



REPUBLIC OF SERBIA

December 2019

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT—PRESS RELEASE; AND STAFF REPORT

In the context of the Third Review under the Policy Coordination Instrument, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 15, 2019, with the officials of Republic of Serbia on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument. Based on information available at the time of these discussions, the staff report was completed on December 4, 2019.

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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December 19, 2019

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IMF Executive Board Completes Third Review Under the Policy Coordination Instrument for the Republic of Serbia

- The implementation of Serbia's economic program is on track.
- The 2020 budget keeps public debt on a declining path, while creating space for capital investments and lower labor taxation.
- Structural reforms are advancing, but with delays in some areas.

On December 19, 2019, the Executive Board of the International Monetary Fund (IMF) completed the third review of Serbia's economic performance under the Policy Coordination Instrument (PCI)¹. The Executive Board's decision was taken without a meeting.²

Serbia is the second IMF member country to request a PCI. The PCI was approved on July 18, 2018 (see [Press Release No. 18/299](#)) and aims to maintain macroeconomic and financial stability, while advancing an ambitious reform agenda to foster rapid growth, job creation and improved living standards.

Solid economic performance continues, supported by consumption, public investment, exports and record-high FDI inflows. Economic growth is projected at 3.5 percent in 2019 and 4 percent in 2020, with negative contributions from the external environment offset by strong domestic demand. Labor market conditions continue to firm and wages are increasing. Program implementation is on track and quantitative targets for end-September 2019 were met. Inflation remains close to the lower limit of the National Bank of Serbia's (NBS) inflation band and the NBS has implemented three rate cuts since July. Fiscal performance remains sound, public debt continues to decline, while progress has been made in reforming the tax administration and strengthening public investment management frameworks. Robust FDI inflows have led to dinar

¹ The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

appreciation pressures for most of 2019, and the NBS has been a net purchaser of foreign exchange.

The 2020 budget targets a deficit of 0.5 percent of GDP, keeping public debt on a declining path while creating some fiscal space for capital investments and a further lowering of the labor tax wedge. The financial sector indicators appear sound, but developing capital markets and continuing to promote dinarization will be important to further enhance financial stability and support medium-term growth. The authorities remain committed to advancing structural reforms in 2020, needed to boost Serbia's potential growth and improve the private investment climate. These include implementation of delayed reforms of the public wage system and public employment framework, introduction of new fiscal rules for 2021, as well as measures to strengthen SOE management and corporate governance.

Republic of Serbia: Selected Economic Indicators, 2016-2021

	2016	2017	2018	2019		2020		2021
				CR		CR		
				19/238	Proj.	19/238	Proj.	Proj.
(Percent change, unless otherwise indicated)								
Real sector 1/								
Real GDP	3.3	2.0	4.4	3.5	3.5	4.0	4.0	4.0
Real domestic demand (absorption)	1.4	3.9	6.5	4.4	4.6	3.8	4.0	3.6
Consumer prices (average)	1.1	3.1	2.0	2.2	1.9	1.9	2.0	2.2
GDP deflator	1.5	3.0	2.1	3.3	3.3	3.5	3.4	3.4
Unemployment rate (in percent) 2/	15.9	14.1	13.3	...	...	...	...	...
Nominal GDP (in billions of dinars)	4,521	4,754	5,069	5,408	5,417	5,819	5,827	6,264
(Percent of GDP)								
General government finances								
Revenue 3/	40.8	41.5	41.5	40.8	41.4	40.1	40.2	39.8
Expenditure 3/	41.9	40.4	40.9	41.3	42.0	40.7	40.7	40.3
Current 3/	37.9	36.7	36.4	36.7	37.2	36.1	35.9	35.6
Capital and net lending	3.2	3.1	4.1	4.3	4.5	4.4	4.7	4.5
Amortization of called guarantees	0.9	0.6	0.4	0.2	0.2	0.2	0.1	0.2
Fiscal balance 4/	-1.2	1.1	0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Primary fiscal balance (cash basis)	1.7	3.6	2.8	1.6	1.5	1.4	1.5	1.5
Structural primary fiscal balance 5/	1.7	3.7	2.8	1.9	1.8	1.8	1.6	1.6
Gross debt	68.9	58.7	54.5	52.3	52.7	49.3	51.4	47.8
(End of period 12-month change, percent)								
Monetary sector								
Money (M1)	20.3	9.7	20.1	10.7	10.7	9.8	9.7	8.6
Broad money (M2)	9.8	3.3	15.0	8.8	8.5	7.5	7.4	6.2
Domestic credit to non-government 6/	1.8	4.4	10.1	7.1	7.2	5.6	7.3	6.9
(Period average, percent)								
Interest rates (dinar)								
NBS key policy rate	3.5	3.9	3.1	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	3.1	3.1	2.8	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
Balance of payments								
Current account balance	-2.9	-5.2	-5.2	-5.6	-5.9	-5.1	-5.3	-5.2
Exports of goods	34.9	35.9	35.6	36.0	36.2	36.8	36.7	37.7
Imports of goods	-43.4	-46.1	-47.8	-48.8	-49.2	-49.2	-49.3	-49.7
Trade of goods balance	-8.5	-10.2	-12.2	-12.8	-13.0	-12.4	-12.6	-12.0
Capital and financial account balance	0.6	4.8	6.5	6.6	8.7	6.7	6.7	5.7
External debt (percent of GDP)	75.7	67.2	61.6	58.3	58.4	55.1	54.7	51.1
of which: Private external debt	29.4	29.8	29.2	27.6	27.5	25.9	25.7	24.3
Gross official reserves (in billions of euro)	10.2	10.0	11.3	11.8	12.5	12.5	13.2	13.5
(in months of prospective imports)	5.5	4.7	4.8	4.7	4.9	4.6	4.8	4.5
(percent of short-term debt)	412.5	262.3	163.7	167.7	191.5	178.8	201.7	205.7
(percent of broad money, M2)	58.7	53.2	52.2	51.1	54.2	50.7	53.1	50.4
(percent of risk-weighted metric)	171.5	162.1	158.4	160.4	171.4	162.4	170.7	172.6
Exchange rate (dinar/euro, period average)	123.1	121.4	118.3	...	...	...	...	...
REER (annual average change, in percent; + indicates appreciation)	-1.0	2.9	2.8	...	...	...	...	...
Social indicators								
Per capita GDP (in US\$)	5,756	6,284	7,246	7,503	7,445	8,174	8,086	8,787
Real GDP per capita (percent change)	3.9	2.6	5.0	...	3.9	...	4.4	4.4
Population (in million)	7.1	7.0	7.0	7.0	7.0	6.9	6.9	6.9

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

1/ SORS released revised national accounts in November 2018.

2/ Unemployment rate for working age population (15-64).

3/ Includes employer contributions.

4/ Includes amortization of called guarantees.

5/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs.

6/ At constant exchange rates.



REPUBLIC OF SERBIA

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT

December 4, 2019

KEY ISSUES

Recent economic developments. The program is on track and economic performance remains robust, with unemployment falling to record-low levels. Strong fiscal performance continued in the first three quarters of 2019, and the fiscal deficit is expected to be limited to 0.5 percent of GDP this year and next, in line with the program. But the public sector wage increases adopted with the 2019 supplementary budget exceed staff advice. Inflation has remained low, consistent with the program and the National Bank of Serbia (NBS) has appropriately implemented three rate cuts since July. The financial sector remains stable.

Program performance. All quantitative targets (QTs) for end-September 2019 were met. Most reform targets (RTs) have been implemented. Staff recommends completion of the third review under the Policy Coordination Instrument and establishment of end-September 2020 QTs.

Policy Recommendations

- **Fiscal Policy.** Fiscal policy is on track so far, but it will be important to closely monitor 2019 budget implementation to ensure that the deficit stays within the program ceiling. While progress has been made in reforming the tax administration and strengthening public investment management frameworks, delayed reforms of the public wage system and public employment framework need to advance in 2020. Introduction of new fiscal rules for 2021 and beyond will help preserve hard-won gains and ensure fiscal sustainability.
- **Monetary and financial sector policies.** The accommodative monetary stance remains appropriate in light of low inflationary pressures. Developing capital markets and continuing to promote dinarization will be important to further enhance financial stability and support medium-term growth. The authorities' intention to further limit the risks related to unhedged forex exposures is welcome. The privatization of Komercijalna should be completed as planned.
- **Structural reforms.** Further actions are needed to strengthen state-owned enterprise (SOE) management and corporate governance. A thorough assessment of electricity tariffs is warranted to ensure full cost recovery.

Risks. Risks to the program are moderate. Serbia remains vulnerable to spillovers from external developments, particularly in key trading partners. Domestic risks center on delays in structural reforms, capacity constraints in reform implementation, election-related delays, or loss of fiscal discipline.

Approved By
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Discussions were held in Belgrade during October 3-15, 2019. The staff team comprised Jan Kees Martijn (head), Marina Marinkov (EUR), Pietro Dallari (FAD), Adrian Alter (MCM), Zsuzsa Munkacsi (SPR), Sebastian Sosa (resident representative), and Marko Paunović (Belgrade office). Vuk Djoković (OED) attended some discussions. HQ support was provided by Aniko Madaraszova and Piotr Kopyrski (both EUR).

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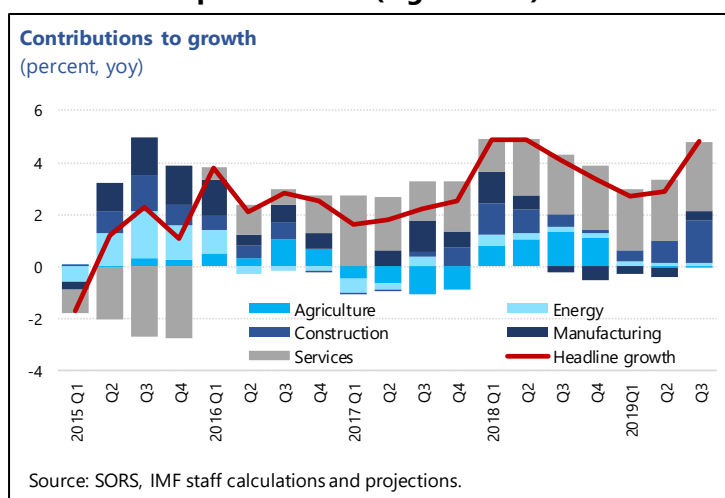
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RECENT DEVELOPMENTS

1. Serbia continues to enjoy solid economic performance (Figures 1-7). Domestic

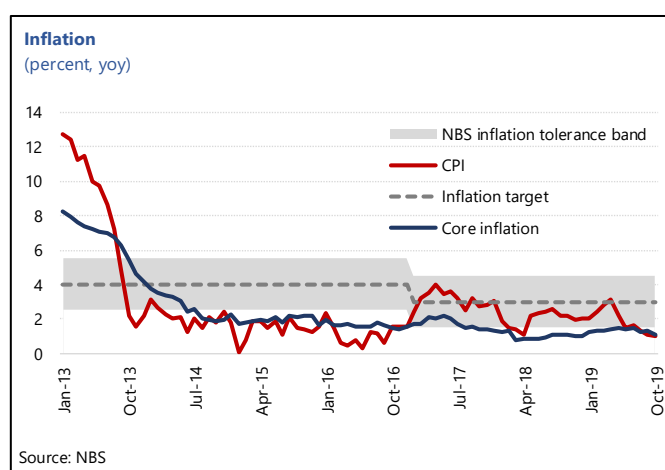
demand remains strong, despite weaker growth in trading partners. Growth picked up in 2Q2019 and accelerated further in 3Q2019, led by services and construction. Labor market conditions continue to firm, supported by expanding formal employment and record-low unemployment. Average net wages are rising, by 8.7 percent in August, while an increase in the minimum wage of 11.1 percent will take effect from January 1, 2020.

Income inequality has steadily declined, with the Gini coefficient dropping from 40.0 to 35.6 percent between 2015 and 2018.



2. Nonetheless, inflation remains close to the lower limit of the inflation band.

Headline inflation has slowed to 1 percent in October, mainly due to lower vegetable prices, and is expected to remain below the center of the target band. Motivated by weakening of inflationary pressures and developments in the international environment, the National Bank of Serbia (NBS) implemented three 25 bps rate cuts since July, reducing the key policy rate from 3 to 2.25 percent. Lending interest rates are declining, and



credit activity remains robust with corporate lending reaching its fastest pace in almost 7 years—11.5 percent yoy in August. Dinarization for credit has stalled because of rising forex borrowing by corporates. Earlier this year, the authorities embarked on the conversion of all Swiss-franc indexed mortgage loans into euro, and some 90 percent of these loans have been converted.¹

3. The external position remains stable due to continued robust FDI and portfolio inflows.

Export growth has remained strong in the first nine months of 2019, notwithstanding the growth slowdown in EU trading partners. Furthermore, FDI reached record-high levels,

¹ See Box 3, [CR 19/238](#). In October 5-year bonds in the amount of 0.16 percent of GDP were issued to cover the budget costs related to the partial write-off of these Swiss-franc indexed loans.

fueling higher imports (in particular, related to the Serbian part of the TurkStream gas pipeline), while still more than covering the widening current account deficit. The robust inflows have led to dinar appreciation pressures during most of 2019, and the NBS has been a net purchaser of forex, limiting the nominal appreciation relative to the euro to 0.8 percent during January-October.

4. Strong fiscal performance continued in the first nine months of 2019. The general government recorded a surplus of 0.6 percent of GDP during January-September. Revenue growth was boosted by higher than expected proceeds from personal income taxes, social security contributions, and excises. Lower disbursement of subsidies resulted in savings in current spending, despite higher consumption of goods and services. While year-to-date capital investments fell slightly short of projections, they remain on track for another year of strong execution. In June the first Eurobond since 2013 was issued successfully (EUR 1 billion) to buy back a portion of more expensive dollar-denominated debt. The issue was reopened in November and an additional EUR 550 million was raised.

Serbia: General Government Fiscal Operations, RSD billion			
	January-September 2019		
	Prog. /1	Act.	Diff.
Total revenue	1,645.6	1,647.8	2.1
Tax revenue	1,449.3	1,454.0	4.7
of which: VAT	402.7	395.1	-7.6
of which: Social security contributions	480.6	489.4	8.8
of which: Excises	217.6	225.5	7.9
Non-tax revenue	186.6	181.7	-4.9
Capital revenue	1.1	4.7	3.6
Grants	8.6	7.4	-1.3
Total expenditure	1,629.8	1,612.4	-17.4
Current expenditure	1,460.7	1,453.8	-6.9
Capital expenditure	157.0	143.1	-13.8
Net lending	4.9	6.8	1.9
Amortization of activated guarantees	7.2	8.6	1.4
Fiscal balance	15.9	35.1	19.2
Memo:			
Wage bill	377.0	379.8	2.8
Primary current expenditure of the Republican budget	718.4	681.1	-37.3
General government debt (percent of GDP)	52.5	52.8	0.3
Sources: Ministry of Finance, IMF staff calculations.			
1/ Programmed as of the second review.			

5. A supplementary budget for 2019 was adopted in October. The general government deficit target was kept at 0.5 percent of GDP, implying a significant fiscal stimulus in the fourth quarter given fiscal performance through September. Revenues were revised up by 0.6 percent of GDP, on account of higher social security contributions and non-tax revenues. The available fiscal space was directed towards higher public investment (0.1 percent of GDP), a one-off bonus to pensioners (0.1 percent of GDP), public wage increases (0.1 percent of GDP), and higher spending on goods and services (0.3 percent of GDP). The wage increases granted to public sector workers (effective in November and ranging from 8 to 15 percent) are expected to increase the wage bill to GDP ratio to 9.5 percent this year and the next.

PROGRAM PERFORMANCE

6. The program is on track (PS Tables 1-2). The authorities reiterated their commitment to all program objectives and targets.

- All end-September quantitative targets (QTs) and continuous targets (CTs) were observed.** The fiscal deficit ceiling for the general government was met. Although primary current expenditure of the Republican budget exceeded the June indicative target (IT) that was set in December 2018, the end-September QT was met. Inflation remains within the band of the inflation consultation clause, and domestic arrears by the consolidated general government decreased during the first three quarters of the year, thus staying below the ceiling. All standard CTs were met (PS Table 1b).
- Most reform targets (RTs) have been implemented, though some with delays.** The rulebook to the 2017 Capital Project Regulation has been issued and the decree on capital investment projects updated (**end-January** and **end-April 2019 RTs**), the consolidation of core tax administration activities into fewer sites has been completed (**end-June 2019 RT**), and the amendments to the law on Deposit Insurance have been submitted to the National Assembly (**end-June 2019 RT**) and adopted. The tender for the second phase of the Deposit Insurance Agency (DIA) asset sale was launched in September (**end-September 2019 RT**), but the government decision on the revised public employment framework was not adopted as the authorities are still evaluating various options (**end-September 2019 RT, proposed to be revised and reset to end-September 2020**). Both **end-October 2019 RTs** have been met, with a decision on the preferred tax administration IT system upgrade and the publication of a comprehensive list of state-owned enterprises (SOEs).
- The authorities have made progress in the RTs for the remainder of 2019.** The authorities have signed the updated Memorandum of Understanding (MoU) between the DIA and the NBS, and are on track to launch a tender for the valuation of property and assets of EPS, the electricity company (both **end-December 2019 RTs**).

OUTLOOK AND RISKS

7. The economic outlook remains positive, supported by the continued reform momentum (Tables 1-8).

- Real GDP growth** is projected at 3.5 percent in 2019, with a small negative output gap, and is projected to accelerate to 4 percent in 2020 and remain at that level over the medium-term, with the output gap closed.² Strong FDI and an expected fiscal impulse in the second half of 2019 should support near term growth. Strong private consumption (on the back of

² In September, the Serbian Statistics Office (SORS) revised growth for 2018 up from 4.3 to 4.4 percent.

strong wage growth) is also expected to support domestic demand, and help offset the negative impact of weaker external demand, especially in 2020.

- **Inflation** is projected to gradually increase over the medium term, as the output gap closes and imported inflation rises, reaching the midpoint of the target band by 2024.
- **The current account deficit** is expected to widen to 5.9 percent of GDP in 2019, before gradually declining to 4.1 percent by 2024. Much of this decline is explained by a projected softening of FDI (with a high import component) over the medium term. Nonetheless, net FDI inflows are expected to remain in excess of 5 percent of GDP over the medium term, thus continuing to more than fully cover the current-account deficit, and contributing to the ongoing expansion of export capacity. Reserves are projected to reach 12.5 billion euro by the end of 2019 (4.9 months of prospective imports), and slightly increase further during the entire projection period.

8. Risks are tilted to the downside, mainly from external factors. While the outlook is positive under the baseline, Serbia remains vulnerable to regional spillovers, in particular to prolonged weaknesses in growth of key trading partners.³ Heightened global uncertainty and rising protectionism could further aggravate the economic outlook. Longer-term prospects could be hampered by resistance and capacity constraints to structural reforms or loss of fiscal discipline (see ¶111), including in the context of the parliamentary elections, scheduled for the Spring of 2020. On the upside, growth could outperform projections if FDI raises export growth faster than expected or if structural reforms succeed in rapidly improving the business environment.

PROGRAM POLICY DISCUSSIONS

A. Fiscal Policy: Underpinning Fiscal Sustainability

9. After solid revenue performance in the first nine months of 2019, the focus during the rest of the year should be on managing spending plans. Total revenue collection is expected to reach 41.4 percent of GDP, in line with the previous two years. Public debt continues to decline, while investor confidence remains instrumental for a gradual shift towards less expensive financing sources. Against this positive backdrop, staff advised the authorities to carefully manage the spending plans introduced in the revised budget, to avoid exceeding the deficit foreseen in the budget or the program. The authorities agreed and reiterated their commitment to the program targets.

