INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/8

REPUBLIC OF SERBIA

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

January 2021

In the context of the Fifth 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 16, 2020, 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 11, 2020.

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

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International Monetary Fund
Washington, D.C.

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

FOR IMMEDIATE RELEASE

- Program implementation has remained on track throughout the PCI that will expire in January 2021.
- Due to the COVID-19 pandemic, Serbia's real GDP is projected to contract by 1.5 percent in 2020, and recover in 2021 with growth at 5 percent.
- The 2021 budget appropriately balances support for economic recovery with fiscal responsibility.

WASHINGTON, DC – January 8, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Fifth Review Under the Policy Coordination Instrument (PCI) for the Republic of Serbia.[1] The Executive Board's decision was taken without a meeting.[2]

This was the final review under the PCI that was approved on July 18, 2018 (see Press Release No. 18/299). Program implementation has remained on track throughout the PCI. The policy program has facilitated macroeconomic and financial stability, while advancing an ambitious reform agenda to foster rapid growth, job creation, and improved living standards. In response to the COVID-19 pandemic, program priorities shifted to supporting the economy and people through the crisis.

Due to the pandemic, Serbia's real GDP growth is projected to contract by 1.5 percent in 2020 before rebounding to 5 percent in 2021. Economic activity picked up in the third quarter of 2020 following the sharp contraction during the previous quarter. Policy measures—including monetary policy support and a large fiscal package worth about 9 percent of GDP—have played an important role in supporting the economy. The recent acceleration in infection rates in Serbia and its major trading partners could negatively impact the nascent recovery and a stronger-than-expected infection wave presents a clear downside risk to the outlook. The quantitative targets for end-September 2020 were met and sufficient progress was made in meeting the structural reform targets. Inflation remains close to the lower limit of the National Bank of Serbia's inflation band.

The fiscal deficit in 2021 is planned at 3 percent of GDP, and would help ensure that public debt in percent of GDP resumes a declining path, while also creating enough space to support the recovery, including through higher public investments. Within this envelope, increases in public sector wages should be limited and pension increases are expected to follow the agreed Swiss formula. The unwinding of support measures could be made more gradual if further shocks materialize.

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[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

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Going forward, it will be important for Serbia to build on its achievements under the current program by continuing to pursue structural and institutional reforms that will deliver faster convergence of incomes with EU countries. Medium-term priorities include capital market development and improving governance, including strengthening the rule of law.

