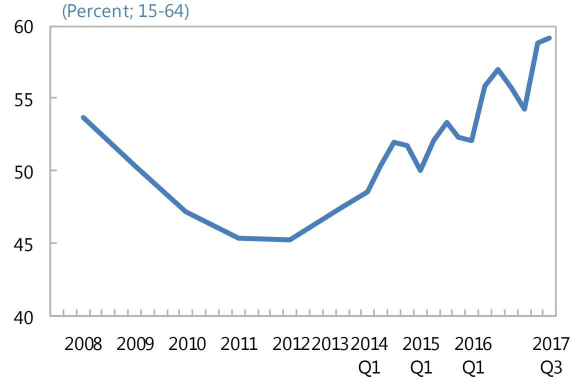
Labor market participation is rising...

Labor Participation Rate
(Percent; 15-64)



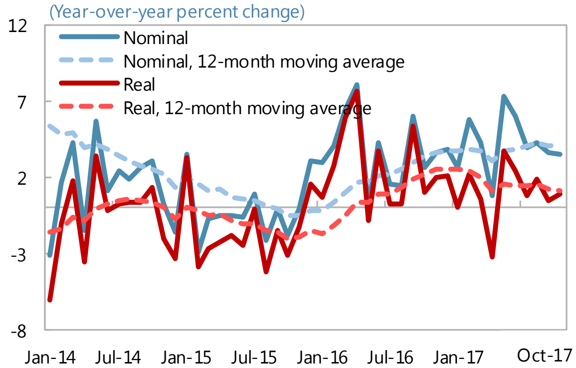
...while employment is also increasing.

Employment Rate
(Percent; 15-64)



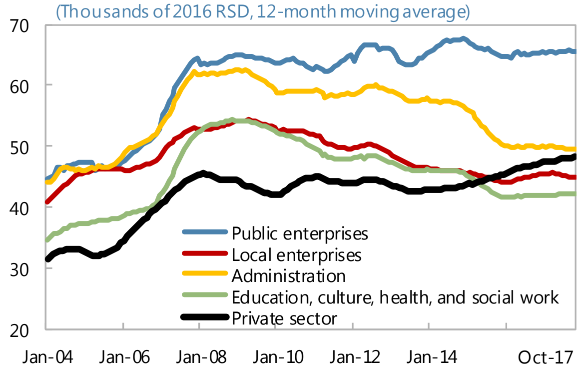
Net wage growth remains moderate...

Net Wage Growth
(Year-over-year percent change)



...but large segments of the public sector still have wages above private sector wages.

Average Monthly Net Real Wages
(Thousands of 2016 RSD, 12-month moving average)



Sources: International Labour Organization; OECD database; Republic of Serbia National Employment Service; Statistical Office of the Republic Serbia;and IMF staff calculations.

Table 1. Serbia: Selected Economic and Social Indicators, 2013–18

	2013	2014	2015	2016	2017		2018	
				Act.	7th	Proj.	7th	Proj.
	(Percent change, unless otherwise indicated)							
Real sector								
Real GDP	2.6	-1.8	0.8	2.8	3.0	2.0	3.5	3.5
Real domestic demand (absorption)	-1.9	-1.1	1.4	2.3	2.2	2.1	3.0	3.0
Consumer prices (average)	7.7	2.1	1.4	1.1	3.4	3.1	3.0	2.7
GDP deflator	5.4	2.7	2.7	2.5	2.5	2.8	2.8	2.8
Unemployment rate (in percent) 1/	23.0	19.9	18.2	15.9	…	…	…	…
Nominal GDP (in billions of dinars)	3,876	3,908	4,043	4,262	4,434	4,469	4,719	4,755
	(Percent of GDP)							
General government finances								
Revenue	37.9	39.7	40.4	41.7	41.8	42.4	41.2	40.9
Expenditure	43.5	46.3	44.0	43.0	42.9	42.1	42.0	41.6
Current	40.8	42.7	40.4	38.7	38.3	38.0	37.7	37.4
Capital and net lending	2.5	2.8	2.9	3.3	3.8	3.5	3.8	3.7
Amortization of called guarantees	0.2	0.8	0.7	0.9	0.8	0.7	0.5	0.4
Fiscal balance 2/	-5.6	-6.6	-3.7	-1.3	-1.1	0.2	-0.8	-0.7
Primary fiscal balance (cash basis)	-3.2	-3.7	-0.5	1.8	2.0	3.1	2.1	1.9
Structural primary fiscal balance 3/	-3.1	-2.6	0.0	1.8	2.0	3.3	2.1	2.0
Gross debt	61.1	71.9	76.0	73.1	70.9	67.1	67.9	64.5
	(End of period 12-month change, percent)							
Monetary sector								
Money (M1)	23.7	9.7	17.0	20.3	11.8	10.5	10.7	10.6
Broad money (M2)	4.2	8.3	7.2	9.8	6.9	5.4	6.8	7.6
Domestic credit to non-government 4/	-5.3	-1.1	2.8	1.8	6.8	7.4	7.0	5.0
	(Period average, percent)							
Interest rates (dinar)								
NBS key policy rate	11.0	9.0	6.1	4.2	…	…	…	…
Interest rate on new FX and FX-indexed loans	7.3	6.0	5.0	3.5	…	…	…	…
	(Percent of GDP, unless otherwise indicated)							
Balance of payments								
Current account balance 5/	-6.1	-6.0	-4.7	-3.1	-4.0	-4.6	-3.9	-4.2
Exports of goods	30.8	31.9	33.9	37.0	39.8	39.0	41.1	40.3
Imports of goods	-42.9	-44.3	-45.8	-46.0	-49.9	-48.8	-50.7	-49.6
Trade of goods balance	-12.1	-12.3	-11.9	-9.0	-10.1	-9.8	-9.6	-9.3
Capital and financial account balance	9.5	1.4	4.5	0.7	3.5	4.9	4.1	4.3
External debt (percent of GDP)	79.4	83.1	84.0	80.6	76.1	75.0	71.3	69.8
of which: Private external debt	36.8	34.6	32.7	31.5	29.4	28.8	26.9	26.3
Gross official reserves (in billions of euro)	11.2	9.9	10.4	10.2	10.0	10.3	10.1	10.4
(in months of prospective imports)	7.4	6.3	6.4	5.5	5.1	5.2	4.8	4.8
(percent of short-term debt)	278.8	427.0	333.7	251.7	243.8	286.0	296.5	310.8
(percent of broad money, M2)	76.2	65.8	64.6	58.7	53.5	54.9	50.8	52.3
(percent of risk-weighted metric)	189.6	171.4	170.9	161.9	156.5	162.6	157.1	162.1
Exchange rate (dinar/euro, period average)	113.1	117.2	120.8	122.3	…	…	…	…
REER (annual average change, in percent; + indicates appreciation)	7.8	-2.0	-1.6	-1.1	1.7	2.9	1.5	1.0
Social indicators								
Per capita GDP (in US$)	6,352	6,199	5,237	5,426	5,630	5,903	6,085	6,566
Population (in million)	7.2	7.1	7.1	7.1	7.0	7.0	7.0	7.0

Sources: Serbian authorities; and IMF staff estimates and projections.

1/ Unemployment rate for working age population (15-64).
2/ Includes amortization of called guarantees.
3/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs.
4/ At program exchange rates.
5/ SORS released revised 2016 BOP statistics in October 2017.

Table 2. Serbia: Medium-Term Framework, 2014–22

	2014	2015	2016	2017		2018		2019	2020	2021	2022
			Act.	7th	Proj.	7th	Proj.	Proj.	Proj.	Proj.	Proj.
				(percent change)							
Real sector											
GDP growth	-1.8	0.8	2.8	3.0	2.0	3.5	3.5	3.5	4.0	4.0	4.0
Domestic demand (contribution)	-1.2	1.6	2.6	2.4	2.4	3.4	3.4	3.7	4.4	4.4	4.5
Net exports (contribution)	-0.6	-0.8	0.2	0.6	-0.4	0.1	0.1	-0.2	-0.4	-0.4	-0.5
Consumer price inflation (average)	2.1	1.4	1.1	3.4	3.1	3.0	2.7	2.8	3.0	3.0	3.0
Consumer price inflation (end of period)	1.8	1.6	1.5	3.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Output gap (in percent of potential)	-0.9	-1.0	-0.3	-0.2	-0.7	0.0	-0.4	-0.2	0.0	0.0	0.0
Potential GDP growth	0.5	0.8	2.1	2.8	2.5	3.4	3.2	3.3	3.8	4.0	4.0
Domestic credit to non-gov. (program exchange rate) 1/	-1.1	2.8	1.8	6.8	7.4	7.0	5.0	6.3	5.0	5.0	2.8
				(percent of GDP, unless otherwise indicated)							
General government											
Revenue	39.7	40.4	41.7	41.8	42.4	41.2	40.9	41.0	40.7	40.5	40.4
Expenditure	46.3	44.0	43.0	42.9	42.1	42.0	41.6	41.5	41.2	41.0	41.0
Current	42.7	40.4	38.7	38.3	38.0	37.7	37.4	37.2	37.0	36.7	36.7
of which: Wages and salaries	9.9	8.8	8.3	8.3	8.3	8.2	8.3	8.2	8.1	8.0	8.0
of which: Pensions	13.0	12.1	11.8	11.4	11.3	11.2	11.1	11.0	11.0	10.9	10.9
of which: Goods and services	7.9	7.5	8.0	8.2	8.2	8.2	8.4	8.3	8.3	8.2	8.2
Capital and net lending	2.8	2.9	3.3	3.8	3.5	3.8	3.7	3.9	3.9	4.0	4.0
Amortization of called guarantees	0.8	0.7	0.9	0.8	0.7	0.5	0.4	0.4	0.3	0.3	0.3
Fiscal balance 2/	-6.6	-3.7	-1.3	-1.1	0.2	-0.8	-0.7	-0.5	-0.5	-0.5	-0.5
change (+ = consolidation)	*-1.0*	*2.9*	*2.4*	*0.3*	*1.5*	*0.3*	*-0.9*	*0.1*	*0.0*	*0.0*	*0.0*
Primary fiscal balance	-3.7	-0.5	1.8	2.0	3.1	2.1	1.9	2.1	2.0	2.0	1.9
change (+ = consolidation)	*-0.5*	*3.2*	*2.3*	*0.2*	*1.3*	*0.1*	*-1.2*	*0.2*	*-0.1*	*0.0*	*-0.1*
One-off fiscal items, net 3/	-0.7	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural primary balance	-2.6	0.0	1.8	2.0	3.3	2.1	2.0	2.2	2.0	2.0	1.9
change (+ = consolidation)	*0.5*	*2.6*	*1.9*	*0.2*	*1.5*	*0.1*	*-1.3*	*0.1*	*-0.1*	*0.0*	*-0.1*
Structural primary balance net of capital expenditures	-0.1	2.8	5.1	5.6	6.5	5.8	5.6	6.0	5.8	5.9	5.8
Gross debt	71.9	76.0	73.1	70.9	67.1	67.9	64.5	60.7	57.3	54.3	51.5
Effective interest rate on government borrowing (percent)	4.5	4.4	4.3	4.4	4.1	4.3	4.0	4.3	4.5	4.6	4.7
Domestic borrowing (including FX)	5.9	5.8	5.7	6.5	5.7	5.4	5.4	5.9	6.0	6.0	6.0
External borrowing	3.5	3.5	3.3	3.2	3.2	3.6	3.2	3.4	3.5	3.5	3.5
				(percent of GDP, unless otherwise indicated)							
Balance of payments											
Current account	-6.0	-4.7	-3.1	-4.0	-4.6	-3.9	-4.2	-4.1	-3.9	-3.8	-3.8
of which: Trade balance	-12.3	-11.9	-9.0	-10.1	-9.8	-9.6	-9.3	-9.1	-9.0	-9.0	-9.1
of which: Current transfers, net (excl. grants)	8.7	9.5	8.9	9.0	8.8	8.4	8.3	7.9	7.9	7.9	7.9
Capital and financial account	1.4	4.5	0.7	3.5	4.9	4.1	4.3	4.2	4.2	4.2	4.4
of which: Foreign direct investment	3.7	5.4	5.5	4.8	5.8	4.3	5.1	5.0	5.0	5.0	5.0
External debt (end of period)	83.1	84.0	80.6	76.1	75.0	71.3	69.8	65.3	60.1	55.3	50.9
of which: Private external debt	34.6	32.7	31.5	29.4	28.8	26.9	26.3	24.2	22.0	20.2	18.4
Gross official reserves											
(in billions of euros)	9.9	10.4	10.2	10.0	10.3	10.1	10.4	10.5	10.6	10.8	11.1
(in percent of short-term external debt)	427.0	333.7	251.7	243.8	286.0	296.5	310.8	221.9	225.0	229.0	235.6
REER (ann. av. change; + = appreciation)	-2.0	-1.6	-1.1	1.7	2.9	1.5	1.0	0.3	1.2	1.2	1.2

Sources: NBS, MoF, SORS and IMF staff estimates and projections.
1/ Using program dinar/euro and dinar/swiss franc exchange rates for converting FX and FX-indexed loans to dinars.
2/ Includes amortization of called guarantees.
3/ Calculated as one-off revenue items minus one-off expenditure items. Negative sign indicates net expenditure.