10. The 2020 budget targets a deficit of 0.5 percent of GDP, consistent with PCI objectives (prior action). The projected deficit remains appropriate, keeping public debt on a

³ Box 2, [CR 19/238](#)

declining path while providing some fiscal space for capital investments and a further lowering of the labor tax wedge. Staff welcomed several changes introduced in the 2020 budget:

- **Labor taxation.** The employers' part of pension and disability insurance contributions will be reduced by 0.5 percentage points, with a net cost to the budget of 0.1 percent of GDP. Non-taxable income will increase from RSD 15,300 to RSD 16,300 at a net cost of 0.05 percent of GDP. Tax incentives that reduce income tax and social security contributions will be introduced starting January 2020 for returning Serbian workers as well as for foreigners employed in Serbia—to support the supply of skilled labor.
- **Presumptive taxation.** The existing presumptive taxation regime, under which certain categories of self-employed workers pay a lump-sum tax on income, is being reformed to automate and streamline the application process, prevent abuse, and enhance equity and transparency. Preliminary simulations suggest that these changes will be slightly progressive, and broadly fiscally neutral. As the bulk of IT sector workers will no longer be eligible for presumptive taxation, targeted and time-bound exemptions from payroll and social security contributions will be introduced concurrently to these amendments, with the aim to promote formal employment and minimize costs for professionals exiting the presumptive regime.
- **Swiss rule for pensions.** A new pension indexation mechanism will enter into effect in January 2020, linking pension growth to 50 percent of inflation and 50 percent of the average nominal wage growth.⁴ Under this rule, pension spending is projected to gradually fall as a percent of GDP.

11. Staff expressed concern about the pace of increases in public sector wages. The authorities argued that high wage increases are needed to retain workers in the country, in particular nurses. Staff acknowledged the need to give larger increases to retain specific groups of workers, but also noted that the overall public wage bill will grow faster than GDP for a second year in a row. While this does not represent an immediate threat to fiscal sustainability, it deviates from the authorities' commitment under the PCI. Staff stressed that providing average wage increases above nominal GDP growth can also create expectations that this policy will continue in the future, which would jeopardize part of the hard-won gains in fiscal consolidation and would reduce fiscal space for pro-growth, inclusive policies. Staff also cautioned against excessive increases in the minimum wage (11.1 percent in 2020), noting that they can have perverse incentives on formal employment. The authorities noted that this risk was addressed through the reduction in labor taxation.

12. Preparations for fiscal structural reforms agreed under the program are ongoing, with some implementation delays.

⁴ For this purpose, inflation is measured as the annual average increase in the consumer price index (CPI), published by SORS. Average nominal wage growth is defined as average growth of wages in the economy net of taxes and contributions as published by SORS. Changes in prices and wages will be measured as the 12-months' average growth rate since June of the previous year.

- **Public wage system reform.** The authorities confirmed their intention to adopt the decree specifying the coefficients under the new wage system (including police and army personnel), but asked for additional time to properly calibrate the wage coefficients and base wages (**end-May 2020 RT; reset to end-July 2020**). Staff concurred with the importance of reassessing the coefficients before their passage into law to align them to current labor market conditions. Staff raised concerns regarding the limited fiscal space that will be available to ease implementation of the new system, following the large wage increases that take effect in November 2019.
- **Public employment framework.** The existing framework to control general government employment based on the Law on Maximum Number of Employees will expire at end-2019. However, this is not expected to relax hiring discipline, as the authorities intend to keep in place the hiring freeze and the Employment Commission to scrutinize exceptions. Over the medium term, the authorities remain committed to moving away from this centralized and rigid control mechanism towards a system based on workforce planning. Adoption of a government decision on a revised public employment framework has been postponed to September 2020, consistent with the timeline of technical assistance (**end-September 2019 RT; revised and reset to end-September 2020 RT**).
- **Fiscal Risk Department.** A Fiscal Risk Department within the Ministry of Finance has been created and staffed. The authorities confirmed their intention to finalize a strategy and methodology to properly monitor fiscal risks, supported by IMF and World Bank (WB) technical assistance (**new end-July 2020 RT**). A fiscal risk statement will be published as part of the Fiscal Strategy for 2021.
- **Debt management.** The authorities continue their efforts to increase the average maturity of debt and reduce the share denominated in foreign-currency, expand the investor base, and improve liquidity in secondary markets. To this end, they aim to introduce the settlement of Serbian securities through Euroclear, and to initiate a pilot Primary Dealer System supported by IMF technical assistance. Year-to-date issuance of a dinar-denominated 7-year benchmark bond was calibrated to meet JP Morgan index inclusion criteria.

13. The authorities have made good progress in implementing tax administration reforms, but the pace of change must be maintained. The separation of core and non-core administrative responsibilities of the Serbian Tax Administration (STA) has been completed with core functions consolidated into fewer sites (**end-June 2019 RT**). A five-year WB Tax Administration Modernization Project (TAMP) has been approved, which will contribute to advancing key reform areas in coordination with ongoing IMF technical assistance. Discussions centered on next steps:

- A decision on the preferred approach to redeveloping the IT system was adopted in October (**end-October 2019 RT**). The authorities opted for a Commercial Off the Shelf System (COTS) approach, in line with the outcome of an independent review and staff advice. The new

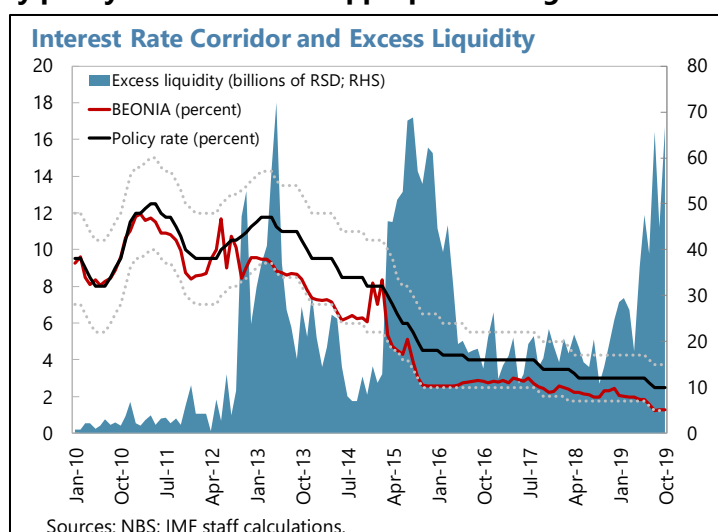
system should provide a strong foundation for a modern ICT tax administration system. However, strong oversight and clear planning will be needed during the implementation .

- The Human Resources (HR) framework for recruitment, remuneration, and deployment of staff needs to be modernized. It is forecast that over 2,000 staff will need to be recruited between now and 2023. Staff stressed that a well-functioning STA is key to meet revenue targets, and urged the authorities to prioritize the STA's personnel needs.
- Staff welcomed progress in risk-based compliance activities and tax audits, and emphasized the importance to advance further, in accordance with IMF technical assistance. The mission discussed strategies to increase the effectiveness of the Large Taxpayer Office (LTO). In this regard, the authorities concurred that, upon passage of the relevant laws, the scope of indirect audit methodologies would be expanded.

14. Strengthening public investment management frameworks is critical. The Capital Investment Commission (CIC) was established in April 2019, and in July the authorities: (i) updated the decree on public investment project appraisal (**end-April 2019 RT**), and (ii) issued a detailed guideline as a Rule Book to regulate capital expenditure projects (**end-January 2019 RT**). Staff welcomed the authorities' plans to develop an integrated database of public investment projects, expected to be effective by 2021. Staff also underscored the importance of having in place a strong process of appraisal and selection of investment projects, and of building capacity and coordination across relevant ministries to support the new system.

B. Monetary Policy: Strengthening Operational Frameworks

15. The accommodative monetary policy stance remains appropriate in light of low inflationary pressures. The authorities noted that the rate cuts during the summer had been transmitted into lower short-term interest rates, as well as deposit and lending rates. For the first time in two years, the authorities announced a 3.9 percent increase in the price of electricity effective from December. Together with the public sector wage increases, this could lead to an acceleration in inflation in 4Q2019.



16. In the context of their dinarization strategy, the authorities are considering steps to limit risks from unhedged bank lending in euros. Deposit dinarization is rising, but dinarization of credit has stalled, due to increased borrowing in foreign currency by corporates and write-offs of dinar receivables.

- **Forex exposures.** Based on a recent bank survey, the authorities plan to introduce a uniform criterion for qualifying forex exposures as hedged and to consider prudential requirements to limit risks from unhedged forex loans. Staff would welcome such action as an important step towards limiting balance sheet risks. Staff suggested that measures could target both the supply and demand FX-linked loans and could include higher risk weights, higher down payments for mortgage loans, and/or stricter limits regarding debt service. Staff also noted that the high degree of exchange rate stability hindered the development of financial hedging instruments and could cause agents to underestimate FX-related balance sheet risks.
- **Long-term dinar funding.** The authorities intend to create favorable conditions for developing the dinar bond market, and especially to promote longer-term maturities. For instance, the NBS has maintained the beneficial treatment of dinar and long-term sources of funding for banks within the reserve requirement setup.

17. The prudential regulations adopted by NBS have moderately curtailed the growth rate of cash loans. Stricter prudential measures adopted in December 2018 helped temper the rapid growth of (uncollateralized) long-term cash and consumer loans, which posed risks to financial stability. These measures include a concentration risk indicator, which primarily targets banks' portfolio of cash and consumer loans, other than current account overdrafts or mortgage loans, and the introduction of a 60 percent credit indebtedness limit for individuals.

C. Financial Sector Policies: Enhancing Resilience

18. NPLs have fallen below 2008 levels and financial sector indicators appear sound, but with some heterogeneity. At the end of September 2019, the system-wide gross NPL ratio dropped to 4.7 percent, primarily due to increased collection, assignment of receivables and write-offs. The average Tier I capital reached 22.1 percent (of risk weighted assets) at end-August 2019, while average liquidity positions are well above the regulatory minima. Return-on-equity (ROE, a profitability proxy) of the entire banking system hovered around 10 percent in the first eight months of 2019. However, about ¼ of the banking system had ROE below 5 percent at end-August 2019 and above-average NPLs.

19. Implementation of the state-owned financial institutions reform agenda is progressing gradually:

- **Komercijalna Banka.** The tender process for the sale of a controlling majority stake in the largest state-owned bank has been launched in May (**end-June 2019 RT**). After receiving four non-binding offers, binding bids are due by mid-December and the authorities expect to select a winner in January and complete the transaction by mid-2020.
- **Banka Poštanska Štedionica (BPS).** The strategy outlined in the 2015 government conclusion is generally being implemented, although the bank's loan portfolio is expanding

faster than foreseen. Under the program, the authorities have committed to finalize the procurement process of the new core banking system by end-2019.

20. Financial safety nets continue to be strengthened. Amendments to the Law on Deposit Insurance were submitted to the parliament in July 2019 and adopted in October 2019. These amendments will lower the level of the—relatively high—deposit insurance contributions, and introduce the possibility of risk-based premiums. In addition, the 2015 MoU between the DIA and NBS has been updated to enhance information sharing on banks’ risk profiles and resolution plans (**end-December 2019 RT**).

21. The DIA has also made important progress in resolving its portfolio of bad assets. The action plan to resolve the DIA portfolio of bad assets is on-track, involving two main phases: (i) The sale of the first portfolio with a book value of EUR 0.8 billion was completed in June 2019 (**end-December 2018 RT**); and (ii) The sale tender of the second portfolio (EUR 1.8 billion) has been launched in line with the time-bound action plan (**end-September 2019 RT**).

22. Capital markets development would allow the economy to perform at a higher level. The authorities are preparing plans to create meaningful financing opportunities through local capital markets, with IFIs assistance. A strategy focused on three distinct but interrelated areas of improvement could be considered: (i) money markets and hedging instruments; (ii) corporate bond market; and (iii) financial literacy (see Box 1).

23. Implementation of AML/CFT measures is progressing. All components of the action plan to resolve key weaknesses identified by FATF in 2018 were successfully addressed, which led to the removal from FATF’s grey list in June 2019. However, close coordination among government agencies is needed to further improve the effectiveness of the AML/CFT system and to implement remaining recommendations. For instance, several laws are expected to be amended to meet requirements for designated non-financial businesses and professions. Moreover, a new National Strategy Against Money Laundering and the Financing of Terrorism for 2020-2024 is expected by end-2019.

D. Structural Policies: Improving the Business Climate

24. The reform of the remaining strategic SOEs is progressing slowly. The mission urged the authorities to press ahead with SOE reforms, taking advantage of favorable market conditions.

- **Elektroprivreda Srbije (EPS).** To support plans to change EPS’ legal status to a joint-stock company, the government is establishing ownership rights of all assets of the power company. As a next step, the authorities have reiterated their commitment to launch a tender for the valuation of EPS property and assets (**end-December 2019 RT**). They also reported that they are implementing the time-bound action plan for corporate governance reforms of the power company, with the support of EBRD consultants. Against the background of rising investment needs to expand generation capacity and meet environmental standards, staff

welcomed the authorities' commitment to assess electricity tariffs by mid-2020 to ensure full cost recovery. The increase in electricity tariffs in December 2019 is a welcome first step in this direction.

Box 1. Capital Market Development in Serbia

Capital markets in Serbia remain shallow and relatively underdeveloped, despite macro-fundamental prerequisites being in place. While the government bond market functions reasonably well, private sector financing through domestic debt and capital markets is limited, in particular due to the absence of an active corporate bond market. This box highlights some areas that could catalyze capital market development in Serbia.

National capital market development strategy. The authorities recognize capital markets development as an important priority for Serbia's economic progress (PS ¶129). A capital markets development task force, led by the MOF, has been created to prepare a capital market strategy and action plan guided by a recent WB diagnostic study.¹

Investor base. A critical mass of investors is essential for supporting capital market development. The authorities should foster the development of a more sizeable long-term institutional investor base to bolster demand for bonds, which could include mutual funds, life insurance companies, and pension funds.² Settlement of government securities through Euroclear would help expand Serbia's nonresident investor base (¶112, PS ¶122).

Legal and regulatory framework. A strong legal and regulatory framework is an important precondition to support capital market development. In Serbia's case, the corporate law, insolvency law and the overall tax framework are largely in place, but there is still room for further improvement of the legal and regulatory framework. For example, corporate bond issuance procedures are perceived as complicated and lengthy, with commercial banks lending to corporates in a smoother and timelier manner. Serbia's EU accession negotiations will also be an important driver of changes in the legal and regulatory framework related to capital markets.

Government bonds liquidity. The government bond market is the foundation on which the wider capital market development is built. Serbia's government bond market has the necessary infrastructure and a benchmark yield curve is set by the regular issuance of dinar-denominated government securities. Nevertheless, secondary markets require further development to contribute better to price discovery and strengthening of the yield curve. The implementation of a primary dealer system would facilitate further improvements in government bond market liquidity while expanding and diversifying the investor base (¶112, PS ¶122).

Financial education. Information about capital market opportunities should be disseminated in order to attract investors and educate them about various alternatives to traditional banking. Unfortunately, awareness of alternative financial instruments is generally low in Serbia. Financial education remains limited, hindering long-term financing in local currency and the development of capital and hedging markets.

Note:

^{1/} This box draws on that study: [Republic of Serbia – Capital Market Development](#), World Bank Technical Note, February 2019.

^{2/} Concrete measures could include increasing the tax-deductibility of pension fund and insurance scheme contributions for dinar-denominated investments.

- **Srbijagas.** In light of Srbijagas’s improved financial position, the authorities reported that the company is in the process of repaying state guaranteed loans from its own resources, with the aim to be current on all its obligations by 2021. Staff suggested further reducing government debt servicing support in the 2020 budget.
- **Others.** The authorities are exploring options for potential strategic investments for the chemical company MSK, but noted that the company has no outstanding arrears to Srbijagas and EPS. The privatization tender for the bus company Lasta has been postponed to mid-2020 to allow sufficient time to resolve outstanding issues, including labor optimization. The government has not yet adopted a plan to close the unviable Resavica coal mines, noting concerns about the social impact from potential downsizing.
- **Strategy for SOEs.** Staff stressed the importance of improving governance of key public enterprises, and urged the authorities to limit reliance on acting directors. In October, the authorities published a comprehensive list of all SOEs (**end-October 2019 RT**). The authorities have secured EBRD support for the preparation of an SOE ownership policy document (covering ownership objectives, financial and public policy targets, reporting guidelines, and guidelines for boards of directors) with a time-bound action plan to implement it (**revised and reset RT, end-July 2020**).

25. The authorities have not yet launched the privatization tender for Petrohemija (end-February 2019 RT). Staff reiterated the risks surrounding the firm’s long-term viability from deteriorating market conditions and the expiration of favorable contracts, and encouraged the authorities to moving forward with the sale. The authorities explained that negotiations were ongoing to find an acceptable solution, and indicated that they may take a more active role in the plans to privatize the petrochemicals company in 2020.

26. Tackling informality and improving the labor market could improve growth prospects. Serbia improved its position in the recent WB Doing Business ranking, recording progress related to construction permits, access to electricity, protecting minority investors, paying taxes, enforcing contracts and resolving insolvency. Staff also reiterated the importance of strengthening anti-corruption measures.⁵ The authorities reaffirmed their commitment to curb the grey economy with the implementation of a new action plan.⁶ The authorities also noted their intention to liberalize working permits and labor markets, including through recently adopted amendments to the law on the employment of foreigners and the Law on Agency Employment.

⁵ [CR 19/238](#).

⁶ [CR 19/238](#)

PROGRAM MODALITIES

27. The program will continue to be monitored on a semi-annual basis. Serbia does not need the Fund's financial assistance under the baseline and is not seeking financial assistance from the Fund as the program is fully financed. Reviews are set out in Table 10. QTs for the key set of macroeconomic variables monitored under the PCI are set out in PS Table 1a. RTs are reflected in PS Table 2, which aim to support the authorities' structural reform agenda in the areas of public financial management, tax administration, financial sector, SOEs, and business environment.

28. Program conditionality is to be updated (PS Tables 1-2):

- Additional adjustors (equivalent to a maximum of RSD 11 billion, or 0.2 percent of GDP) for the general government deficit and the current primary spending at the Republic level are set on one-off expenditures associated with repayment of foreign currency savings to citizens of the former Federal Republic of Yugoslavia (TMU, ¶13).⁷
- QTs for 2020 have been set in line with the 2020 budget.
- A prior action set for the completion of the third review is the passage of the 2020 budget consistent with the following program parameters (¶13): (i) an overall deficit in line with the medium-term target agreed under the PCI (0.5 percent); and (ii) within this limit, available fiscal space should be used to improve the execution of capital expenditures and lower the tax burden on labor.
- The end-May 2020 RT on approving a government decree defining wage coefficients under the new Public Sector Employee Wage System is proposed to be reset to end-July 2020 (¶112).
- Two RTs are proposed to be revised and reset: (i) the end-September 2019 RT to adopt a government decision on a revised public employment framework is proposed to be reset to end-September 2020 (¶112); and (ii) the end-February 2020 RT to adopt an SOE ownership policy document is proposed to be reset to end-July 2020 and also cover the preparation of an action plan (¶124).
- A new RT is proposed on preparation of a methodology to properly monitor fiscal risks (¶112).

29. Serbia has small sovereign arrears outstanding. The authorities are in contact with their Libyan counterparts to resolve Serbia's arrears to Libya, which arose in 1981 due to unsettled government obligations related to a loan for importing crude oil. Staff urged the authorities to persist with efforts to resolve these arrears as soon as possible.

⁷ The deadline for submission of claims is set for December 23, 2019, so the exact amount for these expenditures is not yet known. The 2020 budget allocates some RSD 4 billion for this operation, so the adjustor applies to costs in excess of this amount.

STAFF APPRAISAL

30. Economic performance remains robust while reforms under the PCI are advancing. Economic growth appears solid despite external headwinds, with low inflation, falling public debt and a current account deficit covered by high FDI inflows. The reforms under the PCI focus on strengthening institutions, and aim to secure sustainable growth and faster convergence with EU living standards.

31. Recently-implemented fiscal measures could test the fiscal limits under the program. The supplementary budget for 2019 and the 2020 budget maintain a deficit target of 0.5 percent of GDP. However, the supplementary budget allows for additional spending that should be managed carefully to ensure that the programmed deficit is not exceeded. Furthermore, the new wage increases result in an overall wage bill which is growing faster than GDP, which deviates from the authorities' program commitments and staff advice.

32. Monetary and financial sector policies continue to support growth. The current accommodative monetary policy is appropriate. Non-performing loans have fallen to lowest levels since 2008, while the deposit insurance framework has been strengthened. Measures to further limit the risks related to banks' unhedged forex exposures would be welcome. Developing capital markets and continuing to promote dinarization will be critical to support medium-term growth and financial stability. The expected privatization of Komercijalna Bank would be a major step forward.