Table 1. Serbia: Selected Economic and Social Indicators

	2016	2017	2018	2019	2020		2021		2022
					CR 20/270	Proj.	CR 20/270	Proj.	Proj.
	(Percent change, unless otherwise indicated)								
Real sector									
Real GDP	3.3	2.1	4.5	4.2	**-3.0**	-1.5	**6.0**	5.0	4.5
Real domestic demand (absorption)	1.5	3.9	6.5	6.2	**-1.8**	-1.7	**8.0**	6.7	4.6
Consumer prices (average)	1.1	3.1	2.0	1.9	**1.5**	1.7	**1.9**	1.9	2.3
GDP deflator	1.5	3.0	2.0	2.4	**3.8**	3.5	**2.3**	2.4	2.7
Unemployment rate (in percent) 1/	15.9	14.1	13.3	10.9	**...**	...	**...**	...	...
Nominal GDP (in billions of dinars)	4,528	4,761	5,073	5,418	**5,448**	5,524	**5,907**	5,940	6,375
	(Percent of GDP)								
General government finances									
Revenue 2/	40.7	41.5	41.5	42.1	**38.2**	40.3	**41.1**	40.8	41.3
Expenditure 2/	41.9	40.4	40.9	42.3	**46.8**	49.2	**43.2**	43.8	42.8
Current 2/	37.9	36.7	36.4	36.9	**42.3**	43.1	**37.5**	37.6	36.7
Capital and net lending	3.2	3.1	4.1	5.1	**4.3**	5.9	**5.3**	6.0	5.8
Amortization of called guarantees	0.9	0.6	0.4	0.2	**0.2**	0.1	**0.4**	0.2	0.3
Fiscal balance 3/	-1.2	1.1	0.6	-0.2	**-8.6**	-8.9	**-2.0**	-3.0	-1.5
Primary fiscal balance (cash basis)	1.7	3.6	2.8	1.8	**-6.6**	-6.9	**-0.1**	-1.1	0.3
Structural primary fiscal balance 4/	1.7	3.7	2.8	1.6	**1.1**	1.2	**1.1**	0.5	0.4
Gross debt /5	68.8	58.6	54.4	52.8	**59.8**	59.1	**57.0**	57.7	55.5
	(End of period 12-month change, percent)								
Monetary sector									
Money (M1)	20.3	9.7	20.1	16.3	**6.0**	24.2	**12.2**	7.5	8.7
Broad money (M2)	9.8	3.3	15.0	8.8	**5.5**	12.7	**9.0**	7.1	7.3
Domestic credit to non-government 6/	1.8	4.4	10.1	9.5	**6.6**	10.6	**8.4**	6.5	7.8
	(Period average, percent)								
Interest rates (dinar)									
NBS key policy rate	3.3	3.9	3.1	2.3	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	3.1	3.1	2.8	3.1	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Balance of payments									
Current account balance	-2.9	-5.2	-4.8	-6.9	**-6.4**	-5.7	**-6.5**	-5.8	-5.6
Exports of goods	34.8	35.9	35.2	35.7	**33.2**	32.6	**33.5**	33.8	36.8
Imports of goods	-43.3	-46.1	-47.1	-47.9	**-44.1**	-43.5	**-46.0**	-46.5	-49.4
Trade of goods balance	-8.5	-10.2	-11.9	-12.2	**-10.9**	-10.9	**-12.6**	-12.7	-12.6
Capital and financial account balance	0.6	4.8	6.7	10.6	**6.1**	5.6	**7.3**	6.6	6.6
External debt (percent of GDP) 7/	76.4	68.8	66.1	66.1	**68.6**	67.4	**65.3**	64.3	61.4
of which: Private external debt	29.4	29.6	30.9	31.7	**30.3**	29.9	**29.0**	28.8	27.3
Gross official reserves (in billions of euro)	10.2	10.0	11.3	13.4	**13.2**	13.4	**13.6**	13.7	14.3
(in months of prospective imports)	5.5	4.7	4.8	6.2	**5.6**	5.5	**5.1**	5.0	4.7
(percent of short-term debt)	345.2	200.3	194.2	204.4	**247.9**	204.0	**255.8**	209.8	217.9
(percent of broad money, M2)	58.7	53.2	52.2	57.8	**57.2**	56.8	**54.8**	54.6	53.2
(percent of risk-weighted metric)	...	...	113.1	121.8	**177.3**	122.0	**180.2**	120.7	119.2
Exchange rate (dinar/euro, period average)	123.1	121.4	118.3	117.9	**...**	...	**...**	...	...
REER (annual average change, in percent; + indicates appreciation)	-1.0	2.9	2.8	1.0	**...**	...	**...**	...	...
Social indicators									
Per capita GDP (in US$)	5,765	6,293	7,252	7,392	**7,458**	7,723	**8,442**	8,922	9,653
Real GDP per capita (percent change)	3.9	2.6	5.1	4.5	**-2.6**	-1.1	**6.4**	5.5	4.9
Population (in million)	7.1	7.0	7.0	7.0	**6.9**	6.9	**6.9**	6.9	6.9

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

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

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

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

5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 0.7 percent of GDP as of mid-October 2020.

6/ At constant exchange rates.

7/ After CR19/369, domestic securities held by non-residents are included in external debt. Historical data were updated since 2015.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SERBIA

FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT

December 11, 2020

EXECUTIVE SUMMARY

Recent economic developments. Economic activity recovered following a severe contraction in 2Q2020 caused by the pandemic. Real output in 2020 has been revised up and is now projected to contract by only 1.5 percent, on the back of positive high-frequency indicators. Inflation remains low. The banking system remains liquid. After the two waves in March and July, the number of new infections has accelerated again since mid-October, reaching record-high levels and a larger-than-expected deterioration presents a clear downside risk.

Program performance. All quantitative targets for end-September were met and a prior action on the 2021 budget has been implemented. The remaining reforms covered by reform targets (RTs)—on preparing a methodology to assess and manage fiscal risks, and adopting the SOE ownership policy document—were completed with a delay. In addition, the authorities completed the valuation of property and assets of the state-owned electricity company (an outstanding RT from 2019). Staff recommends completion of the fifth and final review under the Policy Coordination Instrument.