Table 3. Serbia: Growth Composition, 2014–22

	2014	2015	2016	2017		2018		2019	2020	2021	2022
			Act.	7th	Proj.	7th	Proj.	Proj.	Proj.	Proj.	Proj.
			(Percent change, unless otherwise noted)								
Real											
Gross Domestic Product (GDP)	-1.8	0.8	2.8	3.0	2.0	3.5	3.5	3.5	4.0	4.0	4.0
Domestic demand	-1.1	1.4	2.3	2.2	2.1	3.0	3.0	3.3	3.9	3.9	4.0
Consumption	-1.2	0.1	1.2	1.5	1.8	2.6	2.6	3.1	3.6	3.7	3.7
Non-government	-1.3	0.5	1.0	1.3	1.8	2.5	2.7	3.4	3.8	3.9	4.0
Government	-0.6	-1.5	2.3	2.3	1.4	3.0	2.2	1.9	2.7	2.7	2.7
Investment	-0.4	7.7	6.8	5.1	3.8	4.8	4.6	3.9	4.9	4.7	4.8
Gross fixed capital formation	-3.6	5.6	5.1	5.3	4.3	4.8	5.1	4.1	5.3	5.1	5.0
Non-government	-5.8	4.3	2.2	3.6	5.5	5.0	2.5	4.4	5.8	5.2	5.2
Government	13.6	14.0	22.0	14.2	-1.9	3.9	19.1	3.0	2.9	4.5	4.0
Exports of goods and services	5.7	10.2	12.0	9.0	10.0	7.5	8.8	8.4	7.9	7.8	7.6
Imports of goods and services	5.6	9.3	9.0	6.4	8.6	6.0	7.0	7.2	7.0	7.0	7.0
			(contributions to GDP, percent)								
Gross Domestic Product (GDP)	-1.8	0.8	2.8	3.0	2.0	3.5	3.5	3.5	4.0	4.0	4.0
Domestic demand (absorption)	-1.2	1.6	2.6	2.4	2.4	3.4	3.4	3.7	4.4	4.4	4.5
Net exports of goods and services	-0.6	-0.8	0.2	0.6	-0.4	0.1	0.1	-0.2	-0.4	-0.4	-0.5
Consumption	-1.1	0.1	1.1	1.4	1.6	2.3	2.4	2.8	3.3	3.3	3.4
Non-government	-1.0	0.3	0.7	1.0	1.4	1.8	2.0	2.5	2.8	2.8	2.9
Government	-0.1	-0.3	0.4	0.4	0.3	0.5	0.4	0.3	0.5	0.5	0.5
Investment	-0.1	1.5	1.5	1.1	0.8	1.0	1.0	0.9	1.1	1.1	1.1
Gross fixed capital formation	-0.7	1.0	1.0	1.1	0.8	1.0	1.0	0.9	1.1	1.1	1.1
Non-government	-1.0	0.7	0.4	0.6	0.9	0.8	0.4	0.7	1.0	0.9	0.9
Government	0.3	0.3	0.6	0.5	-0.1	0.1	0.6	0.1	0.1	0.2	0.1
Change in inventories	0.6	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	2.3	4.5	5.8	4.7	5.3	4.2	5.0	5.0	4.9	5.1	5.1
Imports of goods and services	3.0	5.4	5.6	4.2	5.7	4.0	4.9	5.3	5.3	5.5	5.6
			(Percent change, unless otherwise noted)								
Nominal											
Gross Domestic Product (GDP)	0.8	3.5	5.4	5.6	4.9	6.4	6.4	6.3	7.1	7.1	7.1
Domestic demand (absorption), contribution to GDP growth	1.1	2.7	3.5	5.8	5.3	6.1	5.9	6.3	7.4	7.5	7.6
Net exports of goods and services, contribution to GDP growth	-0.2	0.8	1.9	-0.3	-0.5	0.3	0.5	0.1	-0.3	-0.3	-0.4
Non-government	1.3	2.2	2.2	4.7	5.0	5.6	5.4	6.3	7.0	7.0	7.1
Government	0.6	-5.3	3.9	5.4	6.1	5.5	7.2	6.9	6.0	6.0	6.0
Investment	-0.1	11.5	6.7	8.3	3.8	6.4	4.4	3.3	7.8	8.0	8.2
Gross fixed capital formation	-2.4	9.7	5.6	8.4	6.9	7.9	8.1	7.6	8.4	8.2	8.1
Non-government	-5.0	8.2	2.6	6.7	8.3	8.1	5.2	7.8	9.0	8.4	8.4
Government	15.1	18.6	21.7	15.9	0.7	7.0	21.8	6.3	6.0	7.6	7.1
Exports of goods and services	6.2	11.3	13.0	11.1	10.1	9.2	9.5	11.0	9.3	9.4	9.3
Imports of goods and services	5.3	7.7	7.4	10.1	9.6	7.6	7.5	9.6	8.8	9.0	9.2
Memorandum items:											
GDP deflator (percent)	2.7	2.7	2.5	2.5	2.8	2.8	2.8	2.8	3.0	3.0	3.0
Nominal GDP (billions of dinars)	3908	4043	4262	4434	4469	4719	4755	5057	5417	5802	6216

Sources: Serbian Statistical Office; and IMF staff estimates and projections.
1/ SORS released revised 2016 national accounts in October 2017.

Table 4a. Serbia: Balance of Payments, 2014–22 1/
(In billions of euros)

	2014	2015	2016	2017		2018		2019	2020	2021	2022
			Act.	7th	Proj.	7th	Proj.	Proj.	Proj.	Proj.	Proj.
					(Billions of euros)						
Current account balance	-2.0	-1.6	-1.1	-1.5	-1.7	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9
Trade of goods balance	-4.1	-4.0	-3.1	-3.6	-3.6	-3.7	-3.6	-3.7	-4.0	-4.3	-4.6
Exports of goods	10.6	11.4	12.8	14.4	14.3	15.8	15.8	17.4	19.0	20.8	22.8
Imports of goods	-14.8	-15.4	-15.9	-18.0	-17.9	-19.5	-19.4	-21.1	-23.0	-25.1	-27.4
Services balance	0.5	0.7	0.9	1.0	0.8	1.2	1.0	1.2	1.3	1.4	1.6
Exports of nonfactor services	3.8	4.3	4.6	5.0	5.0	5.3	5.4	5.9	6.5	7.1	7.8
Imports of nonfactor services	-3.3	-3.5	-3.7	-3.9	-4.2	-4.1	-4.3	-4.7	-5.1	-5.6	-6.2
Income balance	-1.3	-1.7	-2.0	-2.2	-2.2	-2.3	-2.3	-2.4	-2.5	-2.7	-2.9
Net interest	-0.9	-1.0	-1.0	-0.9	-0.9	-1.0	-1.0	-1.0	-1.1	-1.1	-1.2
Current transfer balance	3.0	3.3	3.2	3.3	3.3	3.3	3.3	3.3	3.5	3.7	4.0
Others, including private remittances	2.9	3.2	3.1	3.2	3.2	3.2	3.3	3.3	3.5	3.7	4.0
Capital and financial account balance 2/	0.5	1.5	0.2	1.3	1.8	1.6	1.7	1.7	1.9	2.0	2.3
Foreign direct investment balance	1.2	1.8	1.9	1.7	2.1	1.6	2.0	2.1	2.2	2.4	2.5
Portfolio investment balance	0.4	-0.3	-0.9	-0.5	-0.5	0.2	0.1	0.8	0.5	0.5	0.2
of which: debt liabilities	0.4	-0.2	-0.9	-0.5	-0.5	0.2	0.1	0.8	0.5	0.5	0.2
Other investment balance	-1.1	0.0	-0.7	0.0	0.2	-0.3	-0.4	-1.1	-0.8	-0.8	-0.5
Public sector 2/ 3/	0.7	0.5	0.3	0.3	0.5	0.0	-0.1	-0.8	-0.5	-0.7	-0.3
Domestic banks	-1.5	-0.1	-0.5	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Other private sector 4/	-0.4	-0.4	-0.5	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1
Errors and omissions	0.3	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.2	0.3	-0.3	-0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.3
Financing	1.2	-0.3	0.3	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3
Gross international reserves (increase, -)	1.8	-0.2	0.3	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of Fund credit, net	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: NBS; and IMF staff estimates and projections.
1/ SORS released revised 2016 BOP in October 2017.
2/ Excluding net use of IMF resources.
3/ Includes SDR allocations in 2009.
4/ Includes trade credits (net).

Table 4b. Serbia: Balance of Payments, 2014–22 1/

(Percent of GDP)

	2014	2015	2016	2017		2018		2019	2020	2021	2022
			Act.	7th	Proj.	7th	Proj.	Proj.	Proj.	Proj.	Proj.
					(Percent of GDP)						
Current account balance	-6.0	-4.7	-3.1	-4.0	-4.6	-3.9	-4.2	-4.1	-3.9	-3.8	-3.8
Trade of goods balance	-12.3	-11.9	-9.0	-10.1	-9.8	-9.6	-9.3	-9.1	-9.0	-9.0	-9.1
Exports of goods	31.9	33.9	37.0	39.8	39.0	41.1	40.3	42.1	42.9	43.9	44.8
Imports of goods	-44.3	-45.8	-46.0	-49.9	-48.8	-50.7	-49.6	-51.1	-52.0	-52.8	-53.8
Services balance	1.4	2.2	2.6	2.9	2.3	3.1	2.6	2.9	3.0	3.1	3.1
Income balance	-4.0	-5.0	-5.8	-6.0	-6.0	-5.9	-5.9	-5.8	-5.8	-5.8	-5.8
Current transfer balance	9.0	10.0	9.1	9.2	9.0	8.5	8.4	7.9	7.9	7.9	7.9
Official grants	0.3	0.5	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Others, including private remittances	8.7	9.5	8.9	9.0	8.8	8.4	8.3	7.9	7.9	7.9	7.9
Capital and financial account balance 2/	1.4	4.5	0.7	3.5	4.9	4.1	4.3	4.2	4.2	4.2	4.4
Capital transfers balance	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	3.7	5.4	5.5	4.8	5.8	4.3	5.1	5.0	5.0	5.0	5.0
Portfolio investment balance	1.1	-0.9	-2.6	-1.4	-1.3	0.5	0.3	1.8	1.0	1.0	0.4
Other investment balance	-3.4	0.0	-2.1	0.1	0.4	-0.7	-1.1	-2.6	-1.8	-1.8	-1.0
Public sector 2/ 3/	2.2	1.4	0.9	0.9	1.2	0.0	-0.3	-2.0	-1.2	-1.5	-0.6
Domestic banks	-4.5	-0.2	-1.4	-0.1	-0.1	0.0	-0.1	-0.1	-0.2	-0.1	-0.1
Other private sector 4/	-1.1	-1.2	-1.5	-0.8	-0.7	-0.7	-0.7	-0.5	-0.5	-0.2	-0.3
Errors and omissions	0.8	1.2	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.7	0.9	-0.8	-0.5	0.4	0.2	0.2	0.1	0.3	0.4	0.6
Memorandum items:											
Export growth	1.0	6.7	12.8	12.7	11.8	9.9	9.9	10.2	9.3	9.5	9.5
Import growth	0.4	4.1	3.8	10.9	12.6	8.2	8.1	8.9	8.8	9.0	9.4
Export volume growth	1.7	8.7	13.7	10.1	10.6	8.1	9.5	8.4	7.9	7.8	7.6
Import volume growth	1.9	8.8	6.0	7.2	8.4	6.6	7.7	7.2	7.0	6.9	7.0
Trading partner import growth	4.7	2.4	5.3	5.7	6.3	4.8	5.1	4.4	4.4	4.4	4.4
Export prices growth	-0.7	-1.9	-0.8	2.3	1.1	1.6	0.5	1.6	1.3	1.6	1.8
Import prices growth	-1.5	-4.3	-2.1	3.4	3.9	1.5	0.3	1.5	1.7	2.0	2.2
Change in terms of trade	0.8	2.6	1.3	-1.1	-2.7	0.1	0.1	0.1	-0.3	-0.4	-0.4
Gross official reserves (in billions of euro)	9.9	10.4	10.2	10.0	10.3	10.1	10.4	10.5	10.6	10.8	11.1
(In months of prospective imports of GNFS)	6.3	6.4	5.5	5.1	5.2	4.8	4.8	4.5	4.1	3.9	3.6
(in percent of short-term debt)	427.0	333.7	251.7	243.8	286.0	296.5	310.8	221.9	225.0	229.0	235.6
(in percent of broad money, M2)	65.8	64.6	58.7	53.5	54.9	50.8	52.3	49.5	46.8	44.4	42.5
(in percent of risk-weighted metric) 5/	171.4	170.9	161.9	156.5	162.6	157.1	162.1	155.1	153.1	156.1	156.6
GDP (billions of euros)	33.3	33.5	34.6	36.0	36.8	38.4	39.1	41.3	44.2	47.4	50.9

Sources: NBS; and IMF staff estimates and projections.

1/ SORS released revised 2016 BOP in October 2017.

2/ Excluding net use of IMF resources.

3/ Includes SDR allocations in 2009.

4/ Includes trade credits (net).

5/ Gross reserves at end-2016 correspond to 162 percent of the ARA metric (assuming Serbia returns to a floating exchange rate classification) and 136 percent of the ARA metric (assuming the current fixed exchange rate classification).

Table 5. Serbia: External Financing Requirements, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
						Proj.			
					(Billions of euros)				
1. Total financing requirement	**4.2**	**4.1**	**3.9**	**5.9**	**5.3**	**5.1**	**6.6**	**7.0**	**6.2**
Current account deficit	2.0	1.6	1.1	1.7	1.6	1.7	1.7	1.8	1.9
Debt amortization	4.0	2.3	3.1	4.1	3.6	3.3	4.7	5.0	4.0
Medium and long-term debt	3.8	2.2	2.8	3.4	2.9	2.7	4.0	4.3	3.3
Public sector	2.2	0.9	1.0	2.4	1.8	1.5	2.7	3.3	2.3
Of which: IMF	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Eurobonds	0.0	0.0	0.2	0.7	0.8	0.0	1.3	1.8	0.0
Of which: Domestic bonds (non-residents)	1.0	0.0	0.0	0.7	0.1	0.2	0.2	0.2	0.2
Commercial banks	0.9	0.8	1.0	0.3	0.3	0.4	0.5	0.4	0.4
Corporate sector	0.7	0.6	0.8	0.7	0.7	0.8	0.8	0.6	0.6
Short-term debt	0.2	0.1	0.3	0.7	0.7	0.7	0.7	0.7	0.7
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.1	0.2	0.6	0.6	0.6	0.6	0.6	0.6
Corporate sector	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Change in gross reserves (increase=+)	-1.8	0.2	-0.3	0.1	0.1	0.1	0.1	0.2	0.3
2. Total financing sources	**4.2**	**4.1**	**3.9**	**5.9**	**5.3**	**5.1**	**6.6**	**7.0**	**6.2**
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	1.2	1.8	1.9	2.1	2.0	2.1	2.2	2.4	2.5
Portfolio investment (net) 1/	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	3.8	2.2	2.7	3.7	3.3	3.0	4.4	4.7	3.7
Medium and long-term debt	3.7	1.9	2.0	3.1	2.6	2.3	3.7	4.0	3.0
Public sector 2/	2.9	1.2	1.1	2.4	1.9	1.4	2.7	3.1	2.2
Of which: Eurobonds	0.0	0.0	0.0	0.0	0.8	0.5	1.5	2.0	0.0
Of which: Domestic bonds (non-residents)	1.5	0.0	0.0	0.9	0.3	0.5	0.4	0.4	0.4
Commercial banks	0.2	0.2	0.3	0.2	0.3	0.3	0.4	0.3	0.4
Corporate sector	0.6	0.5	0.6	0.4	0.5	0.6	0.6	0.5	0.4
Short-term debt	0.1	0.3	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.1	0.2	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Corporate sector	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other net capital inflows 3/	-0.8	0.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
o/w trade credit and currency and deposits	0.9	-0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0
3. Total financing needs	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Debt service	4.8	3.2	4.1	5.0	4.6	4.4	5.8	6.2	5.2
Interest	0.8	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.2
Amortization	4.0	2.3	3.1	4.1	3.6	3.3	4.7	5.0	4.0

Sources: NBS; and Fund staff estimates and projections.

1/ Only includes equity securities and financial derivatives.

2/ Excluding IMF.

3/ Includes all other net financial flows and errors and omissions.