33. A heavy reform agenda remains for 2020. The introduction of the Swiss formula for future pension increases was an important step to help contain current spending. Yet several important reforms need to be completed during the final year under the PCI. The introduction of new fiscal rules that should be effective as the program comes to an end will be critical to preserve hard-won gains and ensure fiscal sustainability. Further delays in the implementation of the reforms to the public wage system and employment frameworks should be avoided and efforts to resolve problem SOEs reinvigorated, including the long-awaited privatization of the petrochemicals company, Petrohemija.

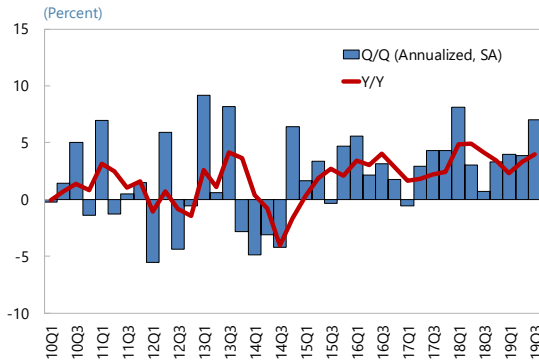
34. Resolution of governance issues should be a priority. Under the PCI, Serbia has made progress towards implementing FATF recommendations, improving public investment management, and strengthening the tax administration. However, more needs to be done to improve the governance of the state-owned sector and reduce vulnerabilities to corruption, particularly in the areas of ownership policy and fiscal oversight. Other anti-corruption efforts and the provision of legal certainty also need to be strengthened, and would help advance the EU accession agenda.

35. Staff supports the completion of the third review under the Policy Coordination Instrument.

Figure 1. Serbia: Real Sector Developments, 2010–19

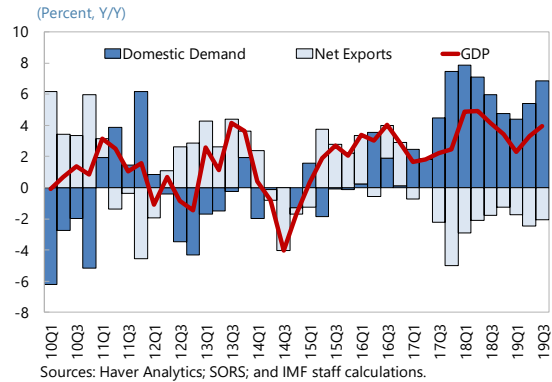
Growth accelerated in 3Q2019....

Gross Domestic Product



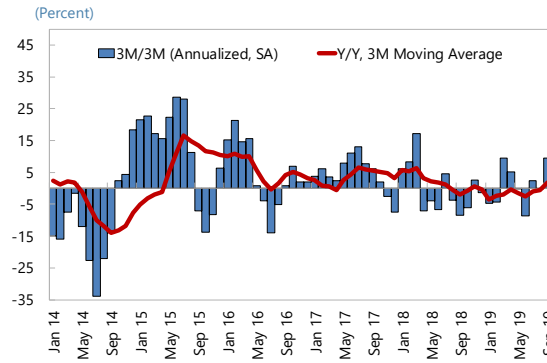
....as domestic demand strengthened.

Contribution to Growth



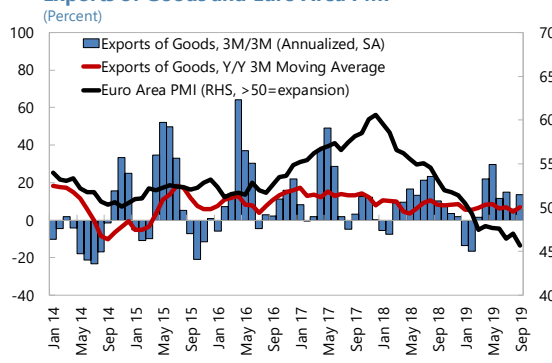
Industrial production is showing some sign of recovery....

Industrial Production



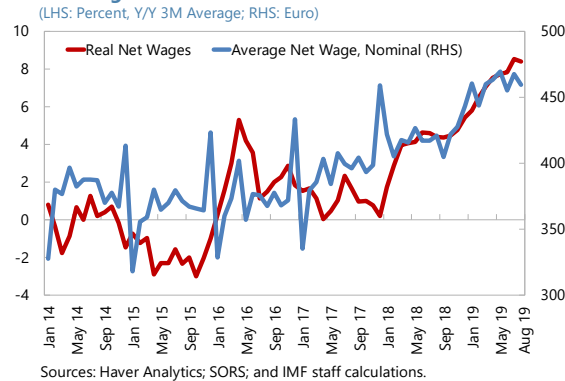
....while export growth remains strong.

Exports of Goods and Euro Area PMI



Net wages continue to grow strongly...

Net Wages



....supporting retail trade.

Retail Turnover

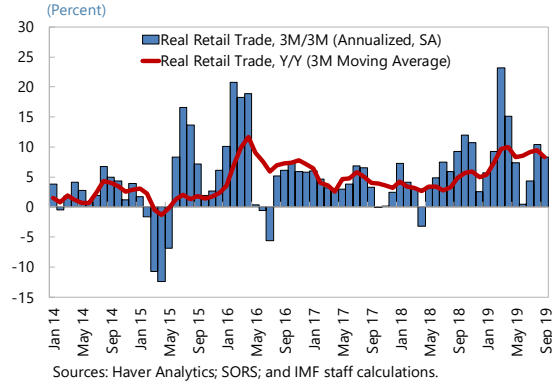
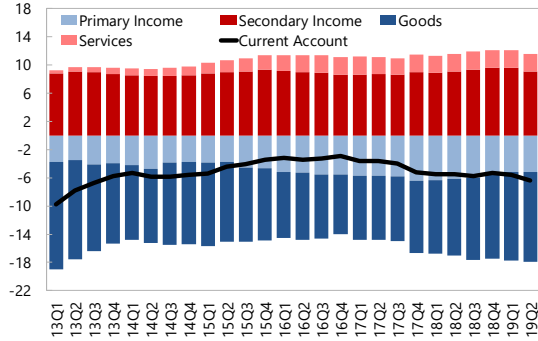


Figure 2. Serbia: Balance of Payments and NIR, 2013–19 1/

The current account deteriorated in 2Q2019....

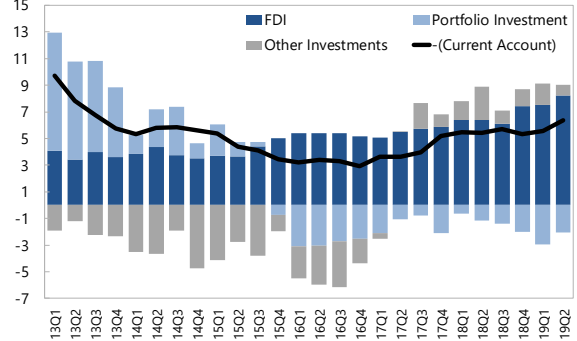
Current Account Balance
(Percent of GDP, 4Q moving sum)



Sources: Haver Analytics; and IMF Staff calculations.

....but remains fully covered by FDI.

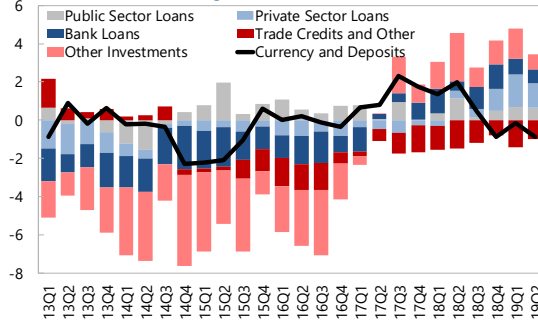
Financial Account Composition
(Percent of GDP, 4Q moving sum)



Sources: Haver Analytics; and IMF Staff calculations.

Outflows in other investments continue to be driven by trade credits.

Other Investments 1/
(Percent of GDP, 4Q moving sum)

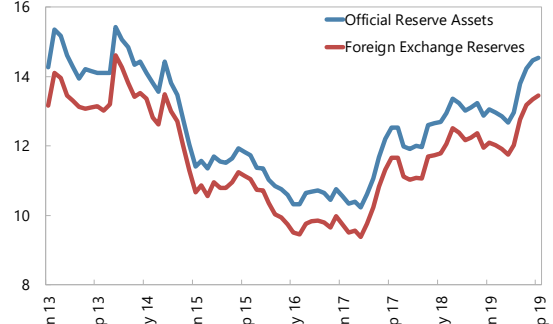


Sources: Haver Analytics; and IMF Staff calculations.

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

International reserves have grown at a rapid pace.

Reserves
(USD billions)

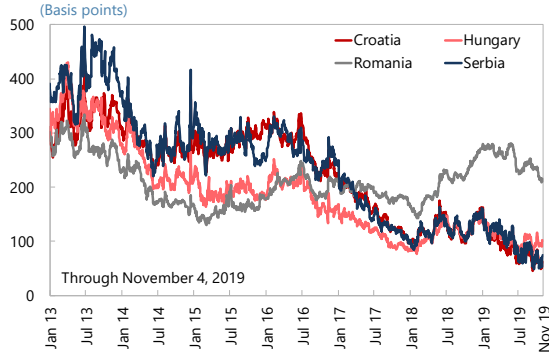


Sources: Haver Analytics; and IMF Staff calculations.

Figure 3. Serbia: Recent Financial and Exchange Rate Developments, 2013–19

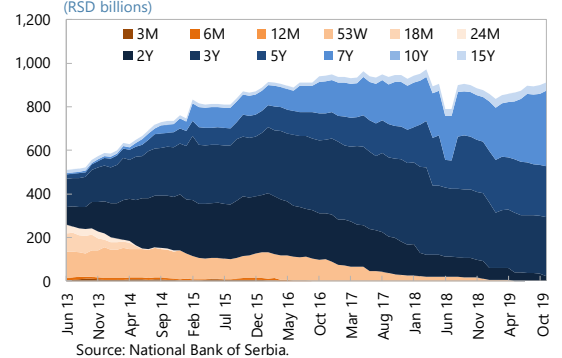
EMBI spreads remain low....

Sovereign Risk - EMBI Spreads



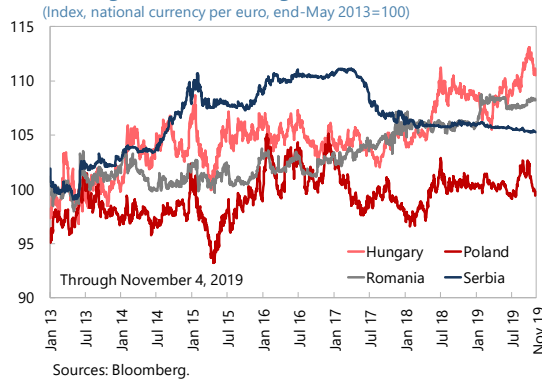
...and efforts to lengthen the maturity of domestic securities continue.

Domestic Debt Stock 1/



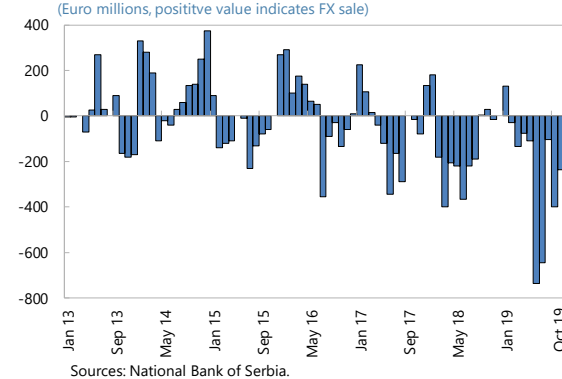
The exchange rate against the euro has remained broadly stable since early-2018....

Exchange Rates in the Region



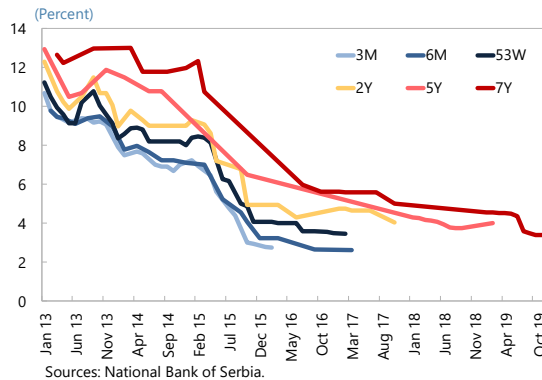
...while the NBS foreign exchange interventions have intensified.

FX Interventions by NBS



Yields for dinar-denominated securities remain low....

Yields on Dinar-Denominated Domestic Securities



...as are the yields for euro-denominated securities.

Yields on Euro-Denominated Domestic Securities

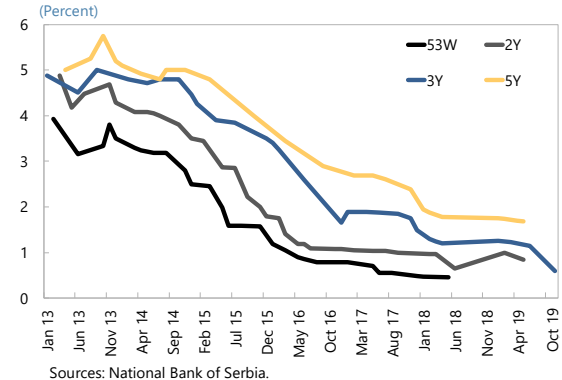
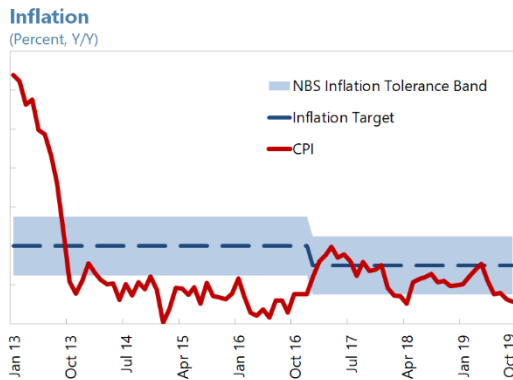


Figure 4. Serbia: Inflation and Monetary Policy, 2013–19

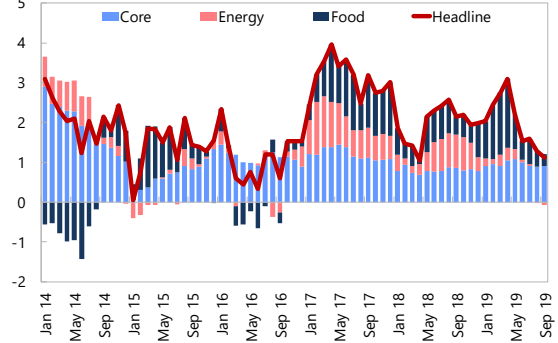
Headline inflation has remained below the midpoint of the NBS tolerance band...



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

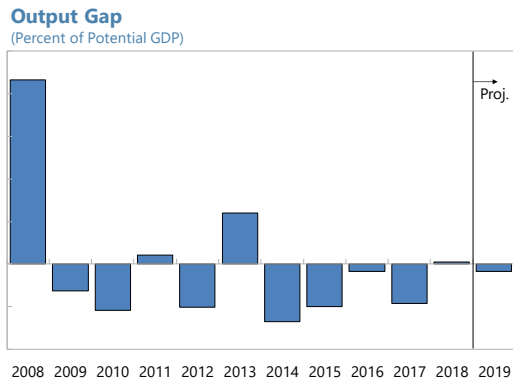
...as contribution from food prices declined.

Contribution to Annual Inflation (Percent, Y/Y)



Source: SORS.

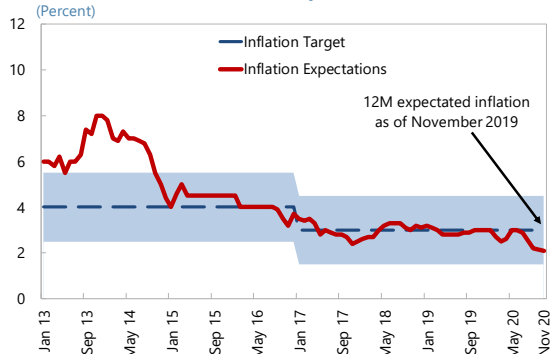
A small negative output gap is projected for 2019.



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

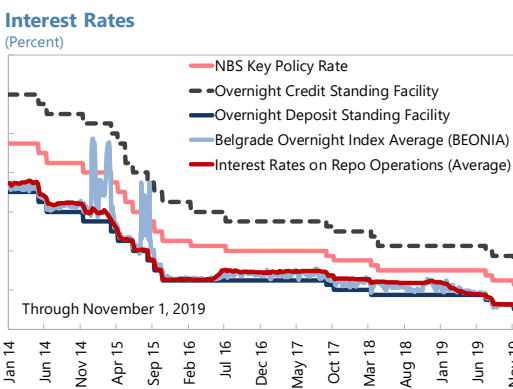
Inflation expectations remain contained.

One-Year-Ahead Inflation Expectations (Percent)



Sources: Bloomberg; SORS; and IMF staff projections.

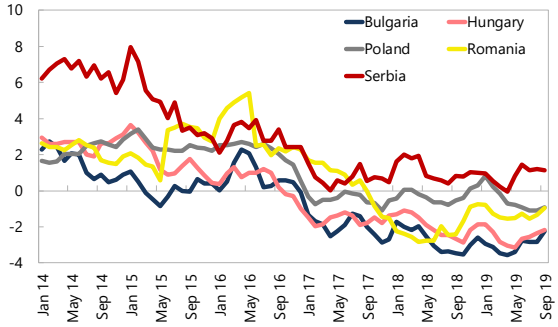
The key policy rate has been cut in July, August and November...



Sources: National Bank of Serbia; and Haver Analytics.

...but remains above peer countries in real terms.

Policy Rate in Real Terms in Selected Countries (Percent)

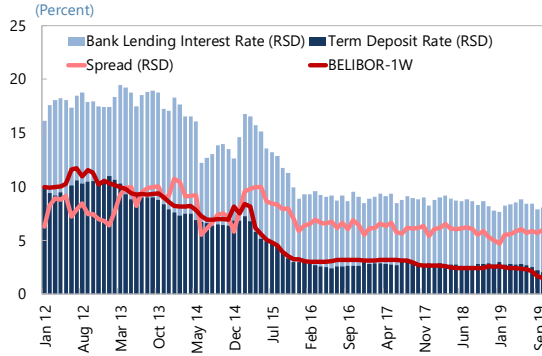


Source: Haver Analytics.
Nominal policy rates adjusted by inflation over the past 12 months.

Figure 5. Serbia: Selected Interest Rates, 2012–19

Monetary policy easing contributed to a decline in dinar interest rates...

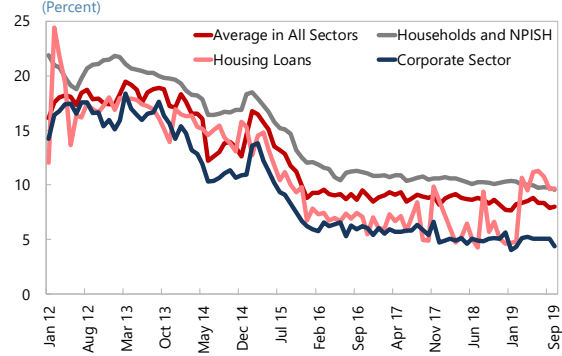
Selected Interest Rates (RSD)



Source: National Bank of Serbia.

...for corporates and housing loans.

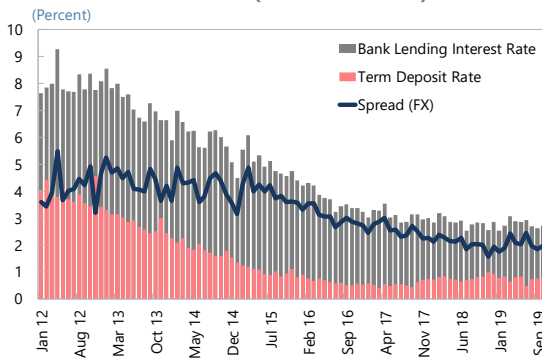
Bank Lending Interest Rates: RSD



Source: National Bank of Serbia.

FX (and FX-linked) interest rates remain low...