Policy Recommendations

- **Fiscal policy.** The large fiscal package introduced in response to the crisis has played a key role in countering the negative economic effects of the pandemic. The 2021 budget strikes an appropriate balance between supporting the economic recovery and demonstrating fiscal responsibility, including by: (i) scaling up capital investment; (ii) ensuring adequate healthcare spending; and (iii) containing public sector wage and pension increases. Fiscal risks from SOEs need to be monitored closely, and any support to these companies should be channeled transparently through the budget.

- **Monetary and financial sector policies.** In the absence of inflationary pressures, the accommodative monetary policy remains appropriate. Liquidity support to the banking system should continue as needed.

- **Structural reforms.** Renewed efforts are needed to accelerate the implementation of the structural reform agenda in order to secure strong and stable growth over the medium term.

Risks. Risks to the outlook remain substantial given the unpredictable course of the pandemic and related economic disruptions in Serbia and its trading partners.

Approved By
Enrica Detragiache (EUR)
Maria Gonzalez (SPR)

Discussions were held remotely during October 5-16, 2020. The staff team comprised Jan Kees Martijn (head), Pietro Dallari, Marina Marinkov (all EUR), Adrian Alter (MCM), Sandra Lizarazo Ruiz (FAD), Marco Rodriguez Waldo (SPR), Sebastian Sosa (resident representative), Desanka Obradović and Marko Paunović (local economists). Vuk Djoković (OED) attended some discussions. HQ support was provided by Piotr Kopyrski and Aniko Madaraszova (both EUR).

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ANNEX

APPENDIX

RECENT DEVELOPMENTS

1. **The 30-month PCI approved in July 2018 is coming to an end.** The program aimed at maintaining macroeconomic and financial stability, advancing structural and institutional reforms to foster higher and more sustainable growth, as well as anchoring the fiscal consolidation. As the COVID-19 shock hit, the program objectives were revised, focusing on supporting the economy through the crisis.

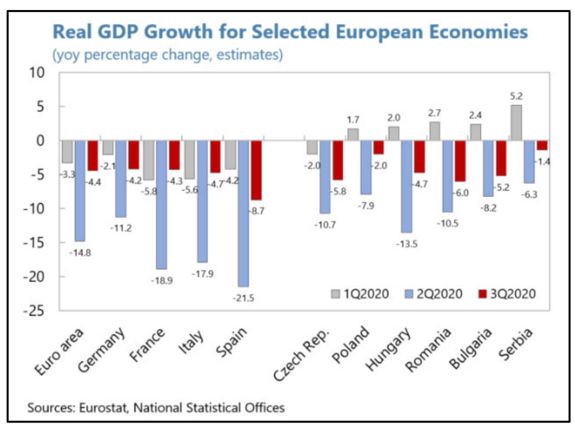
2. **The large policy package implemented in response to the crisis is playing an important role in supporting the economy.** By end-September, the Ministry of Finance had disbursed approximately 5.4 percent of GDP in direct support to households and businesses, in addition to deferring taxes to 2021 and 2022. By end-October, approximately EUR 1.3 billion (2.7 percent of GDP) of bank loans to SMEs had been approved under the EUR 2 billion partial government guarantee scheme. In addition, about EUR 78 million had been granted in subsidized firm loans provided by the Development Fund, of which about 15 percent went to the hardest hit sectors (tourism, hospitality and transport). After a series of policy rate reductions in March, April and June, the National Bank of Serbia (NBS) reduced the policy rate again in December by 25 basis points to 1 percent. The NBS has also provided liquidity directly to the banking system and introduced a second moratorium on bank loan repayments for an additional two months, through end-September.

Fiscal Policy Response to COVID-19

Measure	Percent of GDP
Initial fiscal package	**6.9**
Wage increase for public healthcare sector	0.2
Higher healthcare spending	1.1
One off payment to pensioners	0.1
Universal cash transfer	1.3
Deferement of labor taxes and SSC	1.8
Deferement of CIT	0.4
Payment of minimum wages	1.8
New loans to SMEs	0.2
Additional fiscal measures	**1.2**
Minimum wage subsidy for SMEs	0.7
Deferment of labor taxes and SSC	0.5
One-off fiscal support to hotels	0.02
Bonus to public-sector health workers	0.02
Other measures, incl. state guarantee scheme for bank loans to SMEs	**1.0**

Source: Serbian authorities, IMF staff calculations

3. **Economic activity has rebounded following a sharp contraction in 2Q2020.** While the decline in economic activity in 2Q2020 was severe, the outturn was better than initially projected and GDP growth in 3Q2020 registered -1.4 percent yoy. Monthly data for retail sales and industrial production through October point toward a continued recovery, with positive growth yoy (Figure 1), which is also consistent with high frequency data for mobility and electricity consumption (Box 1). All these indicators suggest a weaker contraction for 2020 than expected at the time of the October *IMF World Economic Outlook*, with growth now projected at -1.5 percent. Headline and core inflation remained under 2 percent through September. Average real net wages increased by 6.2 percent yoy by August, while an increase in the minimum wage of 6.6 percent will take effect from January 1, 2021.