Table 6a. Serbia: General Government Fiscal Operations, 2014–22 1/

(In billions of RSD)

	2014	2015	2016	2017		2018		2019	2020	2021	2022
			Act.	7th	Proj.	7th	Proj.	Proj.	Proj.	Proj.	Proj.
					(Billions of RSD)						
Revenue	1,552	1,632	1,779	1,853	1,893	1,944	1,945	2,073	2,205	2,352	2,513
Taxes	1,370	1,400	1,522	1,609	1,647	1,706	1,705	1,823	1,937	2,073	2,211
Personal income tax	146	147	155	165	167	176	170	180	194	207	220
Social security contributions	440	443	464	492	500	525	532	570	611	651	696
Taxes on profits	73	63	80	93	111	99	96	103	106	114	117
Value-added taxes	410	416	454	473	477	502	503	538	573	615	660
Excises	212	236	266	277	280	291	286	302	319	343	367
Taxes on international trade	31	33	36	38	40	39	43	47	51	55	60
Other taxes	57	63	67	71	74	75	75	82	83	88	92
Non-tax revenue	171	221	239	231	238	226	224	239	256	269	288
Capital revenue	2	3	8	0	0	0	0	0	0	0	0
Grants	9	7	9	12	8	11	16	12	11	11	15
Expenditure	1,810	1,780	1,833	1,902	1,882	1,980	1,976	2,100	2,233	2,381	2,546
Current expenditure	1,669	1,633	1,651	1,699	1,697	1,779	1,777	1,881	2,005	2,132	2,280
Wages and salaries 2/	389	356	354	369	372	386	395	415	438	463	494
Goods and services	310	303	339	364	364	387	401	419	447	476	510
Interest	115	130	132	137	128	136	121	133	138	145	153
Subsidies	158	134	113	108	111	114	114	120	134	144	154
Transfers	697	710	714	723	722	757	746	794	848	904	969
Pensions 3/	508	490	503	505	507	528	527	558	593	631	676
Other transfers 4/	189	219	211	217	215	229	219	236	254	273	293
Capital expenditure	97	115	139	161	140	173	171	194	203	225	241
Net lending	15	3	3	6	15	6	6	6	7	8	8
Amortization of activated guarantees	30	30	39	35	29	22	21	19	17	17	17
Unidentified measures (cumulative)	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal balance without amortization of activated guarantees	-228	-118	-15	-14	40	-15	-10	-8	-11	-12	-16
Fiscal balance	-258	-149	-54	-49	11	-37	-31	-27	-28	-29	-33
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0	0
Financing	258	149	54	49	-11	37	31	27	28	29	33
Privatization proceeds	2	1	5	0	2	0	0	0	0	0	0
Equity investment	0	0	0	0	0	0	0	0	0	0	0
Domestic	123	120	20	118	-1	21	35	-9	15	14	76
Banks	82	165	148	107	10	8	22	-10	12	7	50
Government deposits ((-) means accumulation)	-56	32	35	-5	-18	2	-1	7	11	-4	1
Securities held by banks (net)	117	93	99	120	34	19	37	8	27	37	76
Other domestic bank financing	22	39	14	-7	-5	-14	-14	-24	-26	-26	-26
Non-banks (incl. non-residents)	41	-45	-128	12	-11	13	13	1	3	7	25
Securities held by non-banks (non-residents, net)	98	35	-37	30	6	13	24	3	3	7	25
Others (incl. amortization)	-58	-80	-91	-18	-17	0	-12	-2	0	0	0
External	133	28	29	-70	-12	16	-4	35	13	15	-43
Program	0	17	0	25	24	0	0	0	0	0	0
Project	66	55	73	68	59	58	57	44	46	63	84
Bonds and loans	88	12	23	117	109	179	144	80	223	259	122
Amortization	-20	-56	-67	-278	-204	-221	-205	-88	-256	-307	-249
Residual Financing gap/Discrepancy	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Wages and salaries excluding severance payments	389	356	354	366	370	386	395	415	438	463	494
Arrears accumulation (domestic)	-6	-3	-1	0	0	0	0	0	0	0	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	120	105	86	23	9	19	8	7	17	17	17
Government deposits (stock)	174	142	107	112	125	110	125	119	108	112	111
Gross public debt	2812	3074	3114	3145	2997	3206	3068	3070	3106	3149	3200
Gross public debt (including restitution)	3090	3317	3357	3388	3240	3449	3311	3293	3308	3331	3362
Nominal GDP (billions of dinars)	3908	4043	4262	4434	4469	4719	4755	5057	5417	5802	6216

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Includes the republican budget, local governments, social security funds, and the Road Company, but excludes indirect budget beneficiaries (IBBs) that are reporting only on an annual basis.

2/ Including severence payments.

3/ Includes RSD10 billion military pension payment in 2015 following a Constitution Court ruling.

4/ Excluding foreign currency deposit payments to households, reclassified below the line.

Table 6b. Serbia: General Government Fiscal Operations, 2014–22 1/

(Percent of GDP)

	2014	2015	2016	2017		2018		2019	2020	2021	2022
			Act.	7th	Proj.	7th	Proj.	Proj.	Proj.	Proj.	Proj.
					(percent of GDP)						
Revenue	39.7	40.4	41.7	41.8	42.4	41.2	40.9	41.0	40.7	40.5	40.4
Taxes	35.0	34.6	35.7	36.3	36.9	36.2	35.9	36.0	35.8	35.7	35.6
Personal income tax	3.7	3.6	3.6	3.7	3.7	3.7	3.6	3.6	3.6	3.6	3.5
Social security contributions	11.3	10.9	10.9	11.1	11.2	11.1	11.2	11.3	11.3	11.2	11.2
Taxes on profits	1.9	1.5	1.9	2.1	2.5	2.1	2.0	2.0	2.0	2.0	1.9
Value-added taxes	10.5	10.3	10.6	10.7	10.7	10.6	10.6	10.6	10.6	10.6	10.6
Excises	5.4	5.8	6.2	6.2	6.3	6.2	6.0	6.0	5.9	5.9	5.9
Taxes on international trade	0.8	0.8	0.9	0.8	0.9	0.8	0.9	0.9	0.9	0.9	1.0
Other taxes	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5
Non-tax revenue	4.4	5.5	5.6	5.2	5.3	4.8	4.7	4.7	4.7	4.6	4.6
Capital revenue	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Expenditure	46.3	44.0	43.0	42.9	42.1	42.0	41.6	41.5	41.2	41.0	41.0
Current expenditure	42.7	40.4	38.7	38.3	38.0	37.7	37.4	37.2	37.0	36.7	36.7
Wages and salaries 2/	9.9	8.8	8.3	8.3	8.3	8.2	8.3	8.2	8.1	8.0	8.0
Goods and services	7.9	7.5	8.0	8.2	8.2	8.2	8.4	8.3	8.3	8.2	8.2
Interest	2.9	3.2	3.1	3.1	2.9	2.9	2.6	2.6	2.5	2.5	2.5
Subsidies	4.0	3.3	2.6	2.4	2.5	2.4	2.4	2.4	2.5	2.5	2.5
Transfers	17.8	17.6	16.7	16.3	16.2	16.0	15.7	15.7	15.6	15.6	15.6
Pensions 3/	13.0	12.1	11.8	11.4	11.3	11.2	11.1	11.0	11.0	10.9	10.9
Other transfers 4/	4.8	5.4	5.0	4.9	4.8	4.9	4.6	4.7	4.7	4.7	4.7
Capital expenditure	2.5	2.8	3.3	3.6	3.1	3.7	3.6	3.8	3.8	3.9	3.9
Net lending	0.4	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Amortization of activated guarantees	0.8	0.7	0.9	0.8	0.7	0.5	0.4	0.4	0.3	0.3	0.3
Fiscal balance without guarantees (cash basis)	-5.8	-2.9	-0.3	-0.3	0.9	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Fiscal balance (incl. amortization of called guarantees)	-6.6	-3.7	-1.3	-1.1	0.2	-0.8	-0.7	-0.5	-0.5	-0.5	-0.5
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	6.6	3.7	1.3	1.1	-0.2	0.8	0.7	0.5	0.5	0.5	0.5
Privatization proceeds	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	3.1	3.0	0.5	2.7	0.0	0.4	0.7	-0.2	0.3	0.2	1.2
Banks	2.1	4.1	3.5	2.4	0.2	0.2	0.5	-0.2	0.2	0.1	0.8
Government deposits ((-) means accumulation)	-1.4	0.8	0.8	-0.1	-0.4	0.1	0.0	0.1	0.2	-0.1	0.0
Securities held by banks (net)	3.0	2.3	2.3	2.7	0.8	0.4	0.8	0.1	0.5	0.6	1.2
Other domestic bank financing	0.6	1.0	0.3	-0.2	-0.1	-0.3	-0.3	-0.5	-0.5	-0.4	-0.4
Non-banks (incl. non-residents)	1.0	-1.1	-3.0	0.3	-0.3	0.3	0.3	0.0	0.1	0.1	0.4
Securities held by non-banks (non-residents, net)	2.5	0.9	-0.9	0.7	0.1	0.3	0.5	0.1	0.1	0.1	0.4
Others (incl. amortization)	-1.5	-2.0	-2.1	-0.4	-0.4	0.0	-0.2	0.0	0.0	0.0	0.0
External	3.4	0.7	0.7	-1.6	-0.3	0.3	-0.1	0.7	0.2	0.3	-0.7
Program	0.0	0.4	0.0	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Project	1.7	1.4	1.7	1.5	1.3	1.2	1.2	0.9	0.8	1.1	1.3
Bonds and loans	2.2	0.3	0.5	2.6	2.4	3.8	3.0	1.6	4.1	4.5	2.0
Amortization	-0.5	-1.4	-1.6	-6.3	-4.6	-4.7	-4.3	-1.7	-4.7	-5.3	-4.0
Residual Financing gap/Discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Wages and salaries excluding severance payments	9.9	8.8	8.3	8.3	8.3	8.2	8.3	8.2	8.1	8.0	8.0
Arrears accumulation (domestic)	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal support to SOEs (gross new issuance guarantees)	3.1	2.6	2.0	0.5	0.2	0.4	0.2	0.1	0.3	0.3	0.3
Government deposits (stock)	4.5	3.5	2.5	2.5	2.8	2.3	2.6	2.3	2.0	1.9	1.8
Gross financing need	16.2	16.5	13.1	15.3	12.7	13.7	11.7	9.0	11.0	10.9	9.9
Gross public debt	71.9	76.0	73.1	70.9	67.1	67.9	64.5	60.7	57.3	54.3	51.5
Gross public debt (including restitution)	79.1	82.0	78.8	76.4	72.5	73.1	69.6	65.1	61.1	57.4	54.1
Nominal GDP (billions of dinars)	3,908	4,043	4,262	4,434	4,469	4,719	4,755	5,057	5,417	5,802	6,216

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Includes the republican budget, local governments, social security funds, and the Road Company, but excludes indirect budget beneficiaries (IBBs) that are reporting only on an annual basis.

2/ Including severence payments.

3/ Includes RSD10 billion military pension payment in 2015 following a Constitution Court ruling.

4/ Excluding foreign currency deposit payments to households, reclassified below the line.

Table 7a. Serbia: Monetary Survey, 2014–22

	2014	2015	2016	2017		2018		2019	2020	2021	2022
			Act.	7th	Proj.	7th	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/										
Net foreign assets 2/	1037	1087	1156	1100	1135	1115	1171	1185	1210	1239	1282
in billions of euro	8.5	8.9	9.4	9.0	9.5	9.0	9.6	9.7	9.9	10.1	10.5
Foreign assets	1475	1480	1512	1451	1476	1468	1512	1519	1536	1556	1591
NBS	1208	1272	1271	1212	1241	1227	1273	1280	1297	1318	1353
Commercial banks	267	208	241	239	234	241	239	239	239	239	238
Foreign liabilities (-)	-438	-393	-356	-351	-340	-352	-341	-334	-325	-317	-309
NBS	-27	-8	-6	-5	-5	-5	-5	-5	-5	-5	-5
Commercial banks	-412	-385	-350	-345	-336	-347	-336	-329	-320	-312	-304
Net domestic assets	785	874	989	1,195	1,126	1,336	1,262	1,389	1,496	1,603	1,700
Domestic credit	2,005	2,164	2,321	2,558	2,420	2,723	2,579	2,713	2,845	2,978	3,102
Government, net	123	223	341	452	344	460	372	364	379	387	441
NBS	-256	-228	-210	-210	-229	-208	-231	-225	-214	-218	-217
Claims on government	1	1	4	3	1	3	1	1	1	1	1
Liabilities (deposits)	258	229	214	213	230	211	233	226	215	219	218
Banks	379	451	551	662	573	669	604	589	593	605	657
Claims on government	457	538	638	746	643	753	675	661	664	677	729
Liabilities (deposits)	78	87	87	84	71	85	72	72	72	72	71
Local governments, net	-8	-7	-20	-21	-22	-21	-22	-22	-22	-22	-22
Non-government sector	1,890	1,948	2,000	2,127	2,099	2,283	2,229	2,370	2,488	2,613	2,684
Households	725	760	840	935	923	1,003	1,005	1,079	1,132	1,189	1,221
Enterprises	1,140	1,162	1,127	1,162	1,142	1,247	1,188	1,253	1,316	1,382	1,419
Other	25	26	34	30	34	33	36	38	40	42	43
Other assets, net	-1,220	-1,291	-1,332	-1,363	-1,294	-1,387	-1,317	-1,324	-1,349	-1,375	-1,402
Capital accounts (-)	-927	-952	-1,016	-1,031	-972	-1,041	-981	-977	-991	-1,005	-1,019
NBS	-307	-341	-391	-385	-330	-385	-330	-330	-330	-330	-330
Banks	-620	-610	-625	-647	-642	-656	-651	-647	-661	-675	-689
Provisions (-)	-279	-317	-281	-293	-293	-304	-304	-314	-323	-333	-343
Other assets	-14	-23	-34	-39	-29	-42	-31	-33	-35	-38	-40
Broad money (M2)	1823	1955	2146	2295	2261	2452	2434	2574	2706	2842	2982
M1	402	470	566	632	625	700	691	750	803	861	922
Currency in circulation	130	140	159	174	167	192	185	201	215	230	247
Demand deposits	271	330	407	459	458	508	506	549	588	630	675
Time and saving deposits	173	192	195	223	218	247	241	261	280	300	321
Foreign currency deposits	1248	1292	1385	1439	1418	1504	1501	1563	1623	1682	1739
in billions of euro	10.3	10.6	11.2	11.7	11.8	12.2	12.3	12.8	13.3	13.8	14.3
Memorandum items:	(year-on-year change unless indicated otherwise)										
M1	9.7	17.0	20.3	11.8	10.5	10.7	10.6	8.5	7.1	7.1	7.1
M2	8.3	7.2	9.8	6.9	5.4	6.8	7.6	5.8	5.1	5.0	4.9
Velocity (Dinar part of money supply)	6.8	6.1	5.6	5.2	5.3	5.0	5.1	5.0	5.0	5.0	5.0
Velocity (M2)	2.1	2.1	2.0	1.9	2.0	1.9	2.0	2.0	2.0	2.0	2.1
Deposits at program exchange rate	3.8	7.2	8.5	7.3	7.4	6.2	6.0	5.6	5.0	5.0	4.9
Credit to non-gov. (current exchange rate)	3.2	1.2	2.8	2.9	1.3	4.1	3.7	3.7	2.8	3.3	1.5
Credit to non-gov. (program exchange rates) 3/	-1.5	1.0	1.7	3.4	3.5	3.7	2.2	3.7	2.9	3.5	1.7
Domestic	-1.1	2.8	1.8	6.8	6.9	7.0	4.9	6.4	5.1	5.1	2.9
Households	3.8	4.7	9.8	11.7	11.5	7.1	7.8	7.3	5.0	5.1	2.8
Enterprises and other sectors	-4.0	1.7	-3.3	3.2	3.5	7.0	2.6	5.6	5.1	5.2	2.9
External	-2.2	-2.4	1.6	-3.4	-3.2	-3.6	-3.7	-2.9	-2.7	-1.3	-2.0
Credit to non-gov. (real terms) 4/	1.4	-0.3	1.2	-0.7	-1.6	1.0	0.7	0.6	-0.2	0.3	-1.5
Domestic credit to non-gov. (real terms)	1.2	1.5	1.1	2.6	1.9	4.2	3.1	3.3	1.9	1.9	-0.3
Households	5.7	3.1	8.8	7.4	6.7	4.2	5.7	4.2	1.9	1.9	-0.3
Enterprises and other sectors	-1.5	0.4	-3.8	-0.5	-1.6	4.2	1.0	2.4	1.9	1.9	-0.3
External	1.8	-3.7	1.4	-7.4	-8.5	-6.0	-4.7	-5.7	-5.6	-4.3	-5.1
12-m change in NBS's NFA, billions of euros	-0.2	0.3	0.1	-0.3	0.0	0.0	0.0	-0.1	0.0	0.1	0.2
Deposit euroization (percent of total) 5/	73.8	71.2	69.7	67.9	67.7	66.6	66.8	65.9	65.2	64.4	63.6
Credit euroization (percent of total) 5/	67.6	70.6	68.3	67.5	66.2	66.5	65.2	64.2	63.2	62.2	61.2

Sources: National Bank of Serbia; and IMF staff estimates and projections.