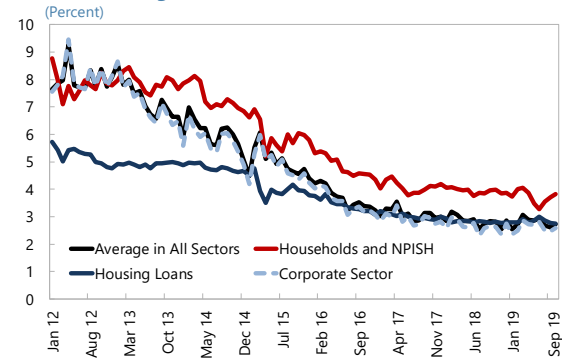
Selected Interest Rates (FX and FX-linked)



Source: National Bank of Serbia.

...because of lower lending rates to corporates.

Bank lending interest rates: FX and FX-linked



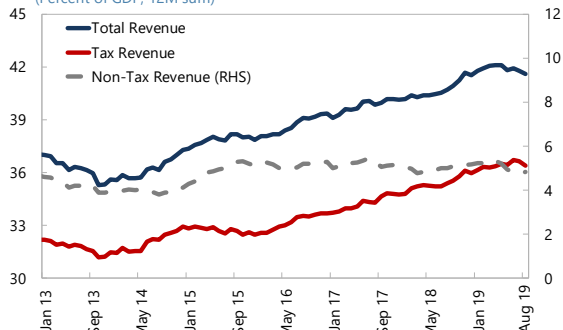
Source: National Bank of Serbia.

Figure 6. Serbia: Fiscal Developments, 2009–19

Tax revenues have stabilized as a share of GDP.

Total Revenue Composition

(Percent of GDP, 12M sum)

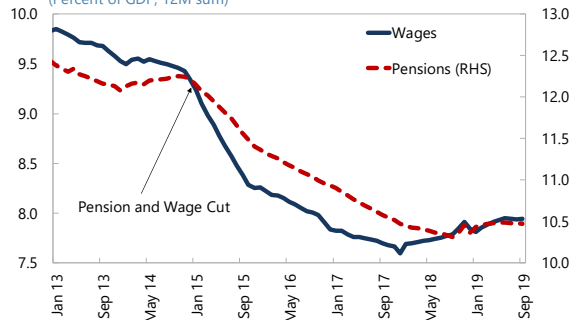


Sources: Ministry of Finance; and IMF staff calculations.

Public sector wages are growing as a share of GDP.

Wages and Pensions /1

(Percent of GDP, 12M sum)



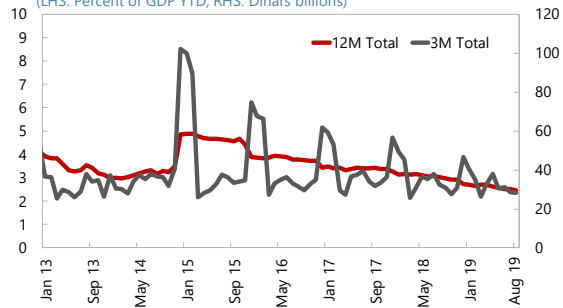
Sources: Ministry of Finance; and IMF staff calculations.

1. Excludes employers' contributions.

State aid continues to decline...

State Aid 2/

(LHS: Percent of GDP YTD; RHS: Dinars billions)



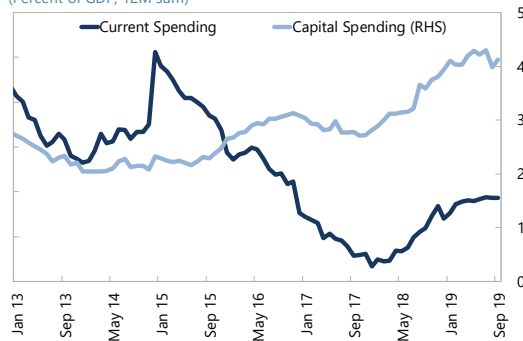
Sources: Ministry of Finance; and IMF staff calculations.

2/ State aid includes direct subsidies, net lending through the budget, assumption of SOE's debt, and the service of guaranteed debt called by creditors.

...creating space for capital spending to expand.

Current and Capital Spending

(Percent of GDP, 12M sum)

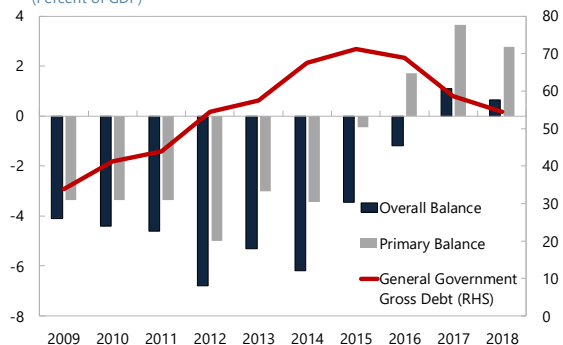


Sources: Ministry of Finance; and IMF staff calculations.

Government debt continues to decline...

Fiscal Balance and Debt

(Percent of GDP)

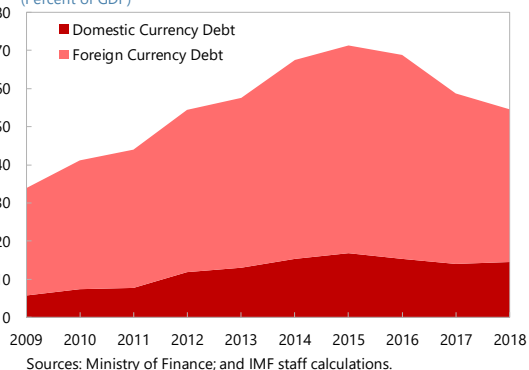


Sources: Ministry of Finance; and IMF staff calculations.

...but a majority of total debt is still denominated in foreign currency.

Public Debt

(Percent of GDP)

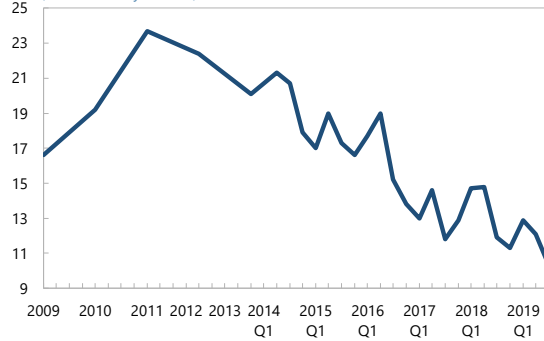


Sources: Ministry of Finance; and IMF staff calculations.

Figure 7. Serbia: Labor Market Developments, 2008–19

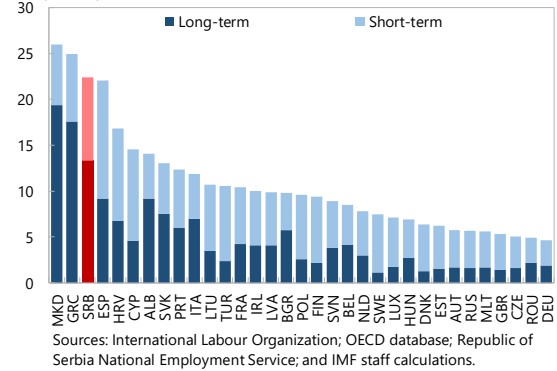
Unemployment continues to decline....

Unemployment Rate
(Percent, 15+ years old)



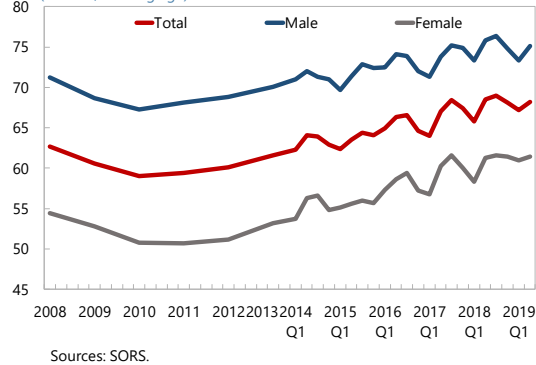
...but long-term unemployment persists.

Unemployment Rate, 2018
(Percent)



Labor market participation continues to rise, though female participation rate is persistently lower.

Labor Participation Rate
(Percent, working age)



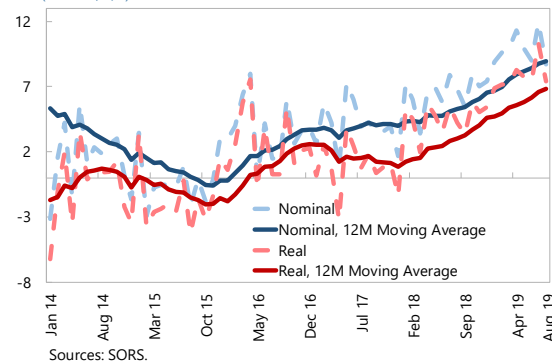
Employment continues its increasing trend.

Employment Rate
(Percent, 15-64 years old)



Net wages continue to grow at a fast pace...

Net Wage Growth
(Percent, Y/Y)



...and public sector wages remain above private sector wages, on average.

Average Monthly Net Real Wages
(Dinars Thousands as of 2016, 12M Moving Averages)

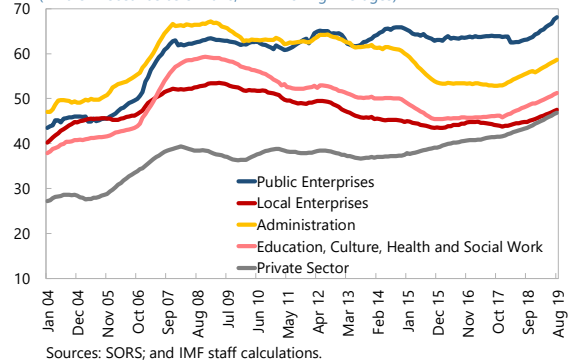


Table 1. Serbia: Selected Economic and Social Indicators, 2016–21

	2016	2017	2018	2019		2020		2021
				CR 19/238	Proj.	CR 19/238	Proj.	Proj.
(Percent change, unless otherwise indicated)								
Real sector 1/								
Real GDP	3.3	2.0	4.4	3.5	3.5	4.0	4.0	4.0
Real domestic demand (absorption)	1.4	3.9	6.5	4.4	4.6	3.8	4.0	3.6
Consumer prices (average)	1.1	3.1	2.0	2.2	1.9	1.9	2.0	2.2
GDP deflator	1.5	3.0	2.1	3.3	3.3	3.5	3.4	3.4
Unemployment rate (in percent) 2/	15.9	14.1	13.3	...	...	...	...	...
Nominal GDP (in billions of dinars)	4,521	4,754	5,069	5,408	5,417	5,819	5,827	6,264
(Percent of GDP)								
General government finances								
Revenue 3/	40.8	41.5	41.5	40.8	41.4	40.1	40.2	39.8
Expenditure 3/	41.9	40.4	40.9	41.3	42.0	40.7	40.7	40.3
Current 3/	37.9	36.7	36.4	36.7	37.2	36.1	35.9	35.6
Capital and net lending	3.2	3.1	4.1	4.3	4.5	4.4	4.7	4.5
Amortization of called guarantees	0.9	0.6	0.4	0.2	0.2	0.2	0.1	0.2
Fiscal balance 4/	-1.2	1.1	0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Primary fiscal balance (cash basis)	1.7	3.6	2.8	1.6	1.5	1.4	1.5	1.5
Structural primary fiscal balance 5/	1.7	3.7	2.8	1.9	1.8	1.8	1.6	1.6
Gross debt	68.9	58.7	54.5	52.3	52.7	49.3	51.4	47.8
(End of period 12-month change, percent)								
Monetary sector								
Money (M1)	20.3	9.7	20.1	10.7	10.7	9.8	9.7	8.6
Broad money (M2)	9.8	3.3	15.0	8.8	8.5	7.5	7.4	6.2
Domestic credit to non-government 6/	1.8	4.4	10.1	7.1	7.2	5.6	7.3	6.9
(Period average, percent)								
Interest rates (dinar)								
NBS key policy rate	3.5	3.9	3.1	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	3.1	3.1	2.8	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
Balance of payments								
Current account balance	-2.9	-5.2	-5.2	-5.6	-5.9	-5.1	-5.3	-5.2
Exports of goods	34.9	35.9	35.6	36.0	36.2	36.8	36.7	37.7
Imports of goods	-43.4	-46.1	-47.8	-48.8	-49.2	-49.2	-49.3	-49.7
Trade of goods balance	-8.5	-10.2	-12.2	-12.8	-13.0	-12.4	-12.6	-12.0
Capital and financial account balance	0.6	4.8	6.5	6.6	8.7	6.7	6.7	5.7
External debt (percent of GDP)	75.7	67.2	61.6	58.3	58.4	55.1	54.7	51.1
of which: Private external debt	29.4	29.8	29.2	27.6	27.5	25.9	25.7	24.3
Gross official reserves (in billions of euro)	10.2	10.0	11.3	11.8	12.5	12.5	13.2	13.5
(in months of prospective imports)	5.5	4.7	4.8	4.7	4.9	4.6	4.8	4.5
(percent of short-term debt)	412.5	262.3	163.7	167.7	191.5	178.8	201.7	205.7
(percent of broad money, M2)	58.7	53.2	52.2	51.1	54.2	50.7	53.1	50.4
(percent of risk-weighted metric)	171.5	162.1	158.4	160.4	171.4	162.4	170.7	172.6
Exchange rate (dinar/euro, period average)	123.1	121.4	118.3	...	...	...	...	...
REER (annual average change, in percent; + indicates appreciation)	-1.0	2.9	2.8	...	...	...	...	...
Social indicators								
Per capita GDP (in US\$)	5,756	6,284	7,246	7,503	7,445	8,174	8,086	8,787
Real GDP per capita (percent change)	3.9	2.6	5.0	...	3.9	...	4.4	4.4
Population (in million)	7.1	7.0	7.0	7.0	7.0	6.9	6.9	6.9

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

1/ SORS released revised national accounts in November 2018.

2/ Unemployment rate for working age population (15–64).

3/ Includes employer contributions.

4/ Includes amortization of called guarantees.

5/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs.

6/ At constant exchange rates.

Table 2. Serbia: Medium-Term Framework, 2016–24

	2016	2017	2018	2019		2020		2021		2022	2023	2024
				CR 19/238	Proj.	CR 19/238	Proj.	CR 19/238	Proj.	Proj.	Proj.	Proj.
(percent change)												
Real sector												
GDP growth 1/	3.3	2.0	4.4	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Domestic demand (contribution)	1.5	4.1	7.0	4.8	5.0	4.2	4.4	3.9	4.0	4.0	3.8	4.0
Net exports (contribution)	1.9	-2.1	-2.6	-1.3	-1.5	-0.2	-0.4	0.1	0.0	0.0	0.2	0.0
Consumer price inflation (average)	1.1	3.1	2.0	2.2	1.9	1.9	2.0	2.5	2.2	2.5	2.7	3.0
Consumer price inflation (end of period)	1.5	3.0	2.0	2.0	1.6	2.2	1.9	2.5	2.2	2.5	2.8	3.0
Output gap (in percent of potential)	-0.2	-0.9	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Potential GDP growth	2.5	2.8	3.4	3.7	3.7	3.8	3.8	4.0	4.0	4.0	4.0	4.0
Domestic credit to non-gov. (constant exchange rate) 2/	1.8	4.4	10.1	7.1	7.2	5.6	7.3	5.0	6.9	5.9	4.6	5.0
(percent of GDP, unless otherwise indicated)												
General government												
Revenue 3/	40.8	41.5	41.5	40.8	41.4	40.1	40.2	39.8	39.8	39.5	39.2	38.9
Expenditure 3/	41.9	40.4	40.9	41.3	42.0	40.7	40.7	40.4	40.3	40.0	39.7	39.4
Current 3/	37.9	36.7	36.4	36.7	37.2	36.1	35.9	35.9	35.6	35.4	35.2	35.0
of which: Wages and salaries 3/	9.2	9.0	9.2	9.4	9.5	9.3	9.5	9.3	9.5	9.4	9.4	9.4
of which: Pensions	11.1	10.7	10.4	10.4	10.6	10.3	10.2	10.3	10.1	10.1	10.1	10.1
of which: Goods and services	7.5	7.7	8.1	8.3	8.6	8.2	8.3	8.1	8.2	8.1	8.0	7.9
Capital and net lending	3.2	3.1	4.1	4.3	4.5	4.4	4.7	4.3	4.5	4.4	4.3	4.3
Amortization of called guarantees	0.9	0.6	0.4	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Fiscal balance 4/	-1.2	1.1	0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
change (+ = consolidation)	2.3	2.3	-0.5	-1.7	-1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance	1.7	3.6	2.8	1.6	1.5	1.4	1.5	1.4	1.5	1.5	1.5	1.5
change (+ = consolidation)	2.7	1.9	-0.9	-1.2	-1.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
One-off fiscal items, net 5/	0.1	0.3	-0.1	-0.3	-0.2	-0.4	-0.2	-0.4	-0.1	-0.1	-0.1	-0.1
Structural primary balance	1.7	3.7	2.8	1.9	1.8	1.8	1.6	1.8	1.6	1.6	1.6	1.6
change (+ = consolidation)	1.7	2.0	-0.8	-1.0	-1.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Structural primary balance net of capital expenditures	4.8	6.5	6.8	6.1	6.2	6.1	6.1	5.9	5.8	5.8	5.6	5.6
Gross debt	68.9	58.7	54.5	52.3	52.7	49.3	51.4	46.4	47.8	44.7	42.1	39.6
Effective interest rate on government borrowing (percent)	4.3	4.1	3.9	4.0	4.1	3.9	3.9	4.1	4.1	4.4	4.6	4.9
Domestic borrowing (including FX)	5.2	4.8	5.1	4.9	5.2	5.0	5.3	5.0	5.3	5.3	5.3	5.3
External borrowing	3.3	3.2	3.1	3.4	3.3	3.5	3.4	3.5	3.4	3.4	3.4	3.4
(percent of GDP, unless otherwise indicated)												
Balance of payments												
Current account	-2.9	-5.2	-5.2	-5.6	-5.9	-5.1	-5.3	-5.1	-5.2	-4.7	-3.9	-3.7
of which: Trade balance	-8.5	-10.2	-12.2	-12.8	-13.0	-12.4	-12.6	-11.9	-12.0	-11.4	-10.9	-10.4
of which: Current transfers, net (excl. grants)	8.4	8.6	9.0	8.7	8.7	8.7	8.7	8.1	8.1	8.0	8.0	7.7
Capital and financial account	0.6	4.8	6.5	6.6	8.7	6.7	6.7	5.8	5.7	4.6	4.6	3.3
of which: Foreign direct investment	5.2	6.2	7.4	6.1	7.8	5.9	6.3	5.4	5.5	5.5	5.5	5.5
External debt (end of period)	75.7	67.2	61.6	58.3	58.4	55.1	54.7	51.8	51.1	46.7	42.5	37.3
of which: Private external debt	29.4	29.8	29.2	27.6	27.5	25.9	25.7	24.5	24.3	22.5	20.9	19.1
Gross official reserves												
(in billions of euros)	10.2	10.0	11.3	11.8	12.5	12.5	13.2	12.9	13.5	13.4	13.8	13.5
(in percent of short-term external debt)	412.5	262.3	163.7	167.7	191.5	178.8	201.7	184.4	205.7	205.1	211.6	207.1
REER (ann. av. change; + = appreciation)	-1.0	2.9	2.8	...	...	...	...	...	...	...	...	...

Sources: NBS, MoF, SORS and IMF staff estimates and projections.

1/ SORS released revised national accounts in November 2018.

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

3/ Includes employer contributions.

4/ Includes amortization of called guarantees.

5/ Calculated as one-off revenue items minus one-off expenditure items. Negative sign indicates net expenditure.