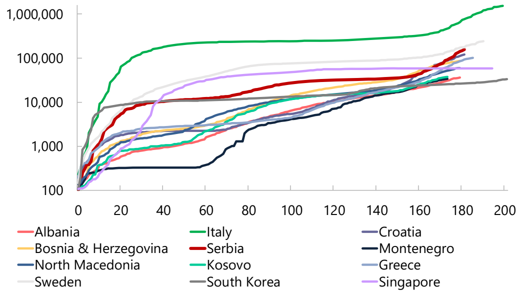


Box 1. COVID-19 Evolution and High-Frequency Indicators of Economic Activity

A third wave of COVID-19 infections started in mid-October. By end-November, there were 175,438 confirmed COVID-19 cases and 1,604 deaths in Serbia.

Evolution of COVID-19 Cases, Daily

(People, cumulatively; t=0 is the first day with over 100 cases)

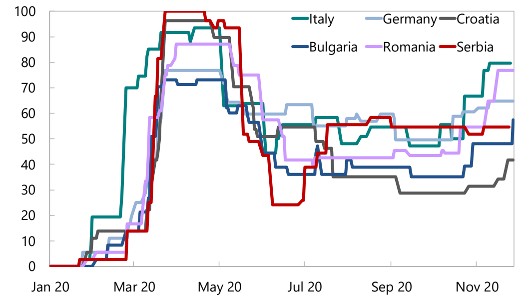


Source: Johns Hopkins University, COVID-19 Statistics.

Serbia implemented relatively stringent measures in response to the first wave of infections in March. However, less restrictive measures were implemented in response to the second and third waves.

Oxford Government Policy Response Index

(Index, 100=Stringest policies)

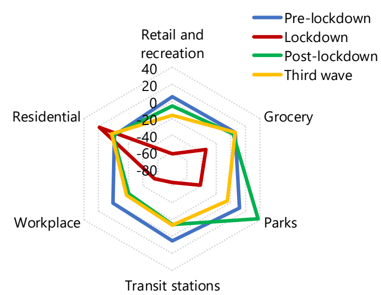


Source: Blavatnik School of Government, University of Oxford.

Average mobility has declined only marginally since the start of the third wave.

Serbia: Average Mobility

(Percent, rel. to baseline day before pandemic)



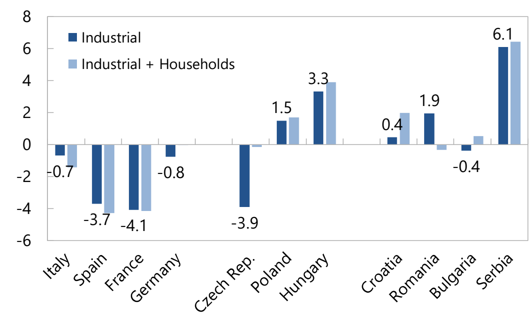
Sources: Haver Analytics; and IMF staff calculations.

Note: Pre-lockdown period covers 2/15/2020-3/14/2020; lockdown 3/15/2020-5/6/2020; post-lockdown 5/7/2020-10/14/2020; and third wave 10/15/2020-11/27/2020.

Industrial electricity consumption has remained strong since October, in line with some other European countries.

Electricity Consumption: Deviations from 2019 trends

(Percent; October 5 - November 22, 2020)



Sources: ENTSO-E; and IMF staff calculations.