1/ Foreign exchange denominated items are converted at current exchange rates.

2/ Excluding undivided assets and liabilities of the FSRY and liabilities to banks in liquidation.

3/ Using program dinar/euro and dinar/swiss franc exchange rates for converting FX and FX-indexed loans to dinars.

4/ Calculated as nominal credit at current exchange rates deflated by the change in the 12-month CPI index.

5/ Using current exchange rates.

Table 7b. Serbia: NBS Balance Sheet, 2014–22

	2014	2015	2016	2017		2018		2019	2020	2021	2022
			Act.	7th	Proj.	7th	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/										
Net foreign assets	1182	1265	1265	1206	1236	1222	1268	1275	1292	1313	1348
(In billions of euro)	9.7	10.4	10.3	9.8	10.3	9.9	10.4	10.4	10.5	10.7	11.1
Gross foreign reserves	1208	1272	1271	1212	1241	1227	1273	1280	1297	1318	1353
Gross reserve liabilities (-)	-27	-8	-6	-5	-5	-5	-5	-5	-5	-5	-5
Net domestic assets	-601	-647	-663	-668	-680	-639	-693	-660	-656	-640	-645
Net domestic credit	-294	-305	-272	-283	-350	-254	-363	-330	-326	-310	-315
Net credit to government	-256	-228	-210	-210	-229	-208	-231	-225	-214	-218	-217
Claims on government	1	1	4	3	1	3	1	1	1	1	1
Liabilities to government (-)	-258	-229	-214	-213	-230	-211	-233	-226	-215	-219	-218
Liabilities to government (-): local currency	-103	-125	-95	-95	-134	-95	-134	-134	-134	-134	-134
Liabilities to government (-): foreign currency	-154	-103	-119	-117	-97	-116	-99	-92	-81	-85	-84
Net credit to local governmens	-46	-61	-43	-45	-45	-45	-45	-45	-45	-45	-45
Net claims on banks	-7	-30	-33	-42	-89	-15	-99	-74	-80	-61	-66
Capital accounts (-)	-307	-341	-391	-385	-330	-385	-330	-330	-330	-330	-330
Reserve money	581	618	602	539	556	583	576	615	636	673	704
Currency in circulation	130	140	159	174	167	192	185	201	215	230	247
Commercial bank reserves	212	248	221	155	184	172	173	188	186	199	205
Required reserves	158	145	147	153	154	159	163	169	176	182	189
Excess reserves	54	103	73	3	30	12	11	19	10	17	17
FX deposits by banks, billions of euros	2.0	1.9	1.8	1.7	1.7	1.8	1.8	1.8	1.9	2.0	2.1

Sources: National Bank of Serbia; and IMF staff estimates and projections.
1/ Foreign exchange denominated items are converted at current exchange rates.

Table 8. Serbia: Banking Sector Financial Soundness Indicators, 2012–17

	2012	2013	2014	2015	2016	2017		
						Mar	Jun	Aug
Capital adequacy								
Regulatory capital to risk-weighted assets	19.9	20.9	20.0	20.9	21.8	22.3	22.4	22.4
Regulatory Tier 1 capital to risk-weighted assets	19.0	19.3	17.6	18.8	20.0	20.6	21.3	21.2
Nonperforming loans net of provisions to capital	31.0	32.7	31.0	25.9	17.6	17.1	15.2	14.3
Capital to assets	20.5	20.9	20.7	20.3	19.5	19.9	20.3	20.3
Large exposures to capital	61.9	52.8	72.1	68.2	86.0	85.1	167.4	167.5
Regulatory capital to total assets	12.2	12.2	11.4	11.9	12.7	13.2	13.5	13.3
Asset quality								
Nonperforming loans to total gross loans	18.6	21.4	21.5	21.6	17.0	16.8	15.6	14.7
Sectoral distribution of loans (percent of total loans)								
Deposit takers	0.3	0.3	0.8	0.1	0.5	0.1	0.4	0.4
Central bank	2.1	5.8	0.4	1.6	1.7	2.9	3.3	3.1
General government	3.0	2.3	2.3	1.7	1.5	1.5	1.5	1.4
Other financial corporations	1.6	1.6	0.5	0.7	0.9	0.7	1.0	1.0
Nonfinancial corporations	58.2	54.1	56.3	55.9	52.6	51.5	50.1	50.2
Agriculture	3.0	2.7	3.5	3.7	3.6	3.5	3.4	3.2
Industry	17.9	18.4	19.2	18.4	16.5	16.1	15.7	15.9
Construction	5.8	4.6	4.2	3.8	4.1	4.0	4.0	3.9
Trade	15.0	13.5	13.9	13.9	14.3	14.3	13.8	14.1
Other loans to nonfinancial corporations	16.5	14.9	15.6	16.2	14.1	13.6	13.3	13.2
Households and NPISH	33.0	34.8	38.3	39.1	41.5	41.9	42.3	42.5
Households and NPISH of which: mortgage loans to total loans	16.1	16.8	18.0	18.1	17.9	17.8	17.3	16.9
Foreign sector	1.9	1.1	1.4	0.9	1.4	1.3	1.5	1.3
Specific provision for NPLs to gross NPLs	50.0	50.9	54.9	62.3	67.8	68.1	68.9	68.8
Specific and general provisions for NPLs to gross NPLs	111.1	105.5	107.6	106.4	108.5	108.6	108.9	113.3
Specific and general provisions for balance sheet losses to NPLs	120.7	113.8	114.5	114.2	118.9	118.6	120.2	125.0
Specific and general provisions to NPLs	126.5	117.9	118.4	118.2	123.2	122.9	124.4	129.5
Specific provision of total loans to total gross loans	10.2	11.9	12.7	14.4	12.4	12.3	11.6	10.9
Earnings and Profitability								
Return on assets	0.4	-0.1	0.1	0.3	0.7	2.3	2.1	2.3
Return on equity	2.0	-0.4	0.6	1.5	3.3	11.4	10.6	11.3
Liquidity								
Customer deposits to total (noninterbank) loans	93.2	103.4	108.1	114.4	121.9	119.9	118.0	116.6
Foreign-currency-denominated loans to total loans	74.1	71.6	70.1	72.3	69.4	67.8	66.7	66.6
Average monthy liquidity ratio	2.1	2.4	2.2	2.1	2.1	2.2	2.2	2.2
Average monthy narrow liquidity ratio	1.6	1.8	1.7	1.7	1.7	1.8	1.8	1.9
Sensitivity to Market Risk								
Foreign-currency-denominated liabilities to total liabilities	80.1	76.7	74.7	72.7	71.1	71.7	71.2	70.9
Total off-balance sheet items to total assets	103.5	111.0	207.3	234.1	219.9	220.4	220.6	217.3
Classified off-balance sheet items to classified balance sheet assets	26.1	28.7	27.6	30.6	32.4	33.2	34.5	34.6

Source: National Bank of Serbia.

Table 9. Serbia: Proposed Schedule of Purchases under the Stand-By Arrangement

	Available on or after	Amount of Purchase			Cumulative	Conditions
		In millions of SDR	In millions of euros 1/	In percent of quota 2/	In percent of quota 2/	
1	2/23/2015	187.080	233.4	40	40	Board approval of arrangement.
2	6/7/2015	116.925	147.9	25	65	Observance of continuous and end-March 2015 performance criteria, and completion of the review.
3	9/7/2015	116.925	147.4	25	90	Observance of continuous and end-June 2015 performance criteria, and completion of the review.
4	12/7/2015	70.155	89.1	15	105	Observance of continuous and end-September 2015 performance criteria, and completion of the review.
5	3/7/2016	70.155	88.4	11	116	Observance of continuous and end-December 2015 performance criteria, and completion of the review.
6	6/7/2016	46.770	58.4	7	123	Observance of continuous and end-March and end-June 2016 performance criteria, and completion of the review.
7	12/7/2016	54.565	69.1	8	131	Observance of continuous and end-September 2016 performance criteria, and completion of the review.
8	3/7/2017	54.565	69.3	8	140	Observance of continuous and end-December 2016 performance criteria.
9	6/7/2017	54.565	68.1	8	148	Observance of continuous and end-March 2017 performance criteria, and completion of the review.
10	9/7/2017	54.565	65.6	8	156	Observance of continuous and end-June 2017 performance criteria.
11	12/7/2017	54.565	65.3	8	165	Observance of continuous and end-September 2017 performance criteria, and completion of the review.
12	2/15/2018	54.565	65.4	8	173	Observance of continuous and end-December 2017 performance criteria.
	Total	935.400	1,167.4	173	173	

Source: FIN, WEO.

1/ At projected WEO exchange rates.

2/ Serbia's current quota is SDR 654.8 million.

Table 10. Serbia: Balance of Payments (Precautionary SBA Shock Scenario), 2013–22 1/

	2013	2014	2015	2016	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
				(Billions of euros)						
Current account balance	-2.1	-2.0	-1.6	-1.1	-2.7	-2.5	-2.4	-2.2	-2.1	-1.9
Trade of goods balance	-4.2	-4.1	-4.0	-3.1	-4.6	-4.5	-4.4	-4.5	-4.5	-4.6
Exports of goods	10.5	10.6	11.4	12.8	13.4	14.9	16.7	18.5	20.5	22.8
Imports of goods	-14.7	-14.8	-15.4	-15.9	-17.9	-19.4	-21.1	-23.0	-25.1	-27.4
Services balance	0.3	0.5	0.7	0.9	0.8	1.0	1.2	1.3	1.4	1.6
Exports of nonfactor services	3.4	3.8	4.3	4.6	5.0	5.4	5.9	6.5	7.1	7.8
Imports of nonfactor services	-3.1	-3.3	-3.5	-3.7	-4.2	-4.3	-4.7	-5.1	-5.6	-6.2
Income balance	-1.4	-1.3	-1.7	-2.0	-2.2	-2.3	-2.4	-2.5	-2.7	-2.9
Net interest	-0.9	-0.9	-1.0	-1.0	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2
Others, including reinvested earnings	-0.5	-0.5	-0.7	-1.0	-1.3	-1.3	-1.4	-1.5	-1.6	-1.7
Current transfer balance	3.2	3.0	3.3	3.2	3.3	3.3	3.3	3.5	3.7	4.0
Official grants	0.0	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Others, including private remittances	3.1	2.9	3.2	3.1	3.2	3.3	3.3	3.5	3.7	4.0
Capital and financial account balance 1/	3.3	0.5	1.5	0.2	1.5	0.9	1.7	1.9	2.0	2.3
Capital transfer balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	1.2	1.2	1.8	1.9	2.1	2.0	2.1	2.2	2.4	2.5
Portfolio investment balance	1.9	0.4	-0.3	-0.9	-0.5	-0.2	0.8	0.5	0.5	0.2
of which: debt liabilities	2.0	0.4	-0.2	-0.9	-0.5	-0.2	0.8	0.5	0.5	0.2
Other investment balance	0.1	-1.1	0.0	-0.7	-0.2	-0.8	-1.1	-0.8	-0.8	-0.5
Public sector 1/ 2/	0.4	0.7	0.5	0.3	0.5	-0.1	-0.8	-0.5	-0.7	-0.3
Domestic banks	-0.5	-1.5	-0.1	-0.5	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Other private sector 3/	0.1	-0.4	-0.4	-0.5	-0.5	-0.5	-0.2	-0.2	-0.1	-0.1
Errors and omissions	0.2	0.3	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.3	-1.2	0.3	-0.3	-1.2	-1.5	-0.6	-0.4	-0.1	0.3
Financing	-1.3	1.2	-0.3	0.3	1.2	1.5	0.6	0.4	0.1	-0.3
Gross international reserves (increase, -)	-0.7	1.8	-0.2	0.3	0.1	1.5	0.6	0.4	0.6	0.2
Use of Fund credit, net	-0.6	-0.6	-0.1	0.0	1.1	0.1	0.0	0.0	-0.6	-0.6
Purchases	0.0	0.0	0.0	0.0	1.1	0.1	0.0	0.0	0.0	0.0
Repurchases	-0.6	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	-0.6	-0.6
				(Percent of GDP)						
Current account balance	-6.1	-6.0	-4.7	-3.1	-7.2	-6.4	-5.8	-5.0	-4.4	-3.8
Trade of goods balance	-12.1	-12.3	-11.9	-9.0	-12.4	-11.5	-10.8	-10.2	-9.6	-9.1
Exports of goods	30.8	31.9	33.9	37.0	36.3	38.2	40.4	41.8	43.3	44.8
Imports of goods	-42.9	-44.3	-45.8	-46.0	-48.8	-49.6	-51.1	-52.0	-52.8	-53.8
Services balance	0.9	1.4	2.2	2.6	2.3	2.6	2.9	3.0	3.1	3.1
Income balance	-4.1	-4.0	-5.0	-5.8	-6.0	-5.9	-5.8	-5.8	-5.8	-5.8
Current transfer balance	9.2	9.0	10.0	9.1	9.0	8.4	7.9	7.9	7.9	7.9
Official grants	0.1	0.3	0.5	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Others, including private remittances	9.1	8.7	9.5	8.9	8.8	8.3	7.9	7.9	7.9	7.9
Capital and financial account balance 1/	9.5	1.4	4.5	0.7	4.0	2.4	4.2	4.2	4.2	4.4
Capital transfers balance	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	3.6	3.7	5.4	5.5	5.8	5.2	5.0	5.0	5.0	5.0
Portfolio investment balance	5.6	1.1	-0.9	-2.6	-1.3	-0.6	1.8	1.0	1.0	0.4
Other investment balance	0.3	-3.4	0.0	-2.1	-0.5	-2.1	-2.6	-1.8	-1.8	-1.0
Public sector 1/ 2/	1.2	2.2	1.4	0.9	1.2	-0.3	-2.0	-1.2	-1.5	-0.6
Domestic banks	-1.3	-4.5	-0.2	-1.4	-0.4	-0.5	-0.1	-0.2	-0.1	-0.1
Other private sector 3/	0.4	-1.1	-1.2	-1.5	-1.3	-1.3	-0.5	-0.5	-0.2	-0.3
Errors and omissions	0.5	0.8	1.2	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.9	-3.7	0.9	-0.8	-3.2	-3.9	-1.6	-0.8	-0.2	0.6
Memorandum items:			(percent change unless indicated otherwise)							
Export growth	25.6	1.0	6.7	12.8	4.3	11.6	11.8	10.9	11.0	11.0
Import growth	4.7	0.4	4.1	3.8	12.6	8.1	8.9	8.8	9.0	9.4
Export volume growth	21.9	1.7	8.7	13.7	3.2	11.1	10.0	9.4	9.3	9.1
Import volume growth	2.7	1.9	8.8	6.0	8.4	7.7	7.2	7.0	6.9	7.0
Trading partner import growth	1.8	4.7	4.0	5.3	6.3	5.1	4.4	4.4	4.4	4.4
Export prices growth	3.0	-0.7	-1.9	-0.8	1.1	0.5	1.6	1.3	1.6	1.8
Import prices growth	2.0	-1.5	-4.3	-2.1	3.9	0.3	1.5	1.7	2.0	2.2
Change in terms of trade	1.0	0.8	2.6	1.3	-2.7	0.1	0.1	-0.3	-0.4	-0.4
Gross official reserves (in billions of euro)	11.2	9.9	10.4	10.2	10.1	8.7	8.0	7.7	7.0	6.8
(In months of prospective imports of GNFS)	7.4	6.3	6.4	5.5	5.1	4.0	3.4	3.0	2.5	2.4
(in percent of short-term debt)	278.8	427.0	333.7	251.7	280.5	259.1	170.4	162.6	149.0	143.7
(in percent of broad money, M2)	76.2	65.8	64.6	58.7	53.9	43.6	38.0	33.8	28.9	25.9
(in percent of IMF risk-weighted metric)	189.6	171.4	170.9	161.9	159.5	135.2	119.1	110.7	101.6	95.5
GDP (billions of euros)	34.3	33.3	33.5	34.6	36.8	39.1	41.3	44.2	47.4	50.9

Sources: NBS; and IMF staff estimates and projections.