Table 3. Serbia: Growth Composition, 2016–24 1/

	2016	2017	2018	2019	2020	2021	2022	2023	2024	
				CR 19/238	Proj. CR 19/238	Proj. CR 19/238	Proj.	Proj.	Proj.	
(Percent change, unless otherwise noted)										
Real										
Gross Domestic Product (GDP)	3.3	2.0	4.4	3.5	3.5	4.0	4.0	4.0	4.0	4.0
Domestic demand	1.4	3.9	6.5	4.4	4.6	3.8	4.0	3.6	3.6	3.4
Consumption	1.3	2.2	3.2	3.8	3.6	3.3	3.4	3.3	3.2	3.1
Non-government	1.3	1.9	3.1	3.9	3.5	4.0	3.9	3.8	3.6	3.7
Government	1.3	3.3	3.7	3.4	4.1	0.5	1.5	1.3	1.3	0.4
Investment	2.0	11.5	20.3	6.5	7.9	5.7	5.9	4.4	5.1	5.4
Gross fixed capital formation	5.4	7.3	17.8	7.4	8.8	6.5	6.4	5.0	5.4	5.7
Non-government	2.6	10.3	12.7	5.5	7.2	7.0	7.2	6.0	6.5	6.5
Government	20.2	-6.1	44.9	14.5	15.6	4.7	3.4	1.3	1.2	2.6
Exports of goods and services	11.9	8.2	8.3	7.2	8.6	8.4	8.1	8.7	8.4	8.4
Imports of goods and services	6.7	11.1	11.6	8.1	9.6	7.5	7.4	7.3	7.1	7.2
(contributions to GDP, percent)										
Gross Domestic Product (GDP)	3.3	2.0	4.4	3.5	3.5	4.0	4.0	4.0	4.0	4.0
Domestic demand (absorption)	1.5	4.1	7.0	4.8	5.0	4.2	4.4	3.9	4.0	4.0
Net exports of goods and services	1.9	-2.1	-2.6	-1.3	-1.5	-0.2	-0.4	0.1	0.0	0.0
Consumption	1.1	1.9	2.8	3.3	3.1	2.8	2.9	2.8	2.7	2.6
Non-government	0.9	1.3	2.1	2.7	2.4	2.7	2.7	2.6	2.5	2.5
Government	0.2	0.6	0.6	0.6	0.7	0.1	0.3	0.2	0.2	0.1
Investment	0.4	2.2	4.2	1.5	1.9	1.4	1.5	1.1	1.3	1.4
Gross fixed capital formation	1.0	1.3	3.4	1.5	1.9	1.4	1.5	1.1	1.3	1.4
Non-government	0.4	1.5	2.1	0.9	1.3	1.1	1.3	1.0	1.2	1.2
Government	0.6	-0.2	1.4	0.6	0.7	0.2	0.2	0.1	0.1	0.1
Change in inventories	-0.6	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	5.4	4.0	4.3	3.9	4.6	4.7	4.6	5.1	4.9	5.2
Imports of goods and services	3.5	6.1	6.9	5.1	6.1	4.9	5.0	5.0	5.0	5.2
(Percent change, unless otherwise noted)										
Nominal										
Gross Domestic Product (GDP)	4.9	5.2	6.6	6.9	6.9	7.6	7.6	7.4	7.5	7.6
Domestic demand (absorption), contribution to GDP growth	2.9	7.3	9.1	7.7	8.1	7.7	7.3	7.3	7.5	7.5
Net exports of goods and services, contribution to GDP growth	1.9	-2.1	-2.5	-0.8	-1.2	-0.1	0.3	0.1	0.0	0.1
Non-government	3.3	5.0	4.3	5.8	5.5	5.9	5.9	6.3	5.9	6.3
Government	2.0	6.5	9.2	7.9	10.7	6.5	6.9	6.8	6.8	6.1
Investment	1.1	15.0	23.4	10.0	11.1	11.0	8.7	7.8	9.8	9.4
Gross fixed capital formation	6.0	10.1	20.5	9.4	12.0	11.5	10.3	8.0	8.9	9.1
Non-government	3.0	13.2	15.1	8.0	10.3	12.0	11.1	9.1	10.0	9.9
Government	21.7	-3.9	48.9	14.5	18.9	9.6	7.2	4.2	4.5	5.9
Exports of goods and services	12.6	9.3	7.1	8.6	10.0	10.3	10.3	10.5	9.7	10.2
Imports of goods and services	7.2	12.5	10.6	8.6	10.6	8.8	8.3	8.7	8.4	8.9
Memorandum items:										
GDP deflator (percent)	1.5	3.0	2.1	3.3	3.3	3.5	3.4	3.3	3.4	3.5
Nominal GDP (billions of dinars)	4521	4754	5069	5408	5417	5819	5827	6252	6264	6740

Sources: Serbian Statistical Office; and IMF staff estimates and projections.

1/ SORS released revised national accounts in November 2018.

Table 4a. Serbia: Balance of Payments, 2016–24 1/
(In billions of euros)

	2016	2017	2018	2019		2020		2021		2022	2023	2024
				CR 19/238	Proj.	CR 19/238	Proj.	CR 19/238	Proj.	Proj.	Proj.	Proj.
	(Billions of euros)											
Current account balance	-1.1	-2.1	-2.2	-2.5	-2.7	-2.5	-2.6	-2.7	-2.8	-2.7	-2.4	-2.4
Trade of goods balance	-3.1	-4.0	-5.2	-5.8	-6.0	-6.1	-6.2	-6.2	-6.4	-6.5	-6.7	-6.9
Exports of goods	12.8	14.1	15.2	16.5	16.6	18.1	18.1	19.9	20.0	22.1	24.5	27.0
Imports of goods	-15.9	-18.1	-20.5	-22.3	-22.6	-24.1	-24.3	-26.1	-26.4	-28.6	-31.1	-33.9
Services balance	0.9	1.0	1.1	1.3	1.3	1.5	1.5	1.7	1.7	1.9	2.2	2.4
Exports of nonfactor services	4.6	5.2	6.0	6.6	6.8	7.3	7.5	8.0	8.3	9.2	10.2	11.2
Imports of nonfactor services	-3.7	-4.3	-4.9	-5.3	-5.5	-5.8	-6.1	-6.3	-6.6	-7.3	-8.0	-8.8
Income balance	-2.0	-2.5	-2.2	-2.1	-2.1	-2.3	-2.3	-2.4	-2.4	-2.6	-2.8	-3.1
Net interest	-1.0	-0.9	-0.7	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	-0.9	-0.9
Current transfer balance	3.2	3.5	4.1	4.1	4.1	4.4	4.4	4.3	4.3	4.6	4.9	5.1
Others, including private remittances	3.1	3.4	3.9	4.0	4.0	4.3	4.3	4.3	4.3	4.6	4.9	5.1
Capital and financial account balance 2/	0.2	1.9	2.8	3.0	4.0	3.3	3.3	3.1	3.0	2.6	2.8	2.1
Foreign direct investment balance	1.9	2.4	3.2	2.8	3.6	2.9	3.1	2.8	2.9	3.1	3.4	3.6
Portfolio investment balance	-0.9	-0.8	-0.9	0.1	0.3	0.1	0.0	0.1	0.1	-0.3	-0.3	-0.2
of which: debt liabilities	-0.9	-0.8	-0.9	0.1	0.3	0.1	0.0	0.1	0.1	-0.3	-0.3	-0.2
Other investment balance	-0.7	0.3	0.5	0.1	0.1	0.2	0.2	0.1	0.0	-0.2	-0.3	-1.3
Public sector 2/ 3/	0.3	0.0	0.2	0.0	0.0	0.1	0.1	-0.1	-0.2	-0.1	-0.2	-1.1
Domestic banks	-0.5	0.9	0.2	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	-0.1	-0.2
Other private sector 4/	-0.5	-0.6	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0
Errors and omissions	0.5	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.3	0.2	1.1	0.5	1.3	0.8	0.7	0.4	0.3	0.0	0.4	-0.3
Financing	0.3	-0.2	-1.1	-0.5	-1.3	-0.8	-0.7	-0.4	-0.3	0.0	-0.4	0.3
Gross international reserves (increase, -)	0.3	-0.2	-1.1	-0.5	-1.3	-0.8	-0.7	-0.4	-0.3	0.0	-0.4	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	0.0
Use of Fund credit, net	0.0	0.0	0.0	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	0.0
Repurchases	0.0	0.0	0.0	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, 2016–24 1/
(Percent of GDP)

	2016	2017	2018	2019		2020		2021		2022	2023	2024
				CR 19/238	Proj.	CR 19/238	Proj.	CR 19/238	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP)											
Current account balance	-2.9	-5.2	-5.2	-5.6	-5.9	-5.1	-5.3	-5.1	-5.2	-4.7	-3.9	-3.7
Trade of goods balance	-8.5	-10.2	-12.2	-12.8	-13.0	-12.4	-12.6	-11.9	-12.0	-11.4	-10.9	-10.4
Exports of goods	34.9	35.9	35.6	36.0	36.2	36.8	36.7	37.9	37.7	38.7	39.9	40.9
Imports of goods	-43.4	-46.1	-47.8	-48.8	-49.2	-49.2	-49.3	-49.7	-49.7	-50.2	-50.7	-51.3
Services balance	2.5	2.5	2.5	2.9	2.8	3.1	3.0	3.3	3.3	3.4	3.6	3.7
Income balance	-5.5	-6.5	-5.1	-4.6	-4.7	-4.7	-4.7	-4.6	-4.6	-4.6	-4.6	-4.7
Current transfer balance	8.6	9.0	9.7	8.9	8.9	8.9	8.9	8.1	8.1	8.0	8.0	7.7
Official grants	0.2	0.4	0.6	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Others, including private remittances	8.4	8.6	9.0	8.7	8.7	8.7	8.7	8.1	8.1	8.0	8.0	7.7
Capital and financial account balance 2/	0.6	4.8	6.5	6.6	8.7	6.7	6.7	5.8	5.7	4.6	4.6	3.3
Capital transfers balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	5.2	6.2	7.4	6.1	7.8	5.9	6.3	5.4	5.5	5.5	5.5	5.5
Portfolio investment balance	-2.5	-2.1	-2.1	0.3	0.7	0.3	0.1	0.2	0.2	-0.6	-0.4	-0.3
Other investment balance	-2.0	0.8	1.2	0.3	0.3	0.5	0.4	0.2	0.0	-0.3	-0.4	-1.9
Public sector 2/ 3/	0.8	0.0	0.4	0.1	0.0	0.3	0.1	-0.1	-0.4	-0.3	-0.4	-1.6
Domestic banks	-1.4	2.2	0.5	0.1	0.1	0.2	0.2	0.2	0.2	-0.2	-0.2	-0.3
Other private sector 4/	-1.5	-1.4	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.0
Errors and omissions	1.5	1.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	0.6	2.6	1.1	2.8	1.6	1.4	0.8	0.5	-0.1	0.7	-0.5
Memorandum items:												
Nominal growth of exports of goods	11.9	9.8	8.3	8.1	9.0	9.7	9.3	10.2	10.2	10.5	10.7	10.5
Nominal growth of import of goods	5.5	13.4	13.4	8.9	10.2	8.2	7.9	8.4	8.3	8.6	8.7	9.0
Volume growth of exports of goods	12.7	8.5	6.6	6.7	7.3	8.1	7.6	8.7	8.4	8.4	8.5	8.3
Volume growth of import of goods	11.0	10.0	10.5	8.5	9.2	7.1	7.0	7.2	7.0	6.9	6.8	7.0
Trading partner import growth	5.6	7.8	4.4	4.0	3.9	4.0	3.9	4.0	3.9	3.9	3.9	3.9
Export prices growth	-0.7	1.2	1.6	1.3	1.5	1.5	1.5	1.4	1.7	1.9	2.0	2.0
Import prices growth	-4.9	3.1	2.6	0.4	0.9	1.0	0.8	1.1	1.2	1.5	1.8	1.8
Change in terms of trade	4.4	-1.8	-1.0	0.9	0.7	0.4	0.7	0.3	0.5	0.3	0.2	0.2
Gross official reserves (in billions of euro)	10.2	10.0	11.3	11.8	12.5	12.5	13.2	12.9	13.5	13.4	13.8	13.5
(In months of prospective imports of GNFS)	5.5	4.7	4.8	4.7	4.9	4.6	4.8	4.4	4.5	4.1	3.9	3.8
(in percent of short-term debt)	412.5	262.3	163.7	167.7	191.5	178.8	201.7	184.4	205.7	205.1	211.6	207.1
(in percent of broad money, M2)	58.7	53.2	52.2	51.1	54.2	50.7	53.1	48.8	50.4	46.7	44.9	40.8
(in percent of risk-weighted metric, float) 5/	171.5	162.1	158.4	160.4	171.4	162.4	170.7	166.9	172.6	170.2	171.4	166.1
(in percent of risk-weighted metric, other) 5/	115.4	109.7	110.2	110.8	117.7	112.2	117.7	112.4	116.4	112.7	112.1	107.1
GDP (billions of euros)	36.7	39.2	42.9	45.7	45.9	49.1	49.4	52.6	53.1	57.1	61.4	66.0

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).

5/ Although Serbia was reclassified as crawl-like exchange rate regime in 2018, Serbia does not target any specific exchange rate.

Table 5. Serbia: External Financing Requirements, 2016–24
(In billions of euros)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Proj.						
	(Billions of euros)								
1. Total financing requirement	3.9	4.7	7.1	10.9	9.8	10.9	9.3	8.9	8.6
Current account deficit	1.1	2.1	2.2	2.7	2.6	2.8	2.7	2.4	2.4
Debt amortization	3.1	2.5	3.8	6.9	6.5	7.8	6.7	6.1	6.4
Medium and long-term debt	2.8	1.8	2.9	5.4	5.0	6.3	5.2	4.6	4.9
Public sector	1.0	0.6	1.9	3.0	1.9	2.9	1.8	1.6	3.2
Of which: Eurobonds	0.2	0.7	1.0	1.5	0.6	1.3	0.0	0.0	0.0
Of which: Domestic bonds (non-residents)	0.0	0.0	0.0	0.6	0.6	0.7	0.8	0.7	1.5
Commercial banks	1.0	1.2	0.3	1.0	1.5	1.4	1.6	1.7	1.1
Corporate sector	0.8	0.0	0.7	1.4	1.7	2.0	1.7	1.3	0.6
Short-term debt	0.3	0.7	0.9	1.5	1.5	1.5	1.5	1.5	1.5
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.6	0.8	1.3	1.3	1.3	1.3	1.3	1.3
Corporate sector	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Change in gross reserves (increase=+)	-0.3	0.2	1.1	1.3	0.7	0.3	0.0	0.4	-0.3
2. Total financing sources	3.9	4.7	7.1	10.9	9.8	10.9	9.3	8.9	8.6
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	1.9	2.4	3.2	3.6	3.1	2.9	3.1	3.4	3.6
Portfolio investment (net) 1/	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	2.7	2.9	4.3	7.3	6.8	7.9	6.2	5.6	4.9
Medium and long-term debt	2.0	2.0	2.8	5.8	5.3	6.4	4.7	4.1	3.4
Public sector 2/	1.1	0.0	1.1	3.3	2.0	2.8	1.4	1.1	1.9
Of which: Eurobonds	0.0	0.0	0.0	1.5	0.3	1.5	0.0	0.0	1.0
Of which: Domestic bonds (non-residents)	0.0	0.0	0.0	1.0	0.9	0.7	0.5	0.4	0.2
Commercial banks	0.3	1.1	0.5	1.0	1.6	1.5	1.5	1.6	0.9
Corporate sector	0.6	0.8	1.2	1.4	1.7	2.1	1.8	1.4	0.6
Short-term debt	0.7	0.9	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.6	0.8	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Corporate sector	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other net capital inflows 3/ o/w trade credit and currency and deposits	-0.6	-0.5	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
	0.3	0.1	0.1	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	4.1	3.3	4.5	7.6	7.2	8.6	7.5	7.0	7.3
Interest	0.9	0.8	0.7	0.7	0.7	0.7	0.8	0.9	0.9
Amortization	3.1	2.5	3.8	6.9	6.5	7.8	6.7	6.1	6.4

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, 2016–24 1/
(In billions of RSD)

	2016	2017	2018	2019		2020		2021		2022	2023	2024
				CR 19/238	Proj.	CR 19/238	Proj.	CR 19/238	Proj.	Proj.	Proj.	Proj.
Revenue	1,843	1,973	2,105	2,208	2,244	2,334	2,341	2,490	2,496	2,664	2,847	3,049
Taxes	1,586	1,718	1,822	1,949	1,978	2,086	2,084	2,226	2,226	2,378	2,542	2,727
Personal income tax	155	168	179	196	202	209	216	220	227	240	255	276
Social security contributions 2/	527	567	620	657	671	711	725	755	773	826	888	953
Taxes on profits	80	112	112	129	128	126	114	142	130	138	149	160
Value-added taxes	454	479	500	548	545	592	582	630	620	663	708	762
Excises	266	280	290	293	301	312	311	335	332	356	379	401
Taxes on international trade	36	40	44	47	47	52	52	56	55	60	64	68
Other taxes	67	72	77	78	83	83	84	88	89	94	100	107
Non-tax revenue	239	241	263	244	249	233	240	247	252	267	285	304
Capital revenue	8	6	6	0	0	0	0	0	0	0	0	0
Grants	9	9	15	15	16	15	17	16	18	19	20	19
Expenditure	1,897	1,921	2,073	2,234	2,273	2,366	2,370	2,523	2,525	2,695	2,881	3,085
Current expenditure	1,715	1,745	1,845	1,986	2,016	2,099	2,090	2,242	2,231	2,384	2,556	2,739
Wages and salaries 3/	418	426	469	507	514	543	555	582	595	636	681	733
Goods and services	339	365	412	449	466	475	483	504	511	544	581	620
Interest	132	121	109	111	113	111	114	119	122	132	141	152
Subsidies	113	113	110	132	128	130	114	140	123	132	142	154
Transfers	714	720	746	787	795	840	825	897	881	941	1,011	1,080
Pensions 4/	503	506	525	563	572	602	594	643	635	681	734	788
Other transfers 5/	211	214	221	224	223	238	231	254	246	260	276	292
Capital expenditure	139	134	199	228	237	250	260	260	266	282	295	316
Net lending	3	13	9	7	9	8	13	8	14	15	16	18
Amortization of activated guarantees	39	29	20	13	12	9	7	13	14	14	13	13
Fiscal balance	-54	52	32	-26	-30	-32	-29	-33	-29	-31	-33	-35
Financing	54	-52	-32	26	30	32	29	33	29	31	33	35
Privatization proceeds	5	2	0	15	20	0	0	0	0	0	0	0
Equity investment	0	0	0	0	0	0	0	0	0	0	0	0
Domestic	20	-38	45	7	-18	23	-3	20	36	28	26	13
Banks	148	-66	35	17	-42	12	-41	12	-40	-33	-44	-41
Government deposits ((-) means accumulation)	35	5	5	-14	-36	-4	-59	-6	-13	-9	-20	-1
Securities held by banks (net)	99	-3	36	41	0	48	27	45	0	3	0	0
Other domestic bank financing	14	-68	-6	-10	-7	-31	-9	-27	-27	-27	-25	-40
Non-banks (incl. non-residents)	-128	28	10	-10	24	10	38	8	76	61	70	54
Securities held by non-banks (non-residents, net)	-37	43	19	7	35	10	43	8	78	63	71	55
Others (incl. amortization)	-91	-15	-9	-16	-11	0	-5	0	-2	-2	-1	-1
External	29	-16	-77	4	28	9	32	13	-6	3	7	23
Program	0	61	0	0	0	0	0	0	0	0	0	0
Project	73	60	79	62	65	95	82	95	69	76	64	54
Bonds and loans	23	0	40	41	223	127	53	218	182	27	22	142
Amortization	-67	-137	-195	-98	-259	-214	-103	-284	-257	-100	-78	-174
Memorandum items:												
Wages and salaries excluding severance payments	418	426	469	507	514	543	555	582	595	636	681	733
Gross 1 wages and salaries	354	361	397	431	438	463	475	497	508	543	581	626
Arrears accumulation (domestic)	-1	-1	1	-1	-1	-1	-1	0	0	0	0	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	86	54	38	30	16	15	25	5	5	5	0	0
Government deposits (stock)	107	102	97	111	132	115	191	122	204	214	233	234
Gross public debt	3114	2792	2760	2831	2854	2871	2995	2902	2992	3015	3055	3100
Gross public debt (including restitution)	3357	3035	3003	3074	3097	3094	3238	3105	3215	3219	3239	3265
Nominal GDP (billions of dinars)	4521	4754	5069	5408	5417	5819	5827	6252	6264	6740	7259	7833

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/ Includes employer contributions.

3/ Including severance payments. Includes employer contributions.