4. **The general government recorded a deficit of 6.5 percent of GDP through 3Q2020.** While revenue collection was stronger than expected in the April supplementary budget by approximately 1.3 percent of GDP, supported by social security contributions, personal income taxes[1] and VAT, total revenues were still 4 percent lower compared to the first nine months of 2019. Expenditures over the same period were also higher than projected, as some fiscal support measures were extended, and public investment execution was stronger than projected. In 2020, health expenditures to fight the pandemic are projected at around 1 percent of GDP, on top of the wage increases granted to health sector workers in April (0.2 percent of GDP). This spending increase covers medical equipment (0.7 percent of GDP) and the construction of two COVID-hospitals. The government's financing for 2020 was largely secured by September. Furthermore, in November,

[1] The number of individuals and firms that opted to take advantage of tax deferrals has been lower than anticipated. Through September, about 1.8 percent of GDP in taxes and contributions had been deferred to 2021 and 2022.

Serbia successfully issued a 10-year Eurobond worth USD 1.2 billion at a yield of 2.35 percent.[2] Non-residents' participation in domestic government bond markets resumed in the second half of the year, while local banks' appetite for longer-term dinar-denominated bonds also returned. The government's liquidity buffers (deposits at the NBS) remain adequate at 3.6 percent of GDP at end-September.

Serbia: General Government Fiscal Operations, RSD billion

	January - March 2020			January - June 2020			January - September 2020		
	Prog. /1	Act.	Diff.	Prog. /1	Act.	Diff.	Prog. /2	Act.	Diff.
Total revenue	**531.9**	**538.6**	**6.7**	**1,129.8**	**1,014.3**	**-115.5**	**1,534.2**	**1,602.1**	**68.0**
Tax revenue	482.3	481.7	-0.5	1,017.0	902.7	-114.3	1,361.6	1,418.9	57.4
of which: VAT	142.6	134.1	-8.5	285.2	257.0	-28.2	392.0	398.8	6.8
of which: Social security contributions	166.1	167.6	1.5	347.4	298.1	-49.3	448.1	463.2	15.1
of which: Excises	72.4	76.5	4.1	147.9	146.0	-2.0	223.3	221.8	-1.4
Non-tax revenue	46.9	52.3	5.5	106.8	102.3	-4.5	158.9	167.1	8.2
Capital revenue	0.0	1.6	1.6	0.0	3.6	3.6	0.0	8.1	8.1
Grants	2.7	3.0	0.2	6.0	5.7	-0.3	10.0	8.0	-2.1
Total expenditure	**546.9**	**590.7**	**43.9**	**1,138.4**	**1,324.5**	**186.1**	**1,941.4**	**1,962.9**	**21.4**
Current expenditure	505.1	531.5	26.3	1,025.8	1,187.6	161.8	1,746.0	1,760.1	14.0
Capital expenditure	36.4	55.6	19.2	101.4	116.7	15.3	166.7	174.5	7.8
Net lending	2.6	2.0	-0.6	7.2	16.9	9.7	23.8	22.6	-1.2
Amortization of activated guarantees	2.7	1.6	-1.0	4.0	3.2	-0.7	4.9	5.7	0.8
Fiscal balance	**-15.0**	**-52.2**	**-37.2**	**-8.5**	**-310.1**	**-301.6**	**-407.3**	**-360.8**	**46.5**
Memo:									
Wage bill	129.3	139.9	10.6	268.5	282.8	14.3	423.5	426.1	2.6
Primary current expenditure of the Republican budget	241.5	266.3	24.8	479.8	755.5	275.7	1,112.6	1,084.8	-27.8
General government debt (percent of GDP)	49.7	52.7	3.0	49.6	58.1	8.5	58.7	57.6	-1.1

Sources: Ministry of Finance, IMF staff calculations.
1/ Programmed as of the 3rd review.
2/ Programmed as of the 4th review.

5. **The authorities have drawn on their sizeable foreign exchange reserves to cover ongoing balance of payments pressures due to the pandemic.** The pandemic caused a sharp decline in remittances and net FDI, with the latter falling by about 33 percent yoy in January-September. However, lower oil prices, and a decline in dividends paid abroad contributed to a reduction in the current account deficit (by about 0.7 percent of GDP compared to January-September 2019), which remained fully covered by net FDI. The exchange rate has been kept stable in the face of depreciation pressures, with net sales of foreign exchange by the NBS since the beginning of the year amounting to EUR 1.74 billion through October.

6. **A new government took office in October, and confirmed its commitment to prudent macroeconomic policies, reforms to boost growth, and EU integration.** Following the victory of the SNS party in the June elections, a new coalition government led by Prime Minister Brnabić was formed in late October. Prime Minister Brnabić and President Vučić expressed commitment to policy continuity in key areas and interest in a possible successor PCI.