1/ Excluding net use of IMF resources.
2/ Includes SDR allocations in 2009.
3/ Includes trade credits (net).

Table 11. Serbia: Indicators of Capacity to Repay the Fund, 2013–22 1/ 2/

	2013	2014	2015	2016	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Fund repurchases and charges										
In millions of SDRs	579	502	117	12	6	17	19	19	477	476
In millions of euro	663	574	147	15	7	21	22	22	570	571
In percent of exports of goods and NFS	4.7	4.0	0.9	0.1	0.0	0.1	0.1	0.1	2.1	1.9
In percent of GDP	1.9	1.7	0.4	0.0	0.0	0.1	0.1	0.1	1.2	1.1
In percent of quota	123.8	107.2	25.0	1.8	0.9	2.6	2.8	2.8	72.9	72.8
In percent of total external debt service	10.9	11.9	4.5	0.4	0.1	0.4	0.5	0.4	9.2	11.0
In percent of gross international reserves	5.9	5.8	1.4	0.1	0.1	0.2	0.3	0.3	8.1	8.4
Fund credit outstanding (end-period)										
In millions of SDRs	624	128	12	0	881	935	935	935	475	7
In millions of euro	701	151	15	0	1055	1118	1116	1117	568	8
In percent of exports of goods and NFS	5.0	1.0	0.1	0.0	5.7	5.5	4.9	4.5	2.1	0.0
In percent of GDP	2.0	0.5	0.0	0.0	2.9	2.9	2.7	2.5	1.2	0.0
In percent of quota	133.4	27.2	2.5	0	135	143	143	143	72	1
In percent of total external debt	2.6	0.5	0.1	0.0	3.7	4.1	4.1	4.2	2.2	0.0
In percent of gross international reserves	6.3	1.5	0.1	0.0	10.4	12.9	13.9	14.6	8.1	0.1
Memorandum items:				(millions of Euro, unless otherwise indicated)						
Exports of goods and NFS	13,963	14,451	15,631	17,385	18,362	20,286	22,590	24,954	27,611	30,552
Quota (in millions of SDRs)	468	468	468	655	655	655	655	655	655	655
GDP	34,277	33,335	33,484	34,620	36,794	39,078	41,270	44,218	47,419	50,891
Total external debt service	6,057	4,840	3,242	4,059	4,989	4,608	4,368	5,775	6,180	5,187
Public sector external debt	14,633	16,151	17,183	16,986	18,074	17,795	17,739	17,663	16,890	16,245
Total external debt	27,231	27,694	28,119	27,893	28,347	27,346	27,019	26,670	25,746	24,892
Total external debt stock excluding IMF	26,534	27,543	28,104	27,893	27,245	26,178	25,851	25,502	24,028	22,613
Gross international reserves	11,189	9,907	10,377	10,205	10,142	8,668	8,023	7,656	7,016	6,767

Source: Fund staff estimates.

1/ Based on the assumption of full drawing under the Precautionary SBA shock scenario.

2/ Serbia chose to be grandfathered for the calculation of commitment fees and surcharges, therefore, Serbia's old quota of SDR 467.7 million is used for the purpose of calculating surcharges in this table. It does not make a difference if the current quota were used, with surcharges being zero under both old and current quotas. Serbia's current quota is SDR 654.8 million.

Appendix I. Letter of Intent

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Belgrade, December 5, 2017

Dear Ms. Lagarde:

Our economic program, supported by the Stand-By Arrangement (SBA) approved by the IMF Executive Board on February 23, 2015, has been instrumental in reducing Serbia's long-standing internal and external economic imbalances. The attached Memorandum of Economic and Financial Policies (MEFP) describes progress made so far and sets out the economic policies that the Government of the Republic of Serbia and the National Bank of Serbia (NBS) intend to implement under the SBA. Our program continues to be fully supported by all coalition partners in the government, indicating strong commitment to and ownership of envisaged policies.

Quantitative program conditionality has been fully met, except for a minor deviation on accumulation of domestic payment arrears, and progress has been made on structural benchmarks. The end-September PCs on NIR, the fiscal deficit, and current primary spending have all been met, by considerable margins. Inflation has remained within the NBS target band and within the inner limit of the program inflation consultation clause. As prior actions for the review, we will (i) adopt the 2018 budget consistent with program objectives, (ii) approve secondary legislation for local government and public services needed to support the implementation of the Law on Public Sector Employees Wage System; (iii) launch the privatization tender for MSK; and (iv) adopt the amendments of the corporate insolvency law.

Structural reforms are critical for achieving program objectives. In this context, the policies through the remainder of our program will continue to focus on consolidating fiscal gains and reducing public debt, strengthening financial sector resilience, and implementing broad-based structural reforms.

Given Serbia's comfortable international reserve position and continued access to external financing, we intend to treat the arrangement as precautionary. Therefore, we would not make the purchases when they become available. The implementation of our program will continue to be monitored through quantitative performance criteria, indicative targets, structural benchmarks, and an inflation consultation clause, as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

We believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our economic program, and we will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. And we will provide all information requested by the Fund to assess implementation of the program.

We wish to make this letter available to the public, along with the attached MEFP and TMU, as well as the IMF staff report on the eighth review of the SBA. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official website of the Serbian government.

Sincerely,

/s/
Ana Brnabić
Prime Minister

/s/	/s/
Jorgovanka Tabaković	Dušan Vujović
Governor of the National Bank of Serbia	Minister of Finance

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

1. **This memorandum sets out our economic program for the remainder of the SBA.** The program aims to maintain a foundation for healthy economic growth by addressing Serbia's short-term and medium-term economic challenges. To this end, the program focuses on policies to ensure macroeconomic stability, most notably by maintaining fiscal sustainability, bolster resilience of the financial sector, and improve competitiveness of the economy.

2. **Significant progress has been made since the economic program started.** Bold fiscal consolidation, which started in late 2014, has taken place, reforms in the financial sector have progressed well, and restructuring of the state-owned enterprises is yielding positive impacts on their efficiency and financial discipline.

3. **The goals of the economic program are compatible with our aspirations to become an EU member, having started the accession process in January 2014.** Implementing this program will allow Serbia to realize the significant potential for convergence towards EU income levels.

Recent Economic Developments and Outlook

4. **Serbia's economic recovery continues**. Notwithstanding some temporary supply shocks, broad economic activity remains robust, supported by continued recovery of private consumption, robust export growth, and strong FDI. The labor market continues to strengthen, with employment rising and unemployment falling. Headline CPI inflation has remained close to the center of the inflation target range (2.8 percent, yoy, in October), while core inflation remains subdued (1.4 percent, yoy, in October). The external current account deficit has temporarily widened but remains fully covered by foreign direct investment. Yields on government securities and bank lending rates have declined markedly since the start of the NBS easing cycle.

5. **We expect the consistent implementation of the policy actions and reforms envisaged under our economic program to maintain the virtuous cycle of boosting confidence, improving private sector dynamism, and fostering economic growth**.

- **Real GDP** is expected to expand at 2 percent in 2017 and 3.5 percent in 2018, and to gradually rise to 4 percent over the medium term, on account of improved market confidence, stronger private sector employment and real wages and credit growth, robust export growth, and the positive effects of structural reforms.

- **Annual headline CPI inflation** is projected to average 3.1 percent in 2017 and to remain at around 3 percent over the medium term.

- **The current account deficit** is expected to temporarily widen to about 4.6 percent of GDP in 2017 due to the effects of the drought and electricity production disruptions in the first half of the year. The deficit is expected to return to about 4 percent in 2018 and over the medium term, as strong exports offset increased consumption and investment. External financing will continue to rely mostly on FDI as well as on bilateral and project loans.

6. **The program scenario faces domestic and external risks.** Serbia remains exposed to external risks, including regional spillovers and renewed episodes of global market volatility. Delays in implementing structural reforms, particularly in the area of SOE restructuring, could compromise sustainability of the fiscal adjustment. This, in turn, could slow down the reduction of public debt and deteriorate growth prospects.

Economic Policies

A. Fiscal Policies

7. **We are committed to preserve the hard-won fiscal gains to keep public debt-to-GDP ratio firmly on a downward path.** The estimated structural fiscal adjustment in 2015–2017 amounts to almost 6 percent of GDP, exceeding the program target of 4 percent of GDP. This sizeable adjustment has been driven by stronger revenues and tight control of current spending.

8. **Strong fiscal performance continued in the first nine months of 2017.** The general government recorded a surplus of RSD 82 billion in the first three quarters, compared to the adjusted program target of a surplus of RSD 13.8 billion. These good results are largely due to strong revenue, temporary under-execution of capital expenditure, and lower interest rate bill. The public debt-to-GDP ratio fell to 65.4 percent at end-September and is expected to be about 67 percent by end-2017, more than 10 percent of GDP below the 2015 peak.

9. **Fiscal results in 2017 have significantly over-performed program targets allowing for one-off expenditures while remaining under the expenditure ceiling.** The general government balance for this year is projected at a surplus of 0.2 percent of GDP, compared to the original budget target of 1.7 percent of GDP deficit. Part of the fiscal space created by strong fiscal overperformance will be used to grant a one-off pension bonus of RSD 5,000 to all pensioners (amounting to about RSD 8.9 billion) and a small and targeted wage bonus (RSD 4.7 billion in gross terms).

10. **For 2018, our primary focus is to preserve hard-won fiscal achievements, while using part of the overperformance for reducing the tax burden on labor and some wage and pension increases**. We aim at an overall fiscal deficit of 0.7 percent of GDP in 2018, significantly below original program projections, and a level consistent with fiscal sustainability and continued public debt reduction. As a **prior action**, we will adopt the 2018 budget consistent with program fiscal parameters.

- We will increase the non-taxable income threshold under the PIT from RSD 11,790 to RSD 15,000 per month.

- We will significantly increase capital spending, including by accelerating planned investments on the highway corridor 11, railway line Belgrade-Budapest, highway Belgrade bypass, reconstruction of Nis-Dimitrovgrad railway line, and improvements in water and drainage systems.

- We are committed to contain the general government wage bill at 8.3 percent of GDP, unchanged from the 2017 level, and reduce the pension bill to 11.1 percent of GDP from 11.3 percent of GDP in 2017. We will keep the wage freeze in public enterprises and SOEs in 2018.

- We have allocated a contingency of RSD 1 billion to support the resolution of SOEs.

11. We will aim to further reduce fiscal risks and will prepare contingency measures as needed. In this regard, we will not rely on short-term external debt financing (quantitative performance criterion) and we will maintain an adequate level of fiscal buffers. We will not accumulate public sector external debt payment arrears (continuous performance criterion). We will also refrain from accumulating domestic payment arrears (indicative target). Our efforts to reduce public spending will continue being monitored through a ceiling on the current primary expenditure, excluding capital spending and interest payments, of the Serbian Republican budget (quantitative performance criterion).

B. Structural Fiscal Policies

12. We are progressing with reforms of the general government employment and wage system.

- As of end-September 2017, public sector permanent employment (including local public utilities) had been reduced by about 28,500 employees compared to the end-2014 level, mostly through attrition. To support these efforts and provide guidance for further rightsizing efforts, in June we adopted the 2017 Decision of the Maximum Number of Employees in the Public Sector under the Law on Ceilings on the Number of Employees setting detailed limits on positions for each institution of the general government (excluding professional soldiers) and local utility companies. We will continue to apply an employment freeze in 2018, with exceptions managed through the Employment Commission, taking into account individual institutions' employment ceilings, budgetary envelopes, and specialist staffing needs. Going forward, rightsizing efforts will be guided by detailed systemization plans and availability of fiscal space at the institutional level.

- In the education sector, we will implement an administrative restructuring for the 2018-19 school year, based on class-size criteria being developed in conjunction with the World Bank. We have also closed intake or merged 166 out of 425 TVET profiles.

- Since January 2016, for the entities subject to the Law on Ceilings, the renewal of the fixed or temporary contracts will be permitted only if entities are complying with the ceilings stated by the Law and if the share of temporary employees is below 10 percent of the number of permanent employees or in the exceptional cases defined in the Law.

- To support implementation of the Law on Public Sector Employees Wage System, the government adopted a new job catalog in July and parliament will approve the necessary secondary legislation for local governments and public services (health, education, culture, and social protection) (**prior action**). The decree specifying the coefficients under the new wage system will be adopted by March 2018. Secondary legislation for all other sectors (including police and armed forces) will be adopted in 2018.

13. To safeguard fiscal consolidation, limit risks, and strengthen institutions:

- We will review and clearly define the coverage of general government to be compatible with European System of Accounts (ESA) 2010 and GFSM 2014 by 2018. As in 2016-17, we will submit financial plans of social security funds with estimates for their indirect beneficiaries to the National Assembly, in parallel with Republican budget. We will include all indirect budget beneficiaries of the central government in the Financial Management Information System (FMIS) gradually by end-2019. Throughout 2017, we have continued to work to upgrade the budget execution system to be able to support the integration of new users. We will include prisons and cultural institutions in FMIS starting January 1, 2018. In 2019, social protection institutions will be integrated, having in mind that they are the most numerous and diverse and will continue to upgrade their capacities over the period 2018-2019.

- We have introduced new regulations and guidelines to improve public investment management. In particular, in June we adopted a decree aimed at strengthening the project appraisal process, to establish a unique project pipeline and clearly define its links with multi-annual planning and annual budget procedures. We will continue to seek ways to accelerate implementation of public investment and to strengthen public investment management frameworks.

- We are committed to ensure that a full assessment of all proposed Public-Private Partnerships (PPPs) is reviewed by the Ministry of Finance (MOF), including PPPs' key financing features, cost-benefit analysis, and risk sharing arrangements with the government. In this regard, we set up a special fiscal risks management unit at the MOF and included a fiscal risk statement on all PPPs in the Medium-Term Fiscal Strategy from the 2017 budget. Furthermore, to improve control of fiscal implications and risks, we amended the existing Law on Public-Private Partnership and Concessions mandating that PPPs larger than EUR 50 million are submitted to the government for consideration only after receiving the MOF's consent. By end-March 2018 we will adopt additional amendments to the Law aimed at limiting overall fiscal exposure, ensuring a competitive tender process.