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

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

Table 6b. Serbia: General Government Fiscal Operations, 2016–24 1/
(Percent of GDP)

	2016	2017	2018	2019		2020		2021		2022	2023	2024
				CR 19/238	Proj.	CR 19/238	Proj.	CR 19/238	Proj.	Proj.	Proj.	Proj.
Revenue	40.8	41.5	41.5	40.8	41.4	40.1	40.2	39.8	39.8	39.5	39.2	38.9
Taxes	35.1	36.1	36.0	36.0	36.5	35.8	35.8	35.6	35.5	35.3	35.0	34.8
Personal income tax	3.4	3.5	3.5	3.6	3.7	3.6	3.7	3.5	3.6	3.6	3.5	3.5
Social security contributions 2/	11.7	11.9	12.2	12.1	12.4	12.2	12.4	12.1	12.3	12.3	12.2	12.2
Taxes on profits	1.8	2.4	2.2	2.4	2.4	2.2	2.0	2.3	2.1	2.1	2.0	2.0
Value-added taxes	10.0	10.1	9.9	10.1	10.1	10.2	10.0	10.1	9.9	9.8	9.8	9.7
Excises	5.9	5.9	5.7	5.4	5.6	5.4	5.3	5.4	5.3	5.3	5.2	5.1
Taxes on international trade	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other taxes	1.5	1.5	1.5	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Non-tax revenue	5.3	5.1	5.2	4.5	4.6	4.0	4.1	3.9	4.0	4.0	3.9	3.9
Capital revenue	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Expenditure	41.9	40.4	40.9	41.3	42.0	40.7	40.7	40.4	40.3	40.0	39.7	39.4
Current expenditure	37.9	36.7	36.4	36.7	37.2	36.1	35.9	35.9	35.6	35.4	35.2	35.0
Wages and salaries 3/	9.2	9.0	9.2	9.4	9.5	9.3	9.5	9.3	9.5	9.4	9.4	9.4
Goods and services	7.5	7.7	8.1	8.3	8.6	8.2	8.3	8.1	8.2	8.1	8.0	7.9
Interest	2.9	2.5	2.1	2.1	2.1	1.9	1.9	1.9	1.9	2.0	1.9	1.9
Subsidies	2.5	2.4	2.2	2.4	2.4	2.2	2.0	2.2	2.0	2.0	2.0	2.0
Transfers	15.8	15.1	14.7	14.6	14.7	14.4	14.2	14.3	14.1	14.0	13.9	13.8
Pensions 4/	11.1	10.7	10.4	10.4	10.6	10.3	10.2	10.3	10.1	10.1	10.1	10.1
Other transfers 5/	4.7	4.5	4.4	4.1	4.1	4.1	4.0	4.1	3.9	3.9	3.8	3.7
Capital expenditure	3.1	2.8	3.9	4.2	4.4	4.3	4.5	4.2	4.2	4.2	4.1	4.0
Net lending	0.1	0.3	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Amortization of activated guarantees	0.9	0.6	0.4	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Fiscal balance	-1.2	1.1	0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Financing	1.2	-1.1	-0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Privatization proceeds	0.1	0.0	0.0	0.3	0.4	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	0.0
Domestic	0.4	-0.8	0.9	0.1	-0.3	0.4	-0.1	0.3	0.6	0.4	0.4	0.2
Banks	3.3	-1.4	0.7	0.3	-0.8	0.2	-0.7	0.2	-0.6	-0.5	-0.6	-0.5
Government deposits ((-) means accumulation)	0.8	0.1	0.1	-0.3	-0.7	-0.1	-1.0	-0.1	-0.2	-0.1	-0.3	0.0
Securities held by banks (net)	2.2	-0.1	0.7	0.8	0.0	0.8	0.5	0.7	0.0	0.0	0.0	0.0
Other domestic bank financing	0.3	-1.4	-0.1	-0.2	-0.1	-0.5	-0.2	-0.4	-0.4	-0.4	-0.3	-0.5
Non-banks (incl. non-residents)	-2.8	0.6	0.2	-0.2	0.4	0.2	0.7	0.1	1.2	0.9	1.0	0.7
Securities held by non-banks (non-residents, net)	-0.8	0.9	0.4	0.1	0.6	0.2	0.7	0.1	1.3	0.9	1.0	0.7
Others (incl. amortization)	-2.0	-0.3	-0.2	-0.3	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
External	0.6	-0.3	-1.5	0.1	0.5	0.2	0.6	0.2	-0.1	0.0	0.1	0.3
Program	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project	1.6	1.3	1.6	1.1	1.2	1.6	1.4	1.6	1.1	1.1	0.9	0.7
Bonds and loans	0.5	0.0	0.8	0.8	4.1	2.2	0.9	3.5	2.9	0.4	0.3	1.8
Amortization	-1.5	-2.9	-3.9	-1.8	-4.8	-3.7	-1.8	-4.5	-4.1	-1.5	-1.1	-2.2
Memorandum items:												
Wages and salaries excluding severance payments	9.2	9.0	9.2	9.4	9.5	9.3	9.5	9.3	9.5	9.4	9.4	9.4
Gross 1 wages and salaries	7.8	7.6	7.8	8.0	8.1	8.0	8.1	7.9	8.1	8.1	8.0	8.0
Arrears accumulation (domestic)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government deposits (stock)	2.4	2.1	1.9	2.1	2.4	2.0	3.3	1.9	3.3	3.2	3.2	3.0
Gross financing need	12.3	9.0	8.5	8.2	11.1	8.0	6.5	7.7	7.4	5.5	4.9	5.7
Gross public debt	68.9	58.7	54.5	52.3	52.7	49.3	51.4	46.4	47.8	44.7	42.1	39.6
Gross public debt (including restitution)	74.3	63.8	59.3	56.8	57.2	53.2	55.6	49.7	51.3	47.8	44.6	41.7
Nominal GDP (billions of dinars)	4,521	4,754	5,069	5,408	5,417	5,819	5,827	6,252	6,264	6,740	7,259	7,833

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/ Includes employer contributions.

3/ Including severance payments. Includes employer contributions.

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

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

Table 7. Serbia: Monetary Survey, 2016–24

	2016	2017	2018	2019		2020		2021		2022	2023	2024
				CR 19/238	Proj. CR 19/238	CR 19/238	Proj.	CR 19/238	Proj.	Proj.	Proj.	Proj.
(Billions of dinars, unless otherwise indicated; end of period) 1/												
Net foreign assets 2/	1156	986	1116	1170	1255	1255	1326	1295	1348	1359	1430	1426
in billions of euro	9.4	8.3	9.4	9.9	10.6	10.6	11.2	10.9	11.4	11.5	12.1	12.0
Foreign assets	1512	1391	1616	1676	1760	1773	1840	1823	1872	1869	1923	1894
NBS	1271	1191	1342	1402	1487	1498	1567	1548	1599	1596	1649	1620
Commercial banks	241	200	273	274	273	275	273	275	273	273	274	275
Foreign liabilities (-)	-356	-405	-500	-507	-504	-518	-514	-528	-524	-510	-493	-468
NBS	-6	-4	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Commercial banks	-350	-401	-497	-504	-501	-514	-511	-525	-521	-506	-490	-465
Net domestic assets	989	1,231	1,435	1,605	1,511	1,728	1,645	1,876	1,808	1,978	2,101	2,302
Domestic credit	2,321	2,362	2,552	2,725	2,657	2,886	2,806	3,033	2,953	3,094	3,192	3,355
Government, net	341	353	346	357	295	380	270	398	238	214	174	177
NBS	-210	-215	-233	-239	-268	-248	-327	-253	-340	-349	-370	-328
Claims on government	4	4	5	5	5	5	5	5	5	5	5	5
Liabilities (deposits)	214	219	238	244	273	253	332	258	345	355	375	333
Banks	551	568	578	595	562	628	596	650	578	563	544	505
Claims on government	638	630	641	659	625	691	659	714	641	627	607	568
Liabilities (deposits)	87	63	63	63	63	63	63	63	63	63	63	63
Local governments, net	-20	-31	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
Non-government sector	2,000	2,040	2,235	2,396	2,390	2,534	2,565	2,664	2,744	2,908	3,047	3,206
Households	840	905	1,018	1,117	1,114	1,204	1,218	1,296	1,334	1,435	1,510	1,604
Enterprises	1,127	1,103	1,188	1,249	1,245	1,298	1,314	1,334	1,375	1,436	1,498	1,561
Other	34	32	29	31	31	33	33	34	35	37	39	41
Other assets, net	-1,332	-1,131	-1,117	-1,119	-1,145	-1,157	-1,161	-1,158	-1,145	-1,116	-1,091	-1,053
Capital accounts (-)	-1,016	-963	-997	-997	-1,013	-1,011	-1,027	-1,008	-1,011	-979	-941	-902
NBS	-391	-298	-324	-324	-324	-324	-324	-308	-308	-262	-210	-168
Banks	-625	-664	-673	-673	-689	-686	-703	-700	-703	-717	-731	-735
Provisions (-)	-281	-161	-121	-124	-133	-148	-136	-151	-136	-139	-153	-153
Other assets	-34	-7	1	2	2	2	2	2	2	2	2	2
Broad money (M2)	2146	2217	2551	2775	2766	2983	2971	3171	3156	3338	3531	3728
M1	566	621	745	825	825	906	905	983	983	1058	1152	1222
Currency in circulation	159	164	183	202	202	222	222	241	241	259	282	300
Demand deposits	407	457	563	623	623	684	683	742	742	799	869	923
Time and saving deposits	195	196	220	243	243	267	267	290	290	312	340	361
Foreign currency deposits	1385	1400	1585	1707	1698	1811	1799	1898	1883	1967	2039	2145
in billions of euro	11.2	11.8	13.4	14.4	14.4	15.2	15.2	15.9	15.9	16.6	17.2	18.1
Memorandum items:	(year-on-year change unless indicated otherwise)											
M1	20.3	9.7	20.1	10.7	10.7	9.8	9.7	8.5	8.6	7.7	8.8	6.2
M2	9.8	3.3	15.0	8.8	8.5	7.5	7.4	6.3	6.2	5.8	5.8	5.6
Velocity (Dinar part of money supply)	5.9	5.8	5.3	5.1	5.1	5.0	5.0	4.9	4.9	4.9	4.9	4.9
Velocity (M2)	2.1	2.1	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1
Deposits at constant exchange rate	8.5	5.9	15.9	8.5	8.5	7.2	7.1	6.0	6.0	5.5	5.4	5.3
Credit to non-gov. (current exchange rate)	3.2	1.9	6.5	5.2	4.8	4.2	5.3	4.0	5.3	4.7	3.9	4.0
Credit to non-gov. (constant exchange rates) 3/	2.1	4.8	7.2	5.0	5.1	4.0	5.2	3.9	5.3	4.6	3.8	3.8
Domestic	1.8	4.4	10.1	7.1	7.2	5.6	7.3	5.0	6.9	5.9	4.6	5.0
Households	9.8	9.8	12.9	9.6	9.6	7.6	9.3	7.5	9.5	7.5	5.2	6.1
Enterprises and other sectors	-3.3	0.5	7.9	5.0	5.2	3.8	5.5	2.6	4.6	4.5	4.1	4.0
External	2.8	5.4	1.2	0.5	0.5	0.3	0.3	1.2	1.2	1.1	1.4	0.2
Credit to non-gov. (real terms) 4/	1.6	-1.1	4.5	3.1	3.1	2.0	3.2	1.5	3.1	2.1	1.1	1.0
Domestic credit to non-gov. (real terms)	1.1	-1.0	7.4	5.1	5.2	3.5	5.3	2.5	4.7	3.4	2.0	2.2
Households	8.8	4.6	10.3	7.6	7.7	5.4	7.2	5.0	7.1	4.9	2.4	3.1
Enterprises and other sectors	-3.8	-5.1	5.1	3.0	3.1	1.7	3.5	0.2	2.3	1.9	1.5	1.2
External	2.6	-1.2	-1.5	-1.3	-1.5	-1.6	-1.5	-1.1	-0.9	-1.3	-1.2	-2.4
12-m change in NBS's NFA, billions of euros	0.1	-0.2	0.6	0.8	1.8	0.7	1.0	0.3	0.3	-0.1	0.5	-0.8
Deposit euroization (percent of total) 5/	69.7	68.2	66.9	66.3	66.2	65.6	65.4	64.8	64.6	63.9	62.8	62.6
Credit euroization (percent of total) 5/	68.3	67.1	66.9	66.3	66.3	65.5	65.5	64.7	64.7	63.9	62.9	61.9

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 constant program dinar/euro and dinar/swiss franc exchange rates for converting FX and FX-indexed loans to dinars agreed under 2015-17 SBA.

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 8. Serbia: NBS Balance Sheet, 2016–24

	2016	2017	2018	2019		2020		2021		2022	2023	2024
				CR 19/238	Proj.	CR 19/238	Proj.	CR 19/238	Proj.	Proj.	Proj.	Proj.
(Billions of dinars, unless otherwise indicated; end of period) 1/												
Net foreign assets	1265	1187	1339	1399	1484	1495	1564	1545	1596	1592	1646	1616
(In billions of euro)	10.3	10.0	11.3	11.8	12.6	12.6	13.3	13.0	13.5	13.5	13.9	13.6
Gross foreign reserves	1271	1191	1342	1402	1487	1498	1567	1548	1599	1596	1649	1620
Gross reserve liabilities (-)	-6	-4	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Net domestic assets	-663	-596	-607	-636	-721	-652	-724	-633	-686	-613	-577	-463
Net domestic credit	-272	-298	-282	-311	-397	-328	-399	-325	-378	-351	-367	-295
Net credit to government	-210	-215	-233	-239	-268	-248	-327	-253	-340	-349	-370	-328
Claims on government	4	4	5	5	5	5	5	5	5	5	5	5
Liabilities to government (-)	-214	-219	-238	-244	-273	-253	-332	-258	-345	-355	-375	-333
Liabilities to government (-): local currency	-95	-118	-137	-137	-137	-137	-137	-137	-137	-137	-137	-137
Liabilities to government (-): foreign currency	-119	-101	-101	-107	-136	-116	-194	-121	-208	-217	-238	-195
Net credit to local governments	-43	-48	-46	-48	-48	-48	-48	-48	-48	-48	-48	-48
Net claims on banks	-33	-45	-16	-37	-94	-44	-37	-37	-2	33	38	68
Capital accounts (-)	-391	-298	-324	-324	-324	-324	-324	-308	-308	-262	-210	-168
Reserve money	602	591	732	764	762	842	840	912	910	979	1069	1154
Currency in circulation	159	164	183	202	202	222	222	241	241	259	282	300
Commercial bank reserves	221	232	269	307	307	350	350	388	388	426	483	534
Required reserves	147	156	171	184	183	196	194	205	203	212	220	232
Excess reserves	73	76	98	122	123	155	156	183	185	214	262	302
FX deposits by banks, billions of euros	1.8	1.6	2.4	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.6	2.7

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

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

Table 9. Serbia: Banking Sector Financial Soundness Indicators, 2014–19

	2014	2015	2016	2017	2018				2019	
					Mar	Jun	Sep	Dec	Mar	Jun
Capital adequacy										
Regulatory capital to risk-weighted assets	20.0	20.9	21.8	22.6	22.7	22.9	22.8	22.3	23.7	23.2
Regulatory Tier 1 capital to risk-weighted assets	17.6	18.8	20.0	21.6	21.8	22.1	21.9	21.1	22.6	22.1
Nonperforming loans net of provisions to regulatory capital	56.0	44.0	27.1	17.7	15.4	12.7	10.3	9.7	8.2	8.1
Regulatory Tier 1 capital to assets	10.1	10.7	11.6	13.7	13.9	14.3	14.2	13.5	14.8	14.8
Large exposures to capital	130.5	115.7	86.0	69.3	73.3	68.6	68.2	77.4	63.4	64.0
Regulatory capital to assets	11.4	11.9	12.7	14.4	14.5	14.8	14.9	14.2	15.5	15.6
Asset quality										
Nonperforming loans to total gross loans	21.5	21.6	17.0	9.8	9.2	7.8	6.4	5.7	5.5	5.2
Sectoral distribution of loans (percent of total loans)										
Deposit takers	0.8	0.1	0.5	0.3	0.2	0.3	0.4	0.4	0.3	0.5
Central bank	0.4	1.6	1.7	2.1	1.9	3.0	1.8	0.7	0.7	1.7
General government	2.3	1.7	1.5	1.3	1.2	1.2	1.2	1.1	1.2	1.3
Other financial corporations	0.5	0.7	0.9	0.9	0.7	0.8	0.9	0.8	0.9	0.9
Nonfinancial corporations	56.3	55.9	52.6	50.5	50.6	49.1	49.0	50.0	49.9	49.2
Agriculture	3.5	3.7	3.6	3.5	3.4	3.5	3.6	3.5	3.3	3.2
Industry	19.2	18.4	16.5	16.2	16.3	16.2	15.9	16.5	16.5	15.7
Construction	4.2	3.8	4.1	4.0	4.1	4.1	4.2	4.2	4.5	4.5
Trade	13.9	13.9	14.3	14.6	14.9	14.2	14.5	14.0	14.2	13.8
Other loans to nonfinancial corporations	15.6	16.2	14.1	12.2	11.9	11.0	10.7	11.8	11.4	12.0
Households and NPISH	38.3	39.1	41.5	42.9	43.8	43.7	44.7	44.3	45.1	44.2
Households and NPISH of which: mortgage loans to total loa	18.0	18.1	17.9	16.9	17.2	16.8	17.0	16.8	17.0	16.1
Foreign sector	1.4	0.9	1.4	2.0	1.6	1.9	2.2	2.6	2.0	2.1
IFRS provision for NPLs to gross NPLs	54.9	62.3	67.8	58.1	60.8	60.9	61.3	60.2	61.3	60.8
IFRS provision of total loans to total gross loans	12.7	14.4	12.4	6.6	6.7	5.8	5.0	4.5	4.4	4.1
Earnings and Profitability										
Return on assets	0.1	0.3	0.7	2.1	2.1	2.1	2.1	2.2	1.7	1.8
Return on equity	0.6	1.5	3.3	10.5	10.5	10.6	10.7	11.3	9.7	9.7
Liquidity										
Customer deposits to total (noninterbank) loans	95.7	99.7	108.1	106.9	105.4	106.8	105.3	110.6	109.6	107.4
Foreign-currency-denominated loans to total loans	70.1	72.3	69.4	67.5	67.3	67.0	67.8	68.5	68.2	67.6
Average monthly liquidity ratio	2.2	2.1	2.1	2.0	2.2	2.1	2.1	2.0	2.2	2.1
Average monthly narrow liquidity ratio	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.7	1.8	1.8
Sensitivity to Market Risk										
Foreign-currency-denominated liabilities to total liabilities	74.7	72.7	71.1	69.7	70.2	69.8	69.4	69.3	69.8	68.3
Classified off-balance sheet items to classified balance sheet asse	27.6	30.6	32.4	36.4	36.0	37.1	37.6	36.8	37.6	37.7

Source: National Bank of Serbia.

Table 10. Serbia: Schedule of Reviews Under the Policy Coordination Instrument, 2018–20

Program Review	Proposed Date
Board discussion of a PCI request	July 18, 2018
First Review	December 1, 2018
Second Review	June 1, 2019
Third Review	December 1, 2019
Fourth Review	June 1, 2020
Fifth Review	December 1, 2020

Source: IMF staff.

Appendix I. Program Statement

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Belgrade, December 2, 2019

Dear Ms. Georgieva:

Our economic program, supported by a Policy Coordination Instrument (PCI) approved by the IMF Executive Board on July 18, 2018, aims at maintaining macroeconomic and financial stability and advancing an ambitious structural and institutional reform agenda to foster rapid and inclusive growth, job creation and improved living standards. This Program Statement (PS) describes progress made so far and sets out the economic policies that the Government and the National Bank of Serbia (NBS) intend to implement under the PCI.

End-September quantitative program targets (QTs)—including on the fiscal balance and current primary spending—have been met and good progress has been made on reform targets. Inflation has remained within the NBS target band and within the inner limit of the program inflation consultation clause.

The implementation of our program will continue to be monitored through quantitative, standard continuous, and reform targets, and an inflation consultation clause, as described in the PS and the attached Technical Memorandum of Understanding (TMU). Reviews by the Fund will continue to be completed on a semi-annual basis to assess program implementation progress and reach understandings on additional measures that may be needed to achieve its objectives.