[2] The authorities indicated that about USD 900 million will be used to pre-finance the Eurobond maturing in September 2021.

OUTLOOK AND RISKS

7. The baseline scenario assumes a partial and gradual recovery of external and domestic economic activity, with fundamental uncertainty regarding the evolution of the pandemic and its implications (Tables 1-8).

- **Real GDP** is expected to contract by 1.5 percent in 2020 and recover by 5 percent in 2021. The authorities projected a decline by 1 percent in 2020 followed by a 6 percent rebound in 2021. The smaller projected contraction compared with other countries in the region reflects the strong growth momentum going into the crisis, the structure of the economy (with modest reliance on high-contact intensive sectors including tourism), and the relatively large policy response to the crisis. Nonetheless, real GDP in 2022 would be 4 percentage points below pre-COVID-19 projections.

- **The fiscal deficit** is projected to reach almost 9 percent of GDP in 2020—slightly higher than projected at the time of the April budget revisions, due to extended and new fiscal support measures, higher public investment execution and support to Air Serbia, which will more than offset higher than expected revenues.[3] Public debt is projected to stay below 60 percent of GDP.

- **Inflation** is expected to remain in the lower half of the target tolerance band for the rest of the year, owing to low commodity prices, still weak domestic demand, and a stable exchange rate. Over the medium term, inflation is projected to gradually increase and converge to the midpoint of the target band, as the output gap closes and imported inflation rises.

- **The current account deficit** is projected to decline in 2020 to 5.7 percent of GDP. Reserves are projected to remain unchanged by the end of 2020 yoy at EUR 13.4 billion (5.5 months of prospective imports) and pick up from 2021 onwards.

8. Risks to the outlook remain substantial. Uncertainty regarding the timing and pace of the recovery persists, reflecting primarily the future course of the pandemic and related economic disruptions in Serbia and its trading partners. The number of new infections in Serbia and abroad started accelerating again by mid-October, and although the authorities have not reinstated a strict lockdown, the resurgence of the pandemic presents a clear downside risk. A further worsening of the pandemic could lead to a more severe contraction in 2020 and a weaker recovery in 2021, increasing fiscal and external financing needs. Furthermore, the full impact of the pandemic may only become apparent with a lag after the expiration of the temporary support measures through September and of the related employment protections at the end of the year. An extended global crisis would further negatively affect Serbia through weaker external demand, continued disruption of supply chains and tighter financing conditions. An adverse scenario illustrating this as well as

[3] A second supplementary budget was approved in November, to reflect these developments.

possible policy responses is presented in Annex I. On the other hand, a faster-than-expected deployment of an effective vaccine could provide an upside risk. The authorities perceived risks as broadly balanced, with downward risks from the external environment and upside domestic risks.

PROGRAM POLICY DISCUSSIONS

A. Fiscal Policy

9. The mission and the authorities concurred that the fiscal support provided to date was broadly appropriate and helped households and firms weather the COVID-19 shock. The minimum-wage subsidies to SMEs expired in September and the deferral of labor taxes and social security contributions in August. The authorities expected a full uptake by year-end of the loans provided by banks under the state guarantee scheme and by the Development Fund. Staff agreed that under the baseline projection of a speedy economic recovery, it was appropriate to phase out these support measures. Staff advised that, should the pandemic be more protracted or its impact stronger than expected, any additional support measures would have to be targeted to the firms and households most in need.

10. Staff underscored the importance of enhanced scrutiny of fiscal risks and strong oversight over the use of public funds. The mission welcomed the close monitoring by the Fiscal Risks Department (FRD) of possible contingent liabilities from SOEs. The authorities indicated that, at this stage, only Air Serbia required direct government support. Staff advised that any support to companies should be provided transparently through the budget, any budgetary arrears promptly resolved, and that budget execution of local governments should continue to be closely monitored. The authorities expressed their appreciation for Fund technical assistance to help develop a methodology to monitor and estimate possible losses on bank loans backed by the state guarantee scheme. The mission appreciated the transparency and monitoring of funds disbursed to support the economy together with plans to subject them to an ex-post independent audit by the State Audit Institution (expected by end 2021), as well as oversight by the tax administration to prevent possible fraud under the wage subsidy scheme or tax deferrals. The new public procurement legislation introduced on July 1 will gradually shift all public procurement contracts to a newly designed online portal, enhancing accountability, competition and transparency (including through the publication of contract award decisions).