14. To secure savings from the corporate and financial restructuring of public enterprises and SOEs, we are introducing a set of public financial management changes.

- To enhance the payment discipline between public sector entities, we have developed a new system for invoice registration covering the public sector based on a unique invoice code that would be required at the time of invoicing, and plan to start implementation in 2018. To stop accumulation of arrears, we have been publishing monthly reporting of overdue receivables to Srbijagas and EPS of their top 20 debtors on the companies' web pages.

- We have been strictly limiting issuance of state guarantees since January 1, 2015. In this regard, we will not issue any new state guarantees for liquidity support, or state guarantees for any company in the portfolio of the former Privatization Agency (continuous performance criterion). The Government will continue to refrain from issuing any implicit state guarantees.

- The diagnostic analysis of the Development Fund (DF) and the export promotion agency (AOFI) by an independent consultant has been completed. Based on this study, in December, (i) supervisory boards of these institutions adopted Decisions recognizing losses on the credit portfolio, and (ii) the government adopted a conclusion to restrict exposures of these institutions to SOEs, implement measures aimed at enhancing risk management frameworks and preventing further deterioration in asset quality, and establish timeline to resolve impaired assets **(end-October structural benchmark)**. In 2018, we will identify needs and options for development finance activities.

15. To raise the efficiency of revenue collection, we are committed to improve tax administration. This work continues to be based on recommendations of IMF technical assistance and the Tax Administration Diagnostic Assessment Tool review. Our priorities are to (i) strengthen the Tax Administration's governance, (ii) streamline organizational structures of headquarters and field offices, (iii) reduce non-core activities, (iv) phase in a modern compliance risk management approach, (v) strengthen arrears management, including write-off procedures, (vi) modernize information technology systems and business processes, and (vii) improve coordination and information exchange with other government agencies.

- We have adopted in December a government decision updating our Transformation Program and identified non-core activities to be transferred or separately managed within the STA with deadlines to complete the moves (**end-October structural benchmark**). The aim is that by June 2019 all remaining non-core STA activities will be managed separately, while core STA tasks are consolidated into no more than 36 offices.

- Parliament will adopt by December 15th amendments to the law on financial support to families with children (effective January 1, 2018) to increase parental allowances, while eliminating VAT refunds for baby items, with a view to provide benefits earlier and reduce the tax administration burden.

C. Monetary and Exchange Rate Policies

16. We see the current inflation targeting framework as the most viable option for maintaining stable inflation and protecting the economy against external shocks. In November 2016, we lowered the inflation target from 4±1½ percent to 3±1½ percent for 2017-18, which we consider better aligned with improved macroeconomic fundamentals and our medium-term objectives. We remain committed to the objective of keeping inflation within the inflation tolerance band and inflation developments will continue to be monitored via a consultation clause with consultation bands set around the central projection (Table 1). Since the inception of the program in early 2015, on the back of the reduction of macroeconomic imbalances, we reduced the key policy rate by 400 basis points by mid-2016, to 4 percent, to support returning of headline inflation into the tolerance band. In September and October 2017, we reduced the key policy rate 2 times (by 50 basis points in total) to 3.5 percent, taking into account the inflation outlook and external environment.

17. We will maintain the existing managed float exchange rate regime in line with the inflation targeting framework. We believe that exchange rate flexibility provides a needed buffer against external shocks. In light of this, foreign exchange interventions will continue to be used to smooth excessive short-term exchange rate volatility without targeting a specific level or path for the exchange rate, while considering the implications for financial sector and price stability. The current level of gross international reserves is well above the level that could be considered as necessary for precautionary purposes. We will maintain adequate coverage throughout the program, monitored by a floor on net international reserves (quantitative performance criterion).

18. We will continue to implement our dinarization strategy. This strategy is based on three pillars: (i) maintaining overall macroeconomic stability; (ii) creating favorable conditions for developing the dinar bond market; and (iii) promoting hedging instruments. We will continue to use our monetary policy and prudential framework to support the dinar instruments, and we will further communicate the importance of the dinarization for overall financial stability. Macroeconomic imbalances have been reduced significantly and inflation has remained low and stable on the back of an inflation targeting regime with a relatively stable exchange rate, coupled with fiscal discipline, which should all support dinarization. In the last few years, we have also introduced several measures to increase dinarization, such as higher reserve requirements on and lower remuneration of FX deposits, requirement of partial dinar allocation for reserve requirements on FX deposits, and mandatory down-payment ratios for FX loans. Meanwhile, we have increased the share of public debt in domestic currency, issuing dinar securities at longer maturities. By September 2017, dinarization of deposits has increased to 30 percent, while dinarization has also increased for household lending, exceeding 50 percent. We have started to implement the recommendation of the recent IMF technical assistance mission to improve our communication framework by enriching the quarterly dinarization report and by publishing on the NBS website more detailed information related to our FX swap auctions.

19. To reduce risks to macroeconomic stability, we will continue capital account liberalization in a gradual way. Many of the capital account transactions, such as FDI and long-term flows, have already been liberalized, with the remaining restrictions related mainly to short-term capital and deposit flows. Taking into account the EU accession process, the liberalization of short-term borrowing and portfolio investment will be at first achieved in relation to EU countries. In this regard, amendments to the Law on Foreign Exchange Operations have been prepared and sent for review to the relevant institutions. Full liberalization of short-term capital and deposit flows will be achieved by the date of EU accession.

20. During the period of the SBA we will not, without IMF approval, impose or intensify restrictions on the making of payments and transfers for current international transactions, nor introduce or modify any multiple currency practices or conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement. Moreover, we will not impose or intensify import restrictions for balance of payments reasons.

D. Financial Sector Policies

21. Our policies will support financial sector stability and enhance the financial sector's ability to cope with shocks, while improving financial intermediation. Priority will be given to: (i) further reducing nonperforming loans (NPLs); (ii) assessing asset quality and provisioning practices; (iii) further strengthening the supervisory and regulatory framework in line with EU standards; (iv) operationalizing the new bank resolution framework; and (v) fully implementing the strategy for state-owned banks.

22. The implementation of the NPL resolution strategy is yielding positive results, with NPL ratios falling by 11 percentage points since the 2015 peak. This reflects the progress made in the implementation of the NPL resolution strategy, in addition to various regulatory initiatives since 2016 (including the recent NBS decision on accounting write-off of bank balance sheet assets with low collectability). In addition:

- The Law on Real Estate Appraisers was adopted by the National Assembly in December 2016 and national valuation standards were adopted in July 2017. Further amendments to the regime that regulates the profession of court-sworn experts, to be implemented during 2018, will ensure that the technical standards and rules for professional conduct envisaged under the Real Estate Appraiser Law will also be applied to real estate appraisals prepared in the context of enforcement procedures under the Law on Enforcement and Security.
- In December, parliament will adopt the amendments of the corporate insolvency law (**prior action**).
- To resolve legal ambiguity related to the transfer of the seller's rights to the buyer in the context of distressed assets' sales, in December parliament will adopt an authentic interpretation of article 48 of the Law on Enforcement and Security.

- In December, parliament will amend the personal and corporate income tax laws to clarify tax treatment of loan write-offs.

- The prudential framework for non-deposit taking financial institutions that is currently under consideration could also enable the sale of nonperforming retail receivables to regulated investors outside the banking sector.

23. Banks have continued to improve their reporting framework. The NBS is working with banks and their external auditors to prepare for implementation of IFRS9 starting January 1, 2018, and discussing the implications for banks' financial positions and systems.

24. We continue to strengthen financial sector supervision. Implementation of Basel III-compliant regulatory standards on capital, liquidity, and risk management, as well as updated standards on disclosure and regulatory reporting, has become effective as of end-June 2017. Minimum capital requirements have been reduced from 12 percent to 8 percent, while additional capital buffers have been introduced—in line with the EU's Capital Requirement Directive. The required reserves for estimated loan losses will remain in force until 2019, but recent amendments allow banks to reduce the required reserve in accordance with improvements of their NPL ratios. Multi-year action plans for strengthening the NBS' prudential oversight over the insurance and banking sectors are being implemented, which include the introduction of a more risk-sensitive supervisory cycle for banks. The review of banks' recovery plans will provide the NBS with further insights in the critical functions and intra-group linkages of banks, as well as banks' preparedness to dealing with sudden shocks.

25. The NBS continues to enhance its macroprudential policy framework. Regulatory amendments for the introduction of new macroprudential instruments have been developed and adopted as part of the implementation of Basel III. The NBS has enhanced its framework for implementation of its macroprudential instruments, in line with recommendations of with IMF technical assistance. Specifically, in June 2017 the NBS has adopted (i) the Decision establishing countercyclical capital buffers (currently set at 0 percent); (ii) the Decision prescribing a systemic risk buffer rate of 3 percent on FX and FX-linked lending to corporates and households in the Republic of Serbia to be applied to banks based on their contributions to risks related to euroization; and (iii) the Decision determining the list of systemically important banks and their required capital buffers of 1 or 2 percent.

26. The NBS continues to strengthen its bank resolution capabilities. Significant progress has been made to develop the methodology to assess critical functions and the criteria to determine the options for bank resolution strategies. We are updating the resolution plans of banks and banking groups with a view to complete the process for domestic systemically important banks by February 2018.

27. Reforms of state-owned financial institutions are progressing. We are strengthening our oversight over financial institutions with state-ownership. In November, external consultants completed and the board of directors adopted the report to support the implementation of the new strategy for Banka Postanska Stedionica, with a particular focus on (i) the bank's commercial reorientation towards retail banking, entrepreneurs, micro-enterprises and small enterprises, (ii) improvements of the bank's internal organization, corporate governance and risk management, (iii) enhancement of its IT infrastructure, and (iv) preparation of a business plan for the period 2018-20. By end-December, the bank will make the needed preparations (including budget allocation and contracting new consultants) to start implementing the report's findings and recommendations in the first quarter of 2018. In early August, the government updated the 2014 strategy for state-owned banks, with the aim to identify strategic options for the smaller banks. In December, the government plans to adopt a decision to initiate privatization of Komercijalna Bank, with a view to complete the process by December 2018, subject to market conditions.

28. We will continue to support credit to SMEs. Given the importance of SMEs for Serbia's economy and the limited access to financing by this sector, we have been supporting lending to SMEs through EIB's credit lines ("Apex loans"), and we have established an NBS working group to consider the introduction of the framework for functioning of non-deposit financial institutions.

29. We have established a working group on capital market development. We will prepare a diagnostic report, in consultation with the World Bank, with a view to inform the government's strategy to enhance capital markets.

E. Structural Policies

30. We continue implementing a number of comprehensive structural reforms to attract investment, support growth, and rebalance the economy on its path towards EU integration. We will continue to focus on policies that (i) promote job creation, (ii) reform state and socially-owned enterprises, and (iii) improve the overall business environment and private investment climate.

31. We are improving our social protection programs. We are preparing a new Law of Social Protection which will replace the existing legislation that governs the eligibility and conditions to receive social assistance, with the aim to improve the effectiveness and targeting of the cash welfare allowances.

32. We continue implementing wide-ranging reforms of socially-owned and state-owned enterprises to improve their operational viability and limit fiscal risks. Our priority is to significantly reduce fiscal costs of SOEs through (i) curtailing direct or indirect subsidies, (ii) strictly limiting issuance of new guarantees, and (iii) enhancing accountability, transparency and monitoring of these enterprises. To this end, we are implementing strategies for three broad categories of state-owned companies:

- Large public enterprises, such as electricity, gas, railways, and road companies (see below). These reforms are supported by the World Bank and EBRD.

- 17 strategic companies in the portfolio of the former Privatization Agency. We have fully resolved 10 companies and are forcefully pursuing resolution of the remaining ones through either privatization tender or initiating insolvency (including pre-pack bankruptcy).

- Other (over 500) enterprises in the portfolio of the former Privatization Agency.

33. We are committed to continue restructuring large public utilities and transport companies to enhance efficiency and contain additional fiscal costs. To implement the needed corporate and financial restructuring in each of these companies over the medium term, we have taken several steps and plan to take the following ones:

- **Elektroprivreda Srbije (EPS).** Consistent with the five-year rightsizing target specified in the financial restructuring plan, the EPS supervisory board has adopted, in consultation with the World Bank, a 2016-19 optimization plan. In 2016, about 2,000 employees left the company, of which approximately 1,500 through voluntary separation and the rest through attrition. We have established the criteria for the second round of rightsizing and in line with the labor optimization plan, and a new window to apply for voluntary separation was closed in October, aiming at reducing the number of employees by 1,000 by end-2017. Following a household tariff increase of 4.5 percent in August 2015 and 3.8 percent in October 2016, another increase of 2 percent is effective from October, which will help ensuring adequate resources for needed maintenance investments. We have engaged the World Bank and the EBRD with a view to enhance corporate governance, management, and procurement and planning frameworks of EPS. We will change the legal status of EPS to a joint stock company, in line with the ongoing corporate restructuring process and financial consolidation, aiming to improve the viability of the company and ensure its professional management.

- **Srbijagas.** A new organizational structure consisting of subsidiaries for transmission and distribution became effective in August 2015. In line with the fiscal program, we have divested part of Srbijagas' non-core assets and are pursuing permanent resolution of the companies which were a major source of arrears in the past—Azotara, MSK, and Petrohemija—in such a way that ensures no further budget support or accumulation of arrears. More generally, payment discipline has improved following the adoption of the financial consolidation plan for Srbijagas in March 2017 and the implementation of measures in November 2016 to improve collection rates to prevent future accumulation of arrears. A new investment appraisal methodology, proposed by the World Bank based on an economic and financial cost-benefit framework and including other relevant appraisal criteria, has been adopted in November. The new methodology will be used to assess all future projects. These measures will help improve Srbijagas' financial position and put the company on a sustainable path, thus containing the need for additional state aid.

- **Railways of Serbia**. We are implementing the financial restructuring plan adopted in October 2015 and developed in consultation with the World Bank, EBRD and EU. An updated labor rightsizing plan has been adopted in November, based on new organizational structure proposals prepared in consultation with the World Bank. Following a reduction of 3,146 positions in late 2016 the plan targets additional 2,344 positions by end-2017. In addition, we have closed 422 km of railway lines in 2016 and additional 669 km in April. Railway companies have also fully assigned responsibilities for electricity payments, and will ensure no reemergence of arrears to EPS.

- **Roads of Serbia.** Following a 10 percent toll increase in toll rates in January 1, 2017 to allow adequate infrastructure maintenance, we will further increase tolls in 2018 by at least inflation. Further increases will be gradually phased in based on an assessment of the adequacy of toll rates prepared with the assistance of the World Bank by end-February 2018. We have adopted a plan to remove rigidities in pricing maintenance contracts, covering 3,000 km in 2017 and signed our first performance-based management contract in November. The corporate and financial restructuring plans for Roads of Serbia will be developed in 2017 and 2018 in close consultation with the World Bank.

34. Regarding the few strategic companies for which resolution is still pending:

- We have re-initiated the privatization tender for PKB, with a view to finalize the process by mid-2018.