We believe that the policies set forth in this PS are adequate to achieve the objectives of the PCI-supported program, and we will promptly take any additional measures that may become appropriate for this purpose. We will consult with the Fund before adopting any such measures or in advance of revisions to the policies contained in this PS. Moreover, we will provide all information requested by the Fund to assess implementation of the program.

In line with our commitment to transparency, we wish to make this letter available to the public, along with the PS and TMU, as well as the IMF staff report on the third review. 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/
Jorgovanka Tabaković
Governor of the National Bank of Serbia

/s/
Siniša Mali
Minister of Finance

Attachment: Technical Memorandum of Understanding

Program Statement

1. **This program statement sets out our economic program for the remainder of this year and 2020.** The program aims to strengthen the foundation for healthy economic growth by addressing Serbia's short-term and structural economic weaknesses. To this end, the program focuses on policies to ensure macroeconomic stability, most notably by maintaining fiscal sustainability, bolster financial sector resilience, and improve competitiveness.
2. **Our policies will continue to focus on maintaining macro and financial stability while supporting growth.** We are projecting a small overall fiscal deficit in 2019 and 2020, with public debt on a firm downward path. The external position remains broadly in line with fundamentals. Monetary policy has kept inflation low and stable, while supporting economic activity and maintaining broad exchange rate stability. Strong business and consumer confidence have bolstered private investment, employment, and growth.
3. **We will continue to advance our structural reform agenda.** We have made progress in reforming tax administration, strengthening public financial management, resolving SOEs and privatizing the largest state-owned bank. We plan further measures to tackle informality, reform public administration, and strengthen corporate governance of public enterprises and SOEs. We will continue to implement reforms in public finance and tax administration, including by introducing new and credible fiscal rules.
4. **The goals of the program are compatible with our aspirations to join the EU.** Implementing this program will allow Serbia to realize the sizable potential for convergence towards EU-income levels.

Recent Economic Developments and Outlook

5. **Macroeconomic performance remains strong.** Growth reached 2.8 percent yoy in the first half of the year, supported by robust domestic demand. Formal employment continues to expand and unemployment has fallen to record-low levels, while wages are rising steadily. Headline inflation stood at 1 percent yoy in October, while core inflation remains low and stable at 1.1 percent in the same month. Our strong performance has been recognized by key credit rating agencies, as reflected in recent improvements in our rating or outlook.
6. **Consistent implementation of the policy measures and reforms envisaged under our program should continue to improve private sector dynamism, and foster job creation and growth.**
 - **Real GDP growth** is projected at 3.5 percent in 2019 and 4 percent in 2020 and over the medium term. Full implementation of our structural reform agenda will further boost Serbia's growth potential.

- **Inflation** is projected to be in the lower half of the inflation target band in 2020 and to gradually converge to 3 percent by over the medium term.
- **The current account deficit** is projected at 5.5 percent in 2019, gradually falling below 4 percent of GDP over the medium term. These projected deficits will continue to be fully financed by net FDI. External financing will continue to consist mostly of FDI, and bilateral and infrastructure project loans.

Economic Policies

A. Fiscal Policies

7. Strong fiscal performance continued in the first nine months of 2019. The general government recorded a surplus of RSD 35.1 billion in the period January–September, while the adjusted program target allowed for a surplus of RSD 1.3 billion. Capital spending execution was strong, while current spending, including mandatory spending on wages and pensions, grew broadly in line with expectations. Public debt fell to 52.8 percent of GDP in September 2019, while yields on government securities have remained at near record-low levels.

8. To use the fiscal space projected for 2019, in October we adopted a supplementary budget envisaging additional current and capital spending. The supplementary budget allows for an increase of RSD 16.8 billion in capital expenditures, advancing the 2020 public sector wage increases to December 2019, granting a one-off bonus of RSD 5,000 to each pensioner, and supporting some previously under-budgeted social assistance programs. Wage increases amount to 15 percent for nurses, 10 percent for doctors, researchers and scientists, 9 percent for social services (including health and education) and security forces, and 8 percent for civil servants. With this budget supplement, we project a general government deficit of 0.5 percent of GDP in 2019, as expected at the time of the second review. Current spending at the Republic level is projected to stay within the program ceiling, although both the public sector wage and the pensions bill will increase by about 0.2 percent of GDP. We have identified financial cushions within the revised budget and, if necessary, we will contain spending as needed to ensure that the general government deficit and primary current spending at the Republic level remain within the agreed ceilings.

9. We are committed to maintain fiscal discipline to keep the public debt-to-GDP ratio on a downward trajectory, while supporting growth. For 2020, we target a general government deficit of 0.5 percent of GDP, in line with program objectives. Public debt is projected to decline further to 51.4 percent of GDP, while the debt profile will continue to improve, with increased maturity and a higher share of dinar-denominated debt. The fiscal stance in 2020 is broadly neutral but still allows for an increase in capital spending; a moderate reduction of the labor tax burden; an increase of public sector wages; and completing the unwinding of the crisis-era wage cuts for public enterprises and SOEs. Our measures will ensure that both the pension and general government wage bills do not increase in percent of GDP

compared to 2019. For 2021 onwards, we will aim at overall deficits consistent with the new fiscal rules that will be introduced during 2020, with a view to bring public debt to 40 percent of GDP by 2024.

10. As a **prior action**, the National Assembly approved the 2020 budget consistent with program fiscal parameters aimed at containing the fiscal deficit and primary current spending. Furthermore,

- We will increase capital spending by RSD 16.6 billion to address Serbia's sizeable infrastructure needs.
- We will moderately reduce the tax burden on labor by reducing the pension contribution by ½ percentage point. We will also increase the threshold of non-taxable personal income to RSD 16,300.
- We will rationalize the presumptive tax system effective in 2020 to improve efficiency and prevent abuses. We will streamline the number of criteria to qualify for the presumptive taxation system and automate the enrollment process to reduce the administrative burden of the STA. To prevent abuses, we will redefine the base for computing presumptive taxes for some professions. These changes are expected to be fiscally neutral.
- To facilitate these amendments and promote the creation of employment we will also introduce exemptions in 2020 through 2022 from payroll taxes and social security contributions for firms based on employment created in 2020.
- Effective January 2020, we will increase pensions based on a new indexation mechanism. The new annual indexation formula will link pension growth to 50 percent of inflation and 50 percent of the average nominal wage growth. For this purpose, inflation is measured as the annual average increase in the consumer price index (CPI), published by SORS. Average nominal wage growth is defined as average growth of wages in the economy as published by SORS.
- We will complete the unwinding of the crisis-era wage cuts for public enterprises and SOEs, while ensuring that the general government wage bill does not increase in percent of GDP compared to 2019.

11. We will aim to further reduce fiscal risks and will prepare contingency measures as needed. We will maintain an adequate liquidity buffer and will not accumulate public sector external debt payment arrears (continuous target). We will also refrain from accumulating domestic payment arrears (quantitative target). Our efforts to contain public spending will continue to be monitored through a ceiling on current primary spending of Serbia's Republican budget, excluding capital spending and interest payments (quantitative target).

B. Structural Fiscal Policies

12. We are committed to modernize tax administration to strengthen revenue collection and improve the business environment. Our reform efforts are based on IMF technical assistance and the Tax Administration Diagnostic Assessment Tool review.

- We are committed to fully implement the Transformation Action Plan (TAP, 2018-23), which provides strategic guidance and a time-bound action plan to create a modern tax administration utilizing electronic business processes, improved taxpayer services, and a risk-based approach to compliance.
- In June 2019, we completed (i) the separation of core and non-core activities of the STA, supported by separate organizational structures with their own program budget allocation, headquarters design, business plans, management structures, and reporting lines; and (ii) the consolidation of core tax administration functions into fewer sites (**end-June 2019 reform target**). This first round of consolidation implemented a reduction to 37 branch offices and a large taxpayers office.
- A recently appointed head of the non-core business stream is now responsible for leading the design and implementation of the new non-core business stream organization and management arrangements. This will help to ensure that the focus for the Transformation project team is on the administration reform of the core taxes.
- The next phase of reforms aims at modernizing IT and records management systems and business process re-engineering. A decision on the preferred approach to redeveloping the IT system was adopted in October with the assistance of an external consultant (**end-October 2019 reform target**). We expect that the new system will facilitate an effective implementation of key reform plan activities, including the modernization of business processes.
- Measures to reduce the average processing time for VAT refunds continue to yield positive results. Refunds are processed according to the legally prescribed timelines and the STA takes a cautious approach to minimize fraud. In the future, STA will continue to process the VAT refunds within the deadlines prescribed by the law (15/45 days for exporters and others, respectively), but it will strive to refund VAT earlier to low-risk taxpayers.
- To increase the share of revenues collected by the large taxpayer office (LTO) to at least 45 percent of total tax revenues by end-2020, the STA will develop measures to assess the level of compliance of this taxpayer segment; expand the risk profiling of taxpayers overseen by the LTO; and increase the LTO staffing levels.
- To enhance revenue mobilization, following the adoption of the Law on Origin of Assets, the STA will create a special unit to analyze the level of noncompliance of high net worth individuals, including by applying indirect audit methods, and start implementing a response strategy.

- The World Bank Tax Administration Modernization Project approved in April 2019 includes four components: (i) a review of the legal environment; (ii) improvement of the STA organization and operations, which include business process re-engineering; (iii) ICT system and record management modernization, including the implementation of an e-fiscalization system and (iv) project management and change management. In November 2019, we appointed a project manager and an assistant manager to ensure an efficient implementation of the modernization project.
- To ensure that the STA has adequate capacity to fulfill its tasks, we will accommodate and prioritize an increase in its staffing. In this context, we have also decided to build a new and suitable headquarter building for the STA.

13. We plan to advance the general government employment and wage system reforms, which are critical for improving the efficiency of public services and containing current expenditure.

- **Public wage system reform.** The 2016 Law on the Public Sector Employees Wage System sets the stage for a new system where employees are granted equal pay for equal work across the public sector, in a more transparent and systematic manner. Secondary legislation for local governments and public services (health, education, culture, and social protection) was approved in December 2017. We plan to apply the new wage system to all public sector employees (including the police and army) during 2020, in time for the 2021 wage increases. To prepare for this, we plan to adopt the decree specifying the coefficients under the new wage system (**end-May 2020 reform target, reset to end-July 2020**). We will set the base under the new system to prevent an increase of the general government wage bill as a share of GDP and we will define the coefficients in a way that prevents the possible emergence of problems of staff retention and/or bottlenecks in hiring new employees in specific segments.
- **General government employment framework.**
 - The current framework is governed by (i) the Law on the Maximum Number of Employees in the Public Sector, and annual decisions on the maximum number of permanent employees in public administration, public services, the Autonomous Government of Vojvodina, and local self-governments, which set the employment ceiling on permanent staff at the institution level; and (ii) a Budget law, which regulates an employment freeze, with exceptions managed through the Employment Commission. This system, which includes local public enterprises, has helped to reduce public employment, but also resulted in reliance on fixed-term and contractual positions and staffing shortages in some areas.
 - We plan to replace this existing framework based on the Law on the Maximum Number of Employees in the Public Sector with a new system

based on personnel planning for all public sector entities according to the law. The new system should ensure medium-term workforce planning by all public sector institutions as well as alignment with budgetary constraints. We will adopt a government decision on a revised public employment framework along these lines effective 2021 (**end-September 2019 RT, revised and reset to end-September 2020 RT**). Once this new system is sufficiently effective and comprehensive we aim to phase out the controls through the hiring freeze and the Employment Commission.

- In the meantime, the Employment Commission will allow the hiring of staff within the institutions' budget limits.
- We have also developed a new electronic public employment registry for the Public Administration, which will be effective by end-2020 starting with a pilot for the Ministry of Finance.

14. We are strengthening the public investment management framework. This will help to reduce infrastructure gaps—both in terms of quantity and quality.

- We have made progress in improving capital spending execution, but further efforts are warranted. We will continue to include all project loans in the budget.
- In line with the 2018 Planning System Law, which established a national planning framework, we will prepare a National Development Plan and a corresponding Investment Plan by 2020.
- Based on IMF and World Bank technical assistance, in July 2019 we issued a detailed guideline as a Rule Book to regulate capital expenditure projects covering project appraisal and selection (**end-January 2019 reform target**).
- In April 2019, we established the Capital Investment Commission (CIC) and in July we updated the decree on public investment project appraisal to (i) clarify the roles of the MOF, CIC, and other line ministries; and (ii) remove the exclusion of IPA-funded projects as well as those financed through government-to-government agreements (**end-April 2019 reform target**).
- We will develop a single project pipeline of ongoing and future projects by end-May 2020.
- We are developing a Public Investment Management System (PIMIS)—including an integrated database of public investment projects. The new system will be procured in 2020 and be effective by 2021.

15. We will consider, based on existing fiscal space, possible new measures to support growth and improve the business climate. In October 2019, we adopted a new law on the control of State aid, aligned with EU requirements, that will promote transparency. We will assess the impact of a set of measures adopted in 2019 to promote innovation and R&D, including revised depreciation allowances, full recognition of marketing costs, relief of tax burden on earnings in the form of stock options, tax relief on recreational benefits for employees, increased tax deduction of R&D costs, and Intellectual Property (IP) box tax incentives.

16. We aim at strengthening fiscal frameworks, by adopting a new set of fiscal rules.

- To ensure a more rules-based pension system, we reintroduced the indexation of pensions effective January 2020 and will refrain from any additional ad-hoc pension increases. Indexation will automatically be suspended should the pension bill exceed 11 percent of GDP.
- As part of a broader revision of the budget system law, in September we will propose a deficit-based fiscal rule anchored on public debt, with a view to adopt it in parliament by end-November. We aim to achieve: (i) a more transparent and credible operational annual ceiling (in principle, ranging from zero to 1 percent of GDP) for the overall general government fiscal deficit; (ii) improved accountability and facilitate transition towards the EU fiscal framework; and (iii) retain a strong role of the Fiscal Council. The new fiscal rule will become effective with the 2021 budget.

17. We will continue to enhance public financial management.

- To prevent arrears to public enterprises, we will continue the publication of monthly reporting of overdue receivables to Srbijagas and EPS of their top-20 debtors on the companies' websites.
- We will continue to strictly limit the issuance of state guarantees. 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. The Government will continue to refrain from issuing any implicit state guarantees.
- We will continue to submit financial plans of social security funds with estimates for their indirect beneficiaries to the National Assembly, in parallel with the Republican budget. We have gradually been including all indirect budget beneficiaries of the central government (except for indirect budget beneficiaries of the Ministry of Education) in the Information System for Budget Execution (ISIB). We have upgraded the budget execution system to be able to support the integration of new users.
- 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. To improve control of fiscal implications and risks, the existing legislation requires that PPPs over EUR 50 million are submitted to the government for consideration only after receiving the MOF's consent.

- We will continue to strengthen the role and capacity of the Fiscal Risks Management unit at the MOF. We will prepare, supported by IMF and World Bank technical assistance, a strategy and methodology to properly monitor fiscal risks **(new end-July 2020 reform target)**. The strategy will prioritize the assessment of fiscal risks stemming from (i) SOEs; (ii) local governments; (iii) public-private partnerships; (iv) litigation; and (v) natural disasters.
- We will make plans to move to a medium-term budget orientation and will continue to ensure a stricter adherence to the budget calendar. In this regard, we published our fiscal strategy for 2020 in June 2019 and past financial statements in September 2019, with a view to publish the 2019 financial statement by end-October 2020.
- We have resolved recent small domestic arrears and addressed the underlying factors to prevent the emergence of new ones, including by ensuring sufficient budgetary resources for maternity benefits.

C. Monetary and Exchange Rate Policies

18. Inflation has remained low and the exchange rate to the euro relatively stable.

Headline inflation has mostly stayed within the inflation target range. Core inflation remains low and inflation expectations are well-anchored—one-year ahead inflation expectations of the financial and corporate sectors are below the 3 percent target.

19. The current inflation targeting framework remains appropriate for maintaining stable inflation and protecting the economy against external shocks. We remain committed to the objective of keeping inflation within the tolerance band (3 percent $\pm 1\frac{1}{2}$ percentage points). Inflation developments will continue to be monitored via a consultation clause with consultation bands set around the central projection (Table 1). Amid low inflationary pressures and to support lending and economic growth, we implemented three 25 bps rate cuts in July, August, and November reducing the key policy rate from 3 to 2.25 percent.

20. We will maintain the current managed float exchange rate regime in line with the inflation targeting framework. We believe that well-managed exchange rate flexibility provides a needed buffer against external shocks. Therefore, 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. We assess the current level of gross international reserves as comfortable for precautionary purposes.

21. Promoting dinarization remains an important objective. The dinarization strategy adopted in 2012—and updated in 2018—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. Macroeconomic conditions have remained stable, which should support dinarization. Several measures to foster dinarization remain in place, such as higher reserve requirements on FX deposits and mandatory down-payment ratios for FX loans. We have enhanced our communication to the public on the risks of unhedged FX borrowing, the need of prudent management of FX risks, the availability of hedging instruments, and the benefits of dinar savings. In October 2018, we introduced a new instant payment system to encourage dinar mobile payments, reduced transaction costs, and limit informality. Since April 2019, banks are required to enable instant payments on all available channels. We have increased the share of public debt in local currency, issuing dinar securities at longer maturities (up to 10 years). By September 2019, deposit and credit dinarization reached 33.5 percent and 33.3 percent, respectively.

22. Our updated dinarization strategy aims to further strengthen liquidity management and develop local currency debt and hedging markets.

- We will consider additional measures to (i) further develop local and foreign currency derivative markets, and (ii) encourage prudent pricing of credit risks of unhedged foreign currency borrowing.
- Based on results from a recent survey of banks' exposures to foreign currency borrowers, we will consider introducing a uniform criterion for qualifying exposures as hedged, and stricter prudential requirements for certain FX borrowing.
- We continue to strengthen public debt management. We are aiming to make possible the settlement of Serbian government securities through Euroclear, which will help expand the investor base, reduce transaction costs, and improve liquidity. We plan to establish a primary dealer system and develop adequate supervisory framework. A Market Maker Agreement will be agreed with the involved parties by end-May 2020. Concurrently, the necessary changes to the Public Debt Law and the Law on Capital Market will be approved. To this end, a working group comprising of representatives of the PDA, MOF, prospective primary dealers, and other relevant institutions has been established and a pilot will be effective by end-September 2020.

23. During the period of the PCI 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

24. We will continue to strengthen financial sector regulatory and supervisory frameworks, to fully align them with international standards. The NBS has adopted in December 2018 regulatory measures that limit banks' portfolio of long-term cash and consumer loans and set debt-to-income limits on loans to individuals. We will continue to enhance the prudential framework for banks and insurance companies to ensure full compliance with international standards and EU requirements. We will further harmonize our financial legal framework with EU Acquis taking into account the specificities of the Serbian financial market.

25. We will further enhance financial safety nets. Significant progress has been achieved in strengthening the bank resolution, deposit insurance, and crisis management frameworks.

- We are further aligning the deposit insurance scheme with international standards. Key recommendations from the recent IADI core principles assessment conducted by the World Bank included: clarifying the role of the Deposit Insurance Agency (DIA) in financing resolution, updating the information-sharing agreements between the DIA and the NBS as well as other stakeholders, developing a business continuity plan for the DIA and a system-wide contingency plan.
- To address the findings of the review, in July 2019 we submitted to parliament amendments to the Law on Deposit Insurance (**end-June 2019 reform target**). These amendments, adopted by parliament in October, among other modifications allowed for the introduction of risk-based premia, established backstop funding, and modified the basis for the computation of deposit insurance premiums and targets from eligible to insured deposits, while extending the deadline to reach the target fund level. The amendments imply a significant reduction in the average effective premium paid by banks and ensure further alignment with EU directives (EU DGSD).
- In November, we updated the 2015 MoU between the DIA and NBS to enhance the information sharing between both institution on banks' risk profiles and resolution plans, and the joint development of a least cost test (**end-December 2019 reform target**).