11. The authorities and the mission agreed on the key parameters of the 2021 budget (prior action). As private demand is expected to recover strongly under the baseline forecast, the authorities have let crisis-related one-offs deployed in 2020 expire. At the same time, to soften the resulting negative fiscal impulse and to support the recovery as well as medium-term growth, there is a strong case for boosting public investment. The latter can be accommodated within the agreed reduction in the fiscal deficit to 3 percent of GDP. This level will also ensure that public debt in percent of GDP resumes a clear downward path. The new government submitted a draft budget along these lines in November.

- **Public investment.** Several projects in the transport and railways sectors are planned for 2021, pushing the ratio of public capital expenditures to GDP above 5.5 percent. The mission underscored the importance of further expanding investments in green technologies and digitalization, to lay the foundations for more sustainable growth. In response, the authorities pointed to plans for large investments in sewage and waste facilities that are part of their Serbia 2025 strategy. Staff also stressed the need to ensure that all projects, regardless of the source of financing, are implemented in line with the new public investment management framework.

- **Health expenditures.** The 2021 budget allocates approximately 0.7 percent of GDP to COVID-related health expenditures.

- **Public sector wages and pensions.** To make room for higher public investment and to ensure that the wage bill as a percent of GDP declines after increasing in three consecutive years, the authorities will limit public sector wage increases to 5 percent (for health care workers) or less. Pensions will be indexed following the previously agreed Swiss formula.[4] The mission advised that additional pension ad-hoc increases and one-off payments should be avoided.

- **Labor taxation.** The threshold for non-taxable personal income will increase from RSD 16,300 to RSD 18,300 as of January 1, 2021. As a result, the tax wedge will fall for the third consecutive year (by 0.6 percent).

- **Contingencies** were included in the budget for the activation of government guarantees on banks' loans to SMEs, consistent with a 6 percent loss rate. The authorities noted that according to their simulations and given the repayment grace periods, the bulk of potential called guarantees would materialize in 2022. Beyond these explicit contingencies, staff considered that the unwinding of support measures could be made more gradual if risks to growth were to materialize or increase, provided that fiscal and external financing constraints do not harden significantly.

12. Fiscal-structural reforms are progressing, but some need to be accelerated.

- **Public wage system reform.** Delays due to the pandemic—including in the timing of the elections—prevented the adoption of the new public wage system on time to become effective in 2021. The authorities remain committed to implementing the new system and making it effective as of 2022.

- **Public employment framework.** While the move to a new system based on personnel planning for all public sector entities has been delayed in the context of the pandemic, the authorities have improved the existing regime in collaboration with the World Bank. The

[4] This formula links annual pension growth to 50 percent of inflation and 50 percent of average nominal wage growth, and envisages indexation once a year (see PS ¶10). With this formula, pension spending is expected to remain below the 11 percent threshold.

authorities intend to retain the Employment Commission to constrain the hiring of staff. However, starting in 2021, public sector entities will be allowed to replace up to 70 percent of the staff leaving the institution or retiring, without the Commission's approval. Staff appreciated that this change should make the hiring process more flexible and better tailored to individual institutions' needs. At the same time, the authorities set a limit on overall new hiring approvals, to ensure that the total number of permanent staff in the public sector does not exceed by more than 1 percent the level at end-December 2020.

- **Fiscal risks management.** With Fund and World Bank TA, the authorities have prepared a methodology to monitor fiscal risks stemming from SOEs and from natural disasters, and developed a methodology for managing fiscal risks associated with the state-guarantee scheme designed in response to the COVID-19 crisis (**end-November 2020 RT**; implemented with a one-day delay). An expanded methodology is being prepared, including fiscal risks from local governments, public-private partnerships, and litigation.

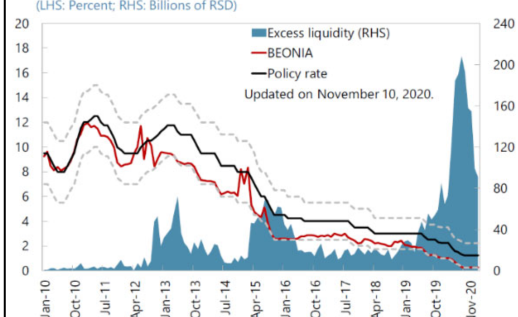
- **Fiscal rules.** The authorities remained committed to introduce a new fiscal-rules framework during 2021 in collaboration with Fund staff (including to define key elements of the new rules, such as debt thresholds, escape clauses, correction mechanisms, and a strong accountability framework).