- We have launched a call for a privatization advisor for RTB Bor, and discussions with potential investors are ongoing, including on addressing environmental risks. We expect to launch the tender for privatization or strategic partnership by end-March 2018. In 2017, the company has been meeting all liabilities, including on taxes, wages, and electricity, as per the pre-pack agreement.

- We are developing, with the assistance of the World Bank, an action plan for Resavica mines, identifying the closure timetable for at least 4 unviable mines starting in 2018; allowing for reduction of subsidies from the budget; including rightsizing targets and measures to minimize social costs.

- We have restructured Petrohemija to eliminate any fiscal risks and have launched a public call for Letters of Interest for a strategic investor in March. Bankruptcy proceedings in accordance with a pre-pack were completed in September and we expect to launch a public call for privatization in the first half of 2018.

- We have received a number of expressions of interest from potential strategic investors for MSK. In December, we will launch privatization tender for MSK (**prior action**) and have adopted a government conclusion to find a strategic investor for Azotara by end-March, 2018, failing which bankruptcy procedures for the company will be initiated. In the meantime, we will ensure that Srbijagas will not provide any gas to these companies except on the basis of prepayment.

- In November, we accepted an offer for the sale of Galenika, with a view to close the transaction by the end of the year.

35. We continue to resolve the 500 plus enterprises in the portfolio of the former Privatization Agency through either privatization or bankruptcy, in accordance with the revised Privatization Law. By September 2017, more than 275 companies entered bankruptcy, and more than 45 were privatized since end-2014. About 27,554 employees from around 344 companies have received severance payments. Around 150 companies with nearly 52,000 employees remain to be resolved, including the strategic enterprises.

36. We aim to privatize or find strategic partners for a number of SOEs and concession projects. We will use the proceeds primarily for reducing the stock of public debt but possibly also for funding future financially viable and high return investment projects. The size of investment funding will be determined in consultation with IMF staff. We have received letters of interest for long-term concession partnerships for managing the Belgrade Airport, with a deadline to submit binding offers by December 8th, 2017 and to sign a concession agreement by early 2018.

37. We continue to enhance Serbia's competitiveness and business environment to support investment, job creation and private sector development. Supported by the World Bank and EBRD, specific actions will focus on the following areas:

- An all-electronic system for issuing construction permits has been in place since January 2016. To simplify the procedures of registering properties and reduce the costs we are working on a digitalization project of ownership register entry.

- We will initiate public debate on a draft Law on Charges by end-December **(end-November structural benchmark)**, which will replace existing laws and by-laws to regulate charges at all levels of government, to ensure greater predictability and transparency. We aim to adopt the new Law during the first half of 2018, to come into effect with the 2019 budget.

- We have declared 2017-18 as years of the fight against the gray economy, and have updated the national program adopted in late 2015.

- We submitted amendments to the Company Law to the National Assembly with a view to adopt it by end-2017, in order to harmonize with EU legislation, including to provide the legal framework for cross-border mergers of companies operating in the EU.

- We will also advance the data and legal infrastructure by introducing e-government and reducing staff in non-core functions. An action plan to implement the government strategy on e-government has been designed, to support this process.

Program Monitoring

38. Progress in the implementation of the policies under this program will be monitored through quarterly quantitative performance criteria (PCs) and indicative targets (ITs)—including an inflation consultation clause, continuous performance criteria (CPCs) and structural benchmarks (SBs). These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1. Serbia: Quantitative Program Targets 1/

	2016 2/												2017									
	Mar			Jun			Sep			Dec			Mar			Jun			Sep			Dec
	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.
I. Quantitative performance criteria (quarterly)																						
1 Floor on net international reserves of the NBS (in millions of euros)	6,912	...	6,942	6,599	...	6,616	5,932	...	6,944	5,511	...	7,196	5,262	...	6,885	5,044	...	7,076	5,358	...	8,035	5,674
2 Ceiling on the general government fiscal deficit 3/ 4/ (in billions of dinars)	53.9	38.4	15.9	78.3	61.7	18.2	81.3	60.5	4.5	112.0	100.3	54.2	32.0	34.1	-11.8	36.1	35.0	-44.1	-0.2	-13.8	-82.0	48.7
3 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 3/	206.1	200.3	197.6	426.6	420.5	416.0	637.0	639.4	622.4	885.0	899.2	887.7	212.2	212.1	198.5	433.5	431.6	413.6	647.4	642.2	616.3	893.9
4 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget for project and corporate restructuring loans (in millions of euros) 3/ 7/	35	...	0	35	...	0	100	...	0	180	380	200	80	...	0	160	...	60	180	...	60	180
5 Ceiling on contracting or guaranteeing of new short-term external debt by the General Government, Development Fund, and AOFI (up to and including one year, in millions of euros)	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0
II. Continuous performance criteria																						
6 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget and the Development Fund for liquidity support (in billions of dinars)	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0
7 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros)	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0
8 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget and the Development Fund to any company in the portfolio of the Former Privatization Agency (in billions of dinars).	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0
III. Indicative targets (quarterly)																						
9 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 5/	0.0	...	0.0	0.0	...	-0.7	0.0	...	0.2	0.0	...	-0.3	0.0	...	-0.2	0.0	...	-0.4	0.0	...	0.2	0.0
10 Ceiling on borrowing by the Development Fund and AOFI (in billions of dinars)	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0
11 Ceiling on new below-the-line lending by the Republican Government (in millions of euros) 3/	128	...	31	160	...	82	262	...	103	364	...	117	91	...	6.4	208	...	18.6	334	...	41	446
IV. Inflation consultation band (quarterly)																						
Outer band (upper limit, 2.5 percent above center point)	4.2	...	...	5.0	...		4.0	...		4.5	...		4.7	...		5.0	...		5.3	...		5.3
Inner band (upper limit, 1.5 percent above center point)	3.2	...	...	4.0	...		3.0	...		3.5	...		3.7	...		4.0	...		4.3	...		4.3
End of period inflation, center point 6/	*1.7*	...	*0.6*	*2.5*	...	*0.9*	*1.5*	...	*0.6*	*2.0*	...	*1.5*	*2.2*	...	*3.5*	*2.5*	...	*3.6*	*2.8*	...	*3.2*	*2.8*
Inner band (lower limit, 1.5 percent below center point)	0.2	...	...	1.0	...		0.0	...		0.5	...		0.7	...		1.0	...		1.3	...		1.3
Outer band (lower limit, 2.5 percent below center point)	-0.8	...	...	0.0	...		-1.0	...		-0.5	...		-0.3	...		0.0	...		0.3	...		0.3

1/ As defined in the Letter of Intent, the Memorandum of Economic and Financial Policies, and the Technical Memorandum of Understanding.
2/ Original program targets as specified in IMF Country Report 15/347.
3/ Cumulative since the beginning of a calendar year.
4/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees.
5/ Through the 3rd review, the authorities reported all outstanding accounts payable (>1 day past due), a more stringent definition than per the TMU.
6/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Serbian Statistics Office.
7/ End-March and end-June 2017 actual outcomes were revised down based on revised reports from the authorities, resulting in larger overperformance against respective program targets than what was reported in IMF Country Report 17/263.

Table 2. Serbia: Prior Actions and Structural Benchmarks

Measures	Target date	Status
Prior Actions		
1 Adoption by the National Assembly of the 2018 budget consistent with program objectives (MEFP ¶10).		
2 Adoption by the National Assembly of the secondary legislation for local governments and public services (health, education, culture, and social protection) needed to support implementation of the Law on Public Sector Employees Wage System (MEFP ¶12, fourth bullet).		
3 Launch of privatization tender for MSK privatization (MEFP ¶34, fifth bullet).		
4 Adoption by the National Assembly of the amendments of the corporate insolvency law (MEFP ¶22, second bullet).		
Structural Benchmarks		
Fiscal		
1 Resolution of Azotara and MSK through privatization or regular bankruptcy procedure (MEFP ¶34, fifth bullet).	March 31, 2017	Not met. Launching tender for MSK is set as PA#3.
2 Adoption by the National Assembly of the secondary legislation for local governments and public services (health, education, culture, and social protection) needed to support implementation of the Law on Public Sector Employees Wage System (MEFP ¶12, fourth bullet).	June 30, 2017	Not met. Reset as PA#2.
3 Adoption by the government of time-bound action plan for administrative restructuring in education sector, based on World Bank functional reviews (MEFP ¶12, second bullet).	September 30, 2017	Not met.
4 Adoption by the government a decision that identifies the non-core activities of the STA to be transferred or separately managed within the STA with deadlines to complete the move (MEFP ¶15, first bullet).	October 31, 2017	Not met. Completed in early December.
5 Initiate public debate on a new Law on Charges aimed at ensuring greater predictability and transparency by regulating fees and charges at all levels of government (MEFP ¶37, second bullet).	November 30, 2017	Not met. Expected to be completed by end-December.
Financial		
6 Based on results of diagnostic analysis of the Development Fund and the export promotion agency (AOFI), supervisory boards of these institutions adopt decisions to (i) fully recognize losses on credit portfolio, (ii) take measures to prevent further deterioration in asset quality, and (iii) identfy solutions to resolve impaired assets (MEFP ¶14, third bullet).	October 31, 2017	Not met. Completed in early December.

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program.** To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on December 31, 2014, except as noted below.

A. Floor for Net International Reserves of the NBS

	In Millions of Euro
Outstanding stock:	
End-December 2014	7,008
Floor on international reserves:	
End-December 2015 (performance criterion)	6,266
End-March 2016 (performance criterion)	6,912
End-June 2016 (performance criterion)	6,599
End-September 2016 (performance criterion)	5,932
End-December 2016 (performance criterion)	5,511
End-March 2017 (performance criterion)	5,262
End-June 2017 (performance criterion)	5,044
End-September 2017 (performance criterion)	5,358
End-December 2017 (performance criterion)	5,674

2. **Net international reserves** (NIR) of the NBS are defined as the difference between reserve assets and reserve liabilities, measured at the end of the quarter.

3. **For purposes of the program, reserve assets are readily available claims on nonresidents denominated in foreign convertible currencies.** They include the NBS holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contracts, guarantees and letters of credit), NBS' claims on resident banks and nonbanks, as well as subsidiaries or branches of Serbian commercial banks located abroad, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than monetary gold, domestically acquired gold without international certificates, assets in nonconvertible currencies, and illiquid assets.

4. For purposes of the program, reserve liabilities are defined as all foreign exchange liabilities to residents and nonresidents with a maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options, including any portion of the NBS gold that is collateralized), and all credit outstanding from the Fund. Excluded from reserve liabilities are government foreign exchange deposits with NBS, and amounts received under any SDR allocations received after August 20, 2009.

5. For purposes of the program, all foreign currency-related assets will be valued in euros at program exchange rates as specified below. The program exchange rates are those that prevailed on September 30, 2014. Monetary gold will be valued at the average London fixing market price that prevailed on September 30, 2014.

Cross Exchange Rates and Gold Price for Program Purposes, September 30, 2014

	Valued in:				
	RSD	Euro	USD	SDR	GBP
Currency:					
RSD	1.0000	0.0084	0.0107	0.0072	0.0066
Euro	118.8509	1.0000	1.2695	0.8563	0.7808
USD	93.6202	0.7877	1.0000	0.6745	0.6150
SDR	138.7994	1.1678	1.4826	1.0000	0.9119
GBP	152.2168	1.2807	1.6259	1.0967	1.0000
Gold	113,888.97	958.25	1,216.50	820.53	748.20

Source: NBS

6. Adjustors. For program purposes, the NIR target will be adjusted upward by the value of long-term assets and foreign-exchange-denominated claims on resident banks and nonbanks as well as Serbian commercial banks abroad, recovered by the NBS since December 31, 2014. The NIR floor will be adjusted upward by the full amount of proceeds from any eurobond issuance and external bilateral budget loans to the General Government since September 30, 2015. External bilateral budget loans, in this context, are loans to the Republican budget provided without any pre-specified purpose other than satisfying funding needs of the public sector. The NIR floor will also be adjusted upward by the value of domestically acquired gold for which certification was obtained after December 31, 2014. The NIR floor will also be adjusted upward by any privatization revenue in foreign exchange received after December 31, 2014. Privatization receipts are defined in this context as the proceeds from sale, lease, or concession of all or portions of entities and properties held by the public sector that are deposited in foreign exchange at the NBS either directly or through the Treasury.

B. Inflation Consultation Mechanism

7. Inflation is defined as the change over 12 months of the end-of-period consumer price index (CPI), as measured and published by the Serbian Statistics Office.

8. Breaching the inflation consultation inner band limits (specified in MEFP, Table 1) at the end of a quarter would trigger discussions with IMF staff on the reasons for the deviation and the proposed policy response. Breaching the outer limits would trigger a consultation with the IMF's Executive Board on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA.

C. Fiscal Conditionality

9. The general government fiscal deficit (previously referred to as the general government augmented fiscal deficit, see IMF Country Report 15/20, p. 70), on a cash basis, is defined as the difference between total general government expenditure (irrespective of the source of financing) including expenditure financed from foreign project loans, payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed, repayments of debt takeover if debt was previously guaranteed, and payment of arrears (irrespective of the way they are recorded in the budget law) and total general government revenue (including grants). For program purposes, the consolidated general government comprises the Serbian Republican government (without indirect budget beneficiaries), local governments, the Pension Fund, the Health Fund, the Military Health Fund, the National Agency for Employment, the Roads of Serbia Company (JP Putevi Srbije) and any of its subsidiaries, and the company Corridors of Serbia. Any new extra budgetary fund or subsidiary established over the duration of the program would be consolidated into the general government. Privatization receipts are classified as a financial transaction and are recorded "below the line" in the General Government fiscal accounts. Privatization receipts are defined in this context as financial transactions.

10. Government primary current expenditure of the Republican budget (without indirect budget beneficiaries) includes wages, subsidies, goods and services, transfers to local governments and social security funds, social benefits from the budget, other current expenditure, net lending, payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed, repayments of debt takeovers if debt was previously guaranteed, and payment of arrears (irrespective of the way they are recorded in the budget law). It does not include capital spending and interest payments.

Adjustors

- **The quarterly ceilings on the general government fiscal deficit will be adjusted downward (upward) to the extent that cumulative non-tax revenues of the General Government from dividends exceed (fall short of) programmed levels.**

- **The quarterly ceilings on the general government fiscal deficit will be adjusted downward to the extent that cumulative non-tax revenues of the General Government from debt recovery receipts, debt issuance premiums, receipts from telecom 4G frequency auctions, and concession and Public Private Partnership (PPP) receipts recorded above-the-line exceed programmed levels**. The IMF Statistics Department will determine the proper statistical treatment of any concession or PPP transaction signed during the IMF program.

- **The quarterly ceilings on the general government fiscal deficit and the primary current expenditure of the Republican budget** will be adjusted upward (downward) to the extent that cumulative severance payments by the general government for the former and the Republican budget level for the latter (including payments from the Transition Fund) exceed (fall short of) the programmed levels up to the yearly budgeted amount. Severance payments by the Health Fund will be considered made at the point the funds have been transferred by the Health Fund to the Health Institution (for both general government and Republican budget adjustors).