26. The reduction of NPL ratios has been impressive. As of September, the NPL ratio has fallen to a record-low 4.7 percent, the lowest level since 2008. However, NPLs in some SOBs remain at relatively higher levels, although they are fully covered by regulatory reserves for estimated losses and significant improvements have been made driven primarily by write-offs. Our updated NPL resolution strategy focuses on measures to prevent accumulation of new NPLs, further improve bankruptcy frameworks, and accelerate NPL resolution in SOBs, while broadening the scope to include the export credit agency (AOFI), the Development Fund (DF), and the bad assets managed by the Deposit Insurance Agency (DIA) on behalf of the State and the bankruptcy estates of banks in liquidation. We have been implementing measures under the updated strategy based on the corresponding action plan.

- We are advancing a time-bound action plan to resolve the DIA portfolio of bad assets by end-2020 through a tendering process implemented in two phases; and in June 2019 the first phase of the sale was completed (**end-December 2018 reform target**).
- In September, we launched the tender for the sale of the second, larger portfolio (of EUR 1.8bn), in line with the time-bound action plan (**end-September 2019 reform target**). The deadlines for submission of non-binding and binding offers are December 2, 2019 and April 15, 2020, respectively, and the transaction is expected to be completed by end-June 2020. If needed, we will also develop a time-bound plan to resolve the residual assets of the DIA portfolio before end-2020.
- We have prepared, with support of the World Bank, a study on corporate indebtedness in Serbia and prevention of NPLs.
- We are establishing, with support of the IFC and an external consultant, an internet portal for online auctions of bankruptcy assets.

27. We will continue to implement our state-owned financial institutions reform agenda. We are strengthening our oversight over financial institutions with state-ownership.

- We remain committed to the privatization of Komercijalna Bank through a transparent and competitive process. In May, we launched the privatization tender process (**end-June 2019 reform target**). We have received a number of non-binding offers, and will receive binding-offers until early December, with a view to select the winner by end-December 2019, sign the contract by end-January 2020, and complete the transaction by mid-2020.
- We continue to implement the new strategy for Banka Poštanska Štedionica (BPS). The strategy focuses 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) a business plan for the period 2018-20. A new core banking system will be procured before end-2019.
- We are implementing strategic options for the smaller banks, based on the updated government strategy for state-owned banks.
- The DF and AOFI have continued to implement (i) the supervisory boards' decisions recognizing losses on their credit portfolios and (ii) the government conclusion to restrict the institutions' exposures to SOEs, enhance risk management frameworks, prevent further deterioration in asset quality, and resolve impaired assets.

28. We will continue strengthening the AML/CFT framework. We successfully implemented all measures listed in the action plan to address the AML/CFT weaknesses identified by the FATF. Progress has been acknowledged by MONEYVAL and FATF, and in June 2019 the latter decided to remove Serbia from its grey list of countries with AML/CFT

deficiencies. We maintain a close coordination across agencies to further improve the effectiveness of the AML/CFT system and to continue implementing MONEYVAL recommendations.

- The amendments to the AML/CFT Law, the Law on Centralized Records of Beneficial Owners, the Law on Games of Chance, and the Law on Real Estate Lease and Trade Agency have been submitted to parliament and will be adopted by end-2019. In October, we adopted the new Law on Accounting and the new Law on Auditing. These changes and new laws aim at addressing outstanding FATF recommendations (22, 23, and 28), related mainly to AML/CFT requirements for designated non-financial businesses and professions.
- We continue our regular reporting under the EU agenda, both as part of negotiating chapters (e.g. Chapters 24 and 4) and sub-committees of monitoring the implementation of the Stabilization and Association Agreement.
- We continue implementing the 2018 National Risk Assessment Action Plan.
- We are preparing a new National Strategy Against Money Laundering and the Financing of Terrorism for 2020-2024, to be adopted by March 2020.

29. We are developing strategies for capital market deepening and development finance.

- Serbia's capital markets remain underdeveloped with limited stock-market activity, nascent domestic bond market volumes, and a virtually nonexistent corporate bond market. Alternative sources of financing such as private equity or venture capital, are negligible. A diagnostic assessment, prepared with the World Bank support, focused on developing capital markets and diversifying sources of long-term financing. A working group, chaired by the Minister of Finance, will prepare a strategic outline of the main objectives, priority areas and measures by end-2019, which will serve as a guide for the development of a strategy and an action plan to enhance Serbia's capital markets by July 2020.
- A working group for Developing Finance has been formed, led by the Ministry of Economy and with support from the World Bank. An external consultant was hired to prepare a strategy for development finance as well as an action plan to implement it by end-December 2019. The World Bank has prepared a report on access to finance for micro, small and medium enterprises in Serbia, which will further support efforts under the development finance strategy.

E. Structural Policies

30. We will continue to implement structural reforms to improve the business environment and support higher private sector-led growth. Our focus is on policies to improve the investment climate, reduce informality, enhance competitiveness, promote job creation, and complete the resolution of public and state-owned enterprises.

31. We are implementing measures to fight the grey economy. We continue to implement the Action Plan on the National Program for Countering the Grey Economy. Our priorities include improvements in the inspection system, modernization of Tax Administration, strengthening of incentives for voluntary compliance, and improving the business environment to encourage entrepreneurship and innovation. We are improving coordination across inspections by developing e-inspection software, which provides a horizontal e-platform facilitating full implementation of a risk-based approach to inspection oversight.

32. We are implementing measures to further increase labor force participation:

- In August 2019, we submitted to parliament the Law on Agency Employment, aimed at improving labor conditions for agency employees working in beneficiary companies, eliminate unfair competition in this area, and foster employment.
- We will advance measures to address constraints for women labor force participation, based on the National Gender Equality Strategy 2016–20. We will implement measures aimed at ensuring a more equal participation of women and men in parenting and economy of care, as well as those that will improve women’s economic and labor market status, particularly for women in vulnerable groups.

33. We are committed to continue restructuring large public utilities companies to enhance efficiency and contain fiscal costs and risks. We remain fully committed to implement the corporate and financial restructuring in these companies over the medium term.

- **Elektroprivreda Srbije (EPS).** We have continued to implement the 2016–2019 labor optimization plan. We are implementing the action plan prepared with support of the EBRD and adopted in March 2019 to improve corporate governance. In 2020, 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. We have adopted a number of government decisions to establish ownership rights of all property and assets of EPS. We will launch a tender for the valuation of the company’s properties and assets (**end-December 2019 reform target**). By June 2020, we will finalize an assessment of electricity tariffs in order to ensure full cost recovery, incorporating the cost of increased reliance on renewable energy sources and investment needs to ensure safeguard adequate generation capacity.

- **Srbijagas.** Payment discipline has improved, and an investment appraisal methodology proposed by the World Bank is being implemented. We will phase out Srbijagas' reliance on government support for servicing debt incurred in the period 2008-2012 by the end of the program period.

34. We will make progress on the few strategic companies in the portfolio of the former Privatization Agency for which resolution is still pending:

- Negotiations with potential investors are ongoing regarding Petrohemija and we intend to launch a privatization tender following ongoing discussions with potential investors (**end-February 2019 reform target**).
- After the unsuccessful second tender to privatize MSK, we continue to explore options for potential strategic investments or partnerships.
- We have appointed a privatization advisor for Lasta and plan to launch the privatization tender by April 2020, with a view to complete the transaction by end-2020.
- We have developed, with the assistance of the World Bank, a time-bound action plan for Resavica mines, that foresees the closure of four unviable mines, while developing a voluntary social program and labor optimization plan. We will ensure sufficient resources in the budget to transparently support Resavica through subsidies and to prevent further accumulation of arrears to EPS.

35. We continue to resolve enterprises in the portfolio of the former Privatization Agency through either privatization or bankruptcy, in accordance with the revised Privatization Law. By October 2019, more than 310 companies entered bankruptcy, and 62 were privatized since end-2014. About 35,500 employees from 354 companies have received severance payments. 84 companies with nearly 30,000 employees remain.

36. We are developing a new ownership and governance strategy for SOEs. The strategy will provide an integrated approach to oversight and monitoring of SOE operations, financial consolidation, restructuring or divestment plans, and measures to improve governance and institutional frameworks. The strategy will complement ongoing efforts to better monitor and tackle fiscal risks and enhance efficiency. To support this work, we published a comprehensive list of public enterprises (PEs) and SOEs covering all levels of government as of end-2018 (central and local) where the government has at least 10 percent stake and include consolidated ownership cases where PEs or SOEs own other companies (**end-October 2019 reform target**). We will also adopt, with the EBRD support, an ownership policy document consistent with the core principles embodied in the OECD Guidelines on Corporate Governance of State-Owned Enterprises, and a time-bound action plan to implement it (**revised and reset end-July 2020 reform target**). These documents will: identify ownership rationales and high-level objectives of the State's ownership; develop criteria for classification of SOEs; design the framework for setting objectives and targets for SOEs and for monitoring their achievement; and review the Legal and

regulatory framework for corporate governance of SOEs. We will also adopt a dividend policy by end-June 2020 that fits with our long-run views of the key PEs and SOEs. We will also make efforts to promptly resolve the excessive reliance on acting directors in state-owned companies.

37. We will continue to improve the quality and transparency of national statistics:

- We remain committed to comprehensive, timely, and automatic data sharing across relevant compiling agencies (including SORS and NBS) for statistical purposes. To ensure compilation efficiency and consistency of outputs, and to further strengthen cooperation and coordination across statistical authorities, in September we updated the Memorandum of Cooperation signed between SORS, MOF (Macro-fiscal unit, Treasury, PDA), and NBS. The updated Memorandum reflects best practices and describe the roles and responsibilities of each reporting agency with regards to current and envisaged fiscal reporting both within the national legal context and official reporting to international institutions.
- By the end of the program, the Serbian Statistical Agency (SORS) will submit monthly GFSM 2014 fiscal accounts to the Enhanced General Data Dissemination System (eGDDS), covering the budgetary government and Roads and Corridors of Serbia.
- We will resume reporting of the GFS Yearbook to the IMF Statistics Department by end-March 2020.
- In conjunction with Eurostat and the IMF, we have continued to upgrade our national accounts. We have developed supply and use tables (SUT) for 2015-17 and started disseminating them in September 2019.

Program Monitoring

38. Progress in the implementation of the policies under this program will be monitored through quantitative targets (QTs)—including an inflation consultation clause, continuous targets (CTs) and reform targets (RTs). These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1a. Serbia: Quantitative Targets, 2019-20 1/

	2019										2020			
	Mar.			Jun.			Sep.			Dec.	Mar.	Jun.	Sep.	Dec.
	Prog. QT	Adj. Prog.	Act.	IT 7/	Adj. Prog.	Act.	Prog. QT	Adj. Prog.	Act.	IT 7/	Prog. QT	IT 7/	Prog. QT	IT 7/
	CR 18/375			CR 18/375			CR 19/238			CR 19/238				
I. Quarterly Quantitative Targets (QT)														
1 Ceiling on the general government fiscal deficit 2/ 3/ (in billions of dinars)	18.9	26.0	-11.2	2.2	4.9	-17.3	4.5	-1.3	-35.1	26.2	37.6	32.7	22.9	28.9
2 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 2/	221.9	221.1	219.2	457.8	457.4	460.0	718.4	717.0	681.1	988.4	234.5	478.3	716.2	984.4
3 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 4/	0.5	...	-0.4	0.5	...	-0.9	0.5	...	-0.5	0.5	1.0	1.0	1.0	1.0
II. Continuous Targets														
4 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	0.0	0.0	0.0	0.0
III. Inflation consultation band (quarterly) 5/														
Upper band limit (1.5 percent above center point)	4.4			3.5			3.4			3.5	3.3	4.0	3.2	3.4
<i>End of period inflation, center point 6/</i>	2.9	...	2.8	2.0	...	1.5	1.9	...	1.2	2.0	1.8	2.5	1.7	1.9
Lower band limit (1.5 percent below center point)	1.4			0.5			0.4			0.5	0.3	1.0	0.2	0.4

1/ As defined in the Program Statement and the Technical Memorandum of Understanding.

2/ Cumulative since the beginning of a calendar year.

3/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees.

4/ Quarterly changes for numbers in 2018. Cumulative change since December 31, 2018 for numbers starting in 2019.

5/ Staff level consultation is required upon breach of the band limits.

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/ Indicative targets are not monitored as part of the program conditionality.

Table 1b. Serbia: Standard Continuous Targets

Not to impose or intensify restrictions on the making of payments and transfers for current international transactions.

Not to introduce or modify multiple currency practices.

Not to conclude bilateral payments agreements which are inconsistent with Article VIII.

Not to impose or intensify import restrictions for balance of payments reasons.

Table 2. Serbia: Prior Actions and Reform Targets

Actions	Target Date	Status	Objective
Prior Actions			
1 Adoption by the National Assembly of the 2020 budget consistent with fiscal parameters.		Met.	Increase fiscal transparency.
Reform Targets			
Fiscal			
1 Approve a government decree defining wage coefficients under the new Public Sector Employee Wage System for local governments, public services, and public administration.	End-May 2020	Reset to end-July 2020.	Rationalize pay and improve incentives across public sector.
2 Issue a detailed rule book to the 2017 Capital Project Regulation, covering methodology for project appraisal and selection.	End-January, 2019	Not met. Issued in July 2019.	Unifies methodology for the project and cost-benefit analysis and raise transparency.
3 Establish Capital Investment Commission (CIC) and update Capital Project Regulation to (i) clarify roles of MoF, CIC, and other line ministries, (ii) remove the exclusion of IPA-funded projects, and (iii) expand the coverage to government-to-government agreements.	End-April, 2019	Not met. CIC established in April 2019 and decree on capital investment projects updated in July 2019.	Improve selection, appraisal, and implementation of public infrastructure projects.
4 Complete consolidation of core STA activities into fewer sites.	End-June, 2019	Met.	Advance reforms of the State Tax
5 Adopt a government decision on a revised public employment framework for 2020.	End-September, 2019	Revised and reset to end-September 2020.	Improve employment flexibility while
6 Reach decision on a preferred approach to the STA IT system upgrade.	End-October, 2019	Met.	Advance reforms of the State Tax
7 Prepare a strategy and methodology to properly monitor fiscal risks.	End-July, 2020		Reduce fiscal risks.
Financial			
8 Approve a time-bound action plan to resolve part of the DIA portfolio of bad assets by end-2020 through a tendering process implemented in two phases (agreed with the World Bank); and complete the first phase of the sale.	End-December, 2018	Not met. Action plan adopted in December 2018. First phase completed in June 2019.	Resolve bad assets and address fiscal risks.
9 (i) Submit to the National Assembly amendments to the Law on Deposit Insurance Agency and the Law on Deposit Insurance to incorporate the findings of IADI assessment and update parametrization; and (ii) introduce risk-based premia.	End-June, 2019	Not met. Submitted in July 2019.	Align deposit insurance scheme with international standards.
10 Issue tenders for the second phase of DIA asset sales, in line with the time-bound action plan.	End-September, 2019	Met.	Resolve bad assets.
11 Sign an updated MOU between the DIA and NBS to reflect new resolution tools given to the NBS and the need for information sharing.	End-December, 2019	Met.	Strengthen financial safety nets.
Structural			
12 Adopt a government decision to launch a privatization tender for Petrohemija.	End-February, 2019	Not met.	Reduce fiscal risks.
13 Publication of a comprehensive list of SOEs as of December 31, 2018 (covering all levels of government including consolidated ownership; include information on main economic activity; at least 10 percent government ownership stake).	End-October, 2019	Met.	Improve SOE governance.
14 Launch a tender for the valuation of EPS property and assets.	End-December, 2019		Improve SOE governance.
15 Government adoption of an ownership policy document and a time-bound action plan to implement it.	End-February, 2020	Revised and reset to end-July 2020.	Improve SOE governance.

Attachment I. 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 May 18, 2018, except as noted below.

A. Fiscal Conditionality

2. **The general government fiscal deficit** 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.

3. **Current primary 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, debt recovery receipts, debt issuance premiums, and concession and Public Private Partnership (PPP) receipts recorded above-the-line exceed (fall short of) programmed levels. The IMF Statistics Department will determine the proper statistical treatment of any concession or PPP transaction signed during the IMF program.

Text Table - Cumulative Programmed Revenues of the General Government from Dividends, Debt Recovery Receipts, and Debt Issuance at a Premium

(In billions of dinars)

	End-Sep. 2019	End-Dec. 2019	End-Mar. 2020	End-Jun. 2020	End-Sep. 2020	End-Dec. 2020
Programmed cumulative dividends	17.1	17.1	17.1	17.1	17.1	17.1
Programmed cumulative debt recovery receipts	2.5	2.5	4	4	4	4
Programmed cumulative debt issuance at a premium	0	0	6	6	6	6
Programmed concession and PPP receipts recorded above the line	0	0	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 year. 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.
- The quarterly ceilings on the **general government fiscal deficit** and the **primary current expenditure of the Republican budget** in 2019 will be adjusted downward to the extent that the Republican budget expenditures associated with the resolution of CHF mortgage litigation falls short of the maximum of RSD 9.75 billion direct government expenditure assumed in the context of resolution. For the purpose of calculating the adjustor, these expenditures will be converted from euros into dinars using the National Bank of Serbia's middle RSD/EUR exchange rate prevailing on the day when the Ministry of Finance issues a 5-year bond to the banks.

- The quarterly ceilings on the **general government fiscal deficit** and the **primary current expenditure of the Republican budget** in 2020 will be adjusted upward by a maximum of RSD 11 billion to the extent that the Republican Budget assumes expenditures associated with repayment of foreign currency savings to citizens of the former Federal Republic of Yugoslavia, in addition to RSD 4 billion that has already been budgeted for in the 2020 Budget. For the purpose of calculating the adjustor, the total amount will be recorded above the line in the fiscal presentation and will be converted from euros into dinars using the National Bank of Serbia's middle RSD/EUR exchange rate prevailing on the day when the Ministry of Finance issues the associated bond to non-residents.

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

	End- Sep. 2019	End- Dec. 2019	End- Mar. 2020	End- Jun. 2020	End- Sep. 2020	End- Dec. 2020
Programmed cumulative earmarked grants receipts	9.3	13.9	2.5	5.5	9.3	13.9
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0	0

4. 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 a quantitative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶2 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. This quantitative target will be measured as the change in the stock of domestic arrears relative to the stock at December 31, 2018, which stood at RSD 3.41 billion.

5. Debt issued at a premium. For program purposes, debt issued at a premium refers to proceeds accruing to the government that are recorded as revenue when the government issues debt at a premium. It most commonly occurs when a bond with an above-market coupon is reopened ahead of a coupon payment.

B. Ceiling on External Debt Service Arrears

6. 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. 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.

7. Reporting. The accounting of external arrears by creditor (if any), with detailed explanations, will be transmitted on a monthly basis, within four weeks after the end of each month.

C. Inflation Consultation Mechanism

8. Inflation is defined as the change over 12 months of the end-of-period consumer price index (CPI), base index (2006=100), as measured and published by the Serbian Statistics Office (SORS). Where the official press release differs from the index calculation, the index calculation will be used.

9. Breaching the inflation consultation band limits (specified in Program Statement, 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.

D. Reporting

10. General government revenue data and the Treasury cash position table will be submitted weekly; and the stock of spending arrears as defined in ¶6 45 days after the end of each quarter. General government comprehensive fiscal data (including social security funds) will be submitted within 35 days of the end of each month.

11. The stock of spending arrears (> 60 days past due) as reported in the MOF e-invoice system will be submitted within 14 calendar days after the end of each month.

12. Gross issuance of new guarantees by the Republican budget for project and corporate restructuring loans will be submitted within 35 days of the end of each month.

13. Cumulative below-the-line lending by the Republican budget will be submitted within 35 days of the end of each month.

14. Borrowing by the Development Fund and AOFI will be submitted within four weeks of the end of each month.

- 15.** New short-term external debt (maturities less than one year) contracted or guaranteed by the general government, the Development Fund, and AOFI will be submitted within four weeks of the end of each month.
- 16.** Monthly average VAT refund time, stock of pending VAT refunds, and the value of the VAT refunds provided each month will be submitted by the Serbian Tax Administration in advance of the scheduled program review missions.
- 17.** Receivables of the top 20 debtors to Srbijagas and EPS will be submitted in the agreed-upon templates within 30 calendar days after the end of each month as well as published on the company websites.

Text Table - Data Reporting for Quantitative Targets		
Reporting Agency	Type of Data	Timing
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 35 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 35 days of the end of the month
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	Earmarked grants and receipts from small-scale disposal of assets	Within four weeks of the end of the quarter