- **The quarterly ceilings on the general government fiscal deficit and the primary current expenditure of the Republican Budget** will be adjusted upward by a maximum of (i) by a maximum of RSD 13 billion for 2016 or 2017 to the extent that the Republican Budget assumes the debt of Petrohemija to NIS in the context of the former's resolution in a manner that ensures no further fiscal support, (ii) by a maximum of RSD 25 billion to on-lend or issue a new guarantee to Serbia Gas for the repayment of expensive debt in 2016 or 2017; (iii) by a maximum of RSD 6.75 billion to on-lend or issue a new guarantee to Galenika for the repayment of expensive debt in 2016 or 2017; (iv) by a maximum of RSD 0.6 billion to on-lend or issue a new guarantee to Jat Tehnika for the repayment of expensive debt in 2016 or 2017;

Cumulative Programmed Severance Payments
(In billions of dinars)

	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017	End-Sep. 2017	Er D 20
Programmed cumulative severance payments (of general government)	9.4	11.4	5.0	5.5	1.4	2.75	4.1	5
Programmed cumulative severance payments (of Republican budget)	7.3	9.3	4.5	5.0	1.3	2.6	3.9	5

and (v) by a maximum of RSD2 billion to on-lend or issue a new guarantee to RTB Bor for the repayment of expensive debt in 2017.

Cumulative Programmed Revenues of the General Government from Dividends, Debt Recovery Receipts, and Debt Issuance at a Premium
(In billions of dinars)

	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017	End-Sep. 2017	End-Dec. 2017
Programmed cumulative dividends	9.6	9.6	9.6	9.6	17.1	17.1	17.1	17.1
Programmed cumulative debt recovery receipts	0	0	0	0	0	0	0	0
Programmed cumulative debt issuance at a premium	0	0	0	0	0	0	0	0
Programmed cumulative receipts from telecom 4G frequency auctions	0	0	0	0	0	0	0	0
Programmed concession and PPP receipts recorded above the line					0	0	0	0

- **The quarterly ceilings on the primary current expenditure of the Republican budget will be adjusted upward (downward) to the extent that (i) cumulative earmarked grant receipts exceed (fall short of) the programmed levels and (ii) cumulative proceeds from small-scale disposal of assets (the sale of buildings, land, and equipment) recorded as non-tax revenues exceed the programmed levels up to a cumulative annual amount of 2 billion dinars in each of 2015, 2016, and 2017.** For the purposes of the adjustor, grants are defined as noncompulsory current or capital transfers received by the Government of Serbia, without any expectation of repayment, from either another government or an international organization including the EU.

Cumulative Receipts from Earmarked Grants and Small-scale Asset Disposal
(In billions of dinars)

	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017	End-Sep. 2017	End-Dec. 2017
Programmed cumulative ear-marked grants receipts	1.8	4.0	6.5	11.4	2.0	4.3	7.1	11.5
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0	0	0	0

11. Ceiling on the gross issuance of debt guarantees by the Republican Budget for project and for liquidity support. Guarantees for liquidity support are defined in this context as explicit or implicit guarantees, including comfort letters, related to loans provided without any pre-specified purpose other than satisfying funding needs of the company that ensure its normal production and business activities. Guarantees for viable project loans are defined in this context as explicit or implicit guarantees, including comfort letters, related to loans with high probability of repayment provided with a pre-specified objective establishing that all funding should be used for well-defined investment or corporate restructuring projects, confirmed by a reliable feasibility study and/or the investment or restructuring plan endorsed by the government.

Adjustor

- **The quarterly 2016 ceilings on gross issuance of new guarantees by the Republican Budget for project and corporate restructuring loans** will be adjusted upward to the extent that the new EUR 200 million guarantee by the Republican Budget on a loan from the EBRD to the EPS originally planned for 2015 takes place in 2016.

- **The quarterly 2017 ceilings on gross issuance of new guarantees by the Republican Budget for project and corporate restructuring loans** will be adjusted upward to the extent that a new EUR 30 million guarantee by the Republican Budget on a loan from the EBRD to "Srbija Voz" ad occurs.

12. Ceiling on below-the-line lending by the Republican Government. Below-the-line lending is defined as the lending by the Republican Government which is used to provide financing to entities outside the General Government coverage. Below-the-line lending by the Republican Government will only be provided in cases where the probability of repayment is assessed to be high. These entities include the Deposit Insurance Agency (DIA), beneficiaries of the APEX lending program, and EPS, among others.

13. Ceiling on borrowing by the Development Fund and the Export Credit and Insurance Agency (AOFI). Borrowing by the Development Fund and AOFI is defined as gross accumulation of financial claims on these entities.

14. Domestic arrears. For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include an indicative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶9 above, except local governments; (ii) the Development Fund, and (iii) AOFI. Arrears to be covered include outstanding payments on wages and pensions; social security contributions; obligations to banks and other private companies and suppliers; as well as arrears to other government bodies.

D. Ceilings on External Debt

15. Definitions. The ceilings on contracting or guaranteeing of short-term external debt (with maturities up to one year) consolidated general government, the AOFI, and the Development Fund applies not only to debt as defined in point 8 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, Decision No. 6230 - (79/140), as amended, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are normal short-term import credits. For program purposes, debt is classified as external when the residency of the creditor is not Serbian. For new debt to budgetary users, the day the debt is contracted will be the relevant date for program purposes. For new debt to non-budgetary users, the day the first guarantee is signed will be the relevant date. Contracting or guaranteeing of new debt will be converted into euros for program purposes at the program cross exchange rates described in this TMU.

E. Ceiling on External Debt Service Arrears

16. Definition. External debt-service arrears are defined as overdue debt service arising in respect of obligations incurred directly or guaranteed by the consolidated general government, the Export Credit and Insurance Agency (AOFI), and the Development Fund, except on debt subject to rescheduling or restructuring.[1] The program requires that no new external arrears be accumulated at any time under the arrangement on public sector or public sector guaranteed debts. The authorities are committed to continuing negotiations with creditors to settle all remaining official external debt-service arrears.

[1] Debt subject to rescheduling or restructuring includes the US$44.7 million in arrears to Libya.

17. Reporting. The accounting of non-reschedulable external arrears by creditor (if any), with detailed explanations, will be transmitted on a monthly basis, within two weeks of the end of each month. Data on other arrears, which can be rescheduled, will be provided separately.

F. Reporting

18. General government revenue data and the Treasury cash position table will be submitted weekly; updated cash flow projections for the Republican budget for the remainder of the year fourteen calendar days after the end of each month; and the stock of spending arrears as defined in ¶16 45 days after the end of each quarter. General government comprehensive fiscal data (including social security funds) would be submitted by the 25th of each month.

19. Receivables of the top 20 debtors to Srbijagas and EPS will be submitted in the agreed-upon templates within fourteen calendar days after the end of each month as well as published on the company websites.

Data Reporting for Quantitative Performance Criteria		
Reporting Agency	Type of Data	Timing
NBS	Net international reserves of the NBS (including data for calculating adjustors)	Within one week of the end of the month
Statistical Office and NBS	CPI inflation	Within four weeks of the end of the month
Ministry of Finance	Fiscal deficit of the consolidated general government	Within 25 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 25 days of the end of the month
Ministry of Finance	Gross issuance of new guarantees by the Republican Government for (i) project and corporate restructuring loans and (ii) gross issuance of new guarantees by the Serbian Republican Government for liquidity support	Within three weeks of the end of the month
Ministry of Finance	New short-term external debt contracted or guaranteed by the general government, the Development Fund and AOFI	Within four weeks of the end of the quarter
Ministry of Finance	External debt payment arrears by general government, Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Gross accumulation of domestic payment arrears by the general government (without local government, the Development Fund, and AOFI)	Within 45 days of the end of the quarter
Ministry of Finance	Borrowing by the Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Cumulative below-the-line lending by the Republican Government	Within 25 days of the end of the month
Ministry of Finance	Severance payments by general government, with a breakdown by government level.	Within four weeks of the end of the quarter
Ministry of Finance	Earmarked grants and receipts from small-scale disposal of assets	Within four weeks of the end of the quarter

Statement by Miroslaw Panek, Executive Director for Serbia and Vuk Djokovic, Senior Advisor to the Executive Director
December 20, 2017

Our Serbian authorities would like to thank staff for the constructive engagement during the concluded SBA review mission, resulting in a focused and candid report. The Fund-supported program has been instrumental in restoring macroeconomic stability and improving resilience of the economy. Strong ownership, backed by solid stakeholder support and effective program monitoring, enabled the successful implementation of the program and the achievement of policy goals, including: (i) high quality fiscal consolidation to restore fiscal sustainability (ii) strengthening the stability of the financial sector and bolstering intermediation and (iii) improving growth potential and competitiveness. The policies implemented under the program yielded tangible results, and provide a sound base for continuing with reforms to strengthen the institutions and policy frameworks after the program completion in February 2018. Maintaining the reform momentum is all the more relevant for Serbia in the context of its EU integration process. Our authorities remain thankful to the management and staff for their support. Also, the ongoing, candid dialogue between Serbia and the Fund is highly valued.

Recent economic developments

The Serbian economy continues with healthy growth in 2017, despite supply-side shocks at the beginning of the year and the impact of drought. Domestic consumption and foreign investments were the main drivers of economic activity. Real incomes are increasing, supported by low inflation, private sector wage growth and improved labor market outcomes, including broader labor market participation, higher employment in the formal sector and declining unemployment. In 2018, economic activity is expected to accelerate to 3.5 percent, amid strengthened macroeconomic stability, an improved investment environment and the economic upswing in the main trading partners. Further, the Serbian Fiscal Council in its latest projection indicated an upside potential for growth in 2018, which might be reaching 4 percent. Confidence and investor sentiment are on the rise, as reflected in declining sovereign spreads. Serbian sovereign risk premia reached their historical minimum in October, of about 118 bps, driven by the economy's improved fundamentals and credibility of policies.

The current account deficit temporarily widened to 4.6 percent, due to the one-off factors – impact of drought on agriculture and the drop in the electricity production in the first half of the year. The deficit has been fully covered by high FDI inflows. It is expected to narrow back to about 4 percent in medium term – the level broadly consistent with fundamentals and policy settings.

Fiscal policy

Serbia recorded a noteworthy progress in fiscal consolidation since the inception of the program, and continues to over-perform the fiscal targets agreed under the SBA by a sizable margin. The authorities' strong ownership and committed policy implementation, including the improved revenue collection, cuts in mandatory spending, strengthened financial discipline in the SOEs, and strict control of state aid, are delivering good fiscal outcomes.

Favorable fiscal developments continued in the Q3, and the fiscal deficit target for end-September was met by a comfortable margin. In the first three quarters the general government fiscal result reached a surplus of 2.6 percent of GDP, well above the balanced budget target set in the seventh review. Over this period, fiscal revenues were 3.9 percent higher, and expenditures 2.3 percent lower in real terms compared with the 2016. Strong fiscal performance led to a consequent revision of the end-2017 fiscal objective, from a 1.1 percent deficit to a surplus of 0.2 percent.

The fiscal surplus achieved in 2017 stands in a striking contrast to the end-2015 program deficit target of 5.9 percent. This illustrates the substantial extent of fiscal adjustment achieved under the program. In structural terms, the adjustment is expected to reach almost 6 percent of GDP. Public debt is placed on a firm downward trajectory, and has declined by about 10 percent since its peak in 2015.

The 2018 budget is consistent with the objectives of fiscal consolidation – ensuring fiscal sustainability while reducing public debt. The 2018 budget targets a general government deficit of 0.7 percent of GDP, which will further reduce the public debt to GDP ratio by about 2 percentage points. The structure of the budget has substantially improved; the budget contains strong growth in capital expenditures on essential infrastructure projects, further convergence of the public pensions bill towards sustainable level of 11 percent of GDP, and the wage bill that will remain flat in GDP terms. Further, the budget lowers the labor tax wedge on low-skilled workers, by increasing the PIT taxable threshold.

Monetary policy and financial sector developments.

The NBS continues with the cautiously accommodative monetary policy stance. During 2017 the headline CPI inflation has consistently remained within the National Bank of Serbia (NBS) inflation tolerance band (3.0 ± 1.5 percent). Inflationary pressures remain low, as indicated by the slowdown in headline and core inflation over the past months, as well as by the anchored inflation expectations of the corporate and financial sectors, which remain within the tolerance band. This allowed the NBS to maintain an easing bias. In September and October, the NBS Executive Board reduced the reference rate by cumulative 50 basis points, from 4 to 3.5 percent. In October and November, the CPI remained at 2.8 percent, while core inflation slowed further to 1.4 percent in October. Projections for 2018 indicate that inflation will remain within the target band.

The NBS continues to be committed to the managed floating exchange rate regime for the dinar and to the reduction of euroization. As exchange rate flexibility provides a buffer against external shocks, foreign exchange interventions remain limited to smoothing excessive exchange rate volatility without targeting a specific level or path for the exchange rate. Appreciation pressures continued in the third quarter, driven by strong exports, FDI and portfolio inflows, and good fiscal performance. In the period January-October, dinar appreciated 3.5 percent against the euro, and 14.3 against the U.S. dollar. The current level of gross international reserves is comfortable, and the central bank has been maintaining adequate coverage throughout the program.

Supported by the NBS accommodative policies, credit activity accelerated in 2017. In September credit increased by 5 percent y-o-y, or by about 10 percent if the effects of the NPL write-offs are excluded. Credit to the corporate sector, net of the NPL write-offs, reached 6.5 percent y-o-y growth. The effects of the dinarization strategy are gradually yielding results, and the share of dinar loans increased by 1.2 percentage points this year, to 32.4 percent.

The banking sector remains robust, with large liquidity and capital buffers. Profitability of the sector is on the rise. NPLs have declined to 12.2 percent, their lowest level since January 2009, supported by the comprehensive set of measures implemented under the authorities' NPLs reduction strategy. Since the adoption of the NPLs resolution strategy in mid-2015, the NPLs declined by 10.1 percent. NPLs remain fully provisioned.

Since the inception of the program, the authorities have made noteworthy progress in implementing financial sector reforms to enhance its resilience and stability, while harmonizing regulatory framework with EU standards. Regulatory and supervisory frameworks have been recently enhanced, including by implementing the Basel III capital, liquidity and risk management standards in June. The adjustments of bank's reporting framework in the context of the forthcoming implementation of IFRS 9 are underway. The NBS is advancing the implementation of a risk-sensitive supervisory cycle and the review of banks recovery plans. The macroprudential framework is also being enhanced, benefiting from Fund's TA recommendations. Further, the National Bank is continuing to upgrade its capacities for bank resolution.

Business environment and SOE

Under the program, Serbia made significant progress in implementing SOE reforms to improve their operational viability and contain fiscal risks, while substantially reducing the provision of state aid to those enterprises. At this point, the financial position of critical public network utilities, including Serbia Gas, the electricity generation company EPS, and

Railways of Serbia have improved, on the back of comprehensive financial and corporate restructuring, appropriate regulatory price adjustments, and enhanced revenue collection. Advances in improving their operational efficiency and reducing the number of employees have also been achieved. The authorities continue to committedly work towards the resolution of most of the other SOEs, by restructuring, privatization or bankruptcy. These ongoing processes are drawing on the substantial support and expertise of the World Bank and other IFIs.

On the back of broad structural reforms implemented under the program, a notable progress in improving the business climate was achieved over the last three years. This is reflected in improved rankings on major business environment surveys, and the growing interest of foreign investors. This year, Serbia improved its standing on the World Economic Forum’s Competitiveness Report by 12 places overall. On the World Bank’s Doing Business 2018, Serbia reached the 43rd position worldwide, improving its ranking for the third year in a row.