- **Tax administration.** Serbia's Tax Administration has benefitted from Fund and World Bank support and has continued to make progress in the areas of auditing, compliance risks management, the large taxpayers unit, and preparations for implementing new legislation on unexplained wealth. The next phase of reforms includes business processes re-engineering, the fiscalization project (to enhance VAT compliance) and procurement of a new IT system. The mission emphasized the need to ensure the timely hiring of new staff to compensate for planned retirements.

B. Monetary and Financial Sector Policies

13. Within the stabilized exchange rate regime, monetary policy remains accommodative and the banking system liquid. The key policy rate has been reduced progressively by 125 basis points since March to 1 percent, and the interest rate corridor narrowed from ±1.25pp to ±0.9pp. The NBS has provided banks with abundant liquidity, both in dinars and euros, via additional FX swap auctions, repo operations, and outright purchases of government and corporate securities. The authorities noted that, as a result of these measures, excess dinar liquidity remained high and short-term rates (BEONIA) at the lower bound of the interest rate corridor. The NBS underscored that they had sufficient policy space to respond to further

Interest Rate Corridor and Excess Liquidity
(LHS: Percent; RHS: Billions of RSD)



Sources: NBS; and IMF staff calculations.

pressures if needed, including through the prolonged and stepped-up use of the measures implemented so far. In July, the ECB and NBS set up a repo line arrangement to provide euro liquidity in case of market dysfunction.[5]

14. Staff welcomed the monetary policy easing in response to the pandemic, but raised questions regarding recent purchases of corporate bonds in secondary markets In April and May, the NBS purchased RSD 97 billion (1.7 percent of GDP) of dinar-denominated government securities through open-market operations, which were helpful in stabilizing yields and ensuring a smooth functioning of secondary markets that had been disrupted by the crisis. The NBS subsequently extended its purchases to corporate bonds issued by domestic companies, based on a regulation adopted in May (PS ¶19, bullet 4). Staff questioned the purpose of these recent purchases, as such operations in underdeveloped corporate bond markets are not common across central banks. The authorities explained that the goals of these purchases were to support the development of a corporate bond market and to promote new financing options for corporate investment, especially during the recovery from the COVID-19 crisis. Regarding the modalities of the transactions, staff suggested that NBS purchases in secondary market shortly after the bonds were issued may send confusing signals to the market, and could undermine market confidence. The authorities noted that the transactions had been prepared carefully and that the NBS had responded quickly to address misperception in press reports. Staff advised the NBS to ensure effective communications regarding possible future purchases of corporate bonds. Furthermore, staff suggested defining a more explicit exit strategy.

15. Reserves remain at comfortable levels, amid ongoing depreciation pressures. At end-October, gross foreign exchange reserves stood at EUR 13.1 billion, or five months of imports and about 120 percent of the ARA metric. NBS interventions have continued even though global financial flows towards EMs recovered (Figure 3). The authorities explained that the depreciation pressures largely resulted from lower remittances and FDI (in particular, lower reinvested earnings). The mission recognized the case for maintaining exchange rate stability through the crisis, to help prevent confidence risks. However, it also reiterated that, should the crisis worsen, policy choices would likely become more difficult and a broader range of options to preserve macroeconomic and financial stability might need to be considered.

16. The uptake of emergency measures has been strong, contributing to robust credit growth. In July and August, in addition to the second loan repayment moratorium, the NBS adopted a new regulation to temporarily stretch out the repayment of cash, consumer and other loans,[6] and a regulation providing easier access to housing loans (see Box 2). Supported by these policies and by the government guarantee scheme on bank lending to SMEs, corporate credit

[5] Under the repo line, the NBS will be able to borrow up to EUR 1 billion from the ECB against adequate euro-denominated collateral. The maximum maturity of each drawing will be three months. The repo line will remain in place until end-June 2021.

[6] Banks are encouraged to offer borrowers refinancing options or to extend the maturity date of the last installment of consumer, cash and other loans approved by 18 March 2020. The extension can be granted for up to two years, depending on the loan type and modification date.

growth reached 16.4 percent yoy, while loans to households increased by 14.3 percent yoy at end-September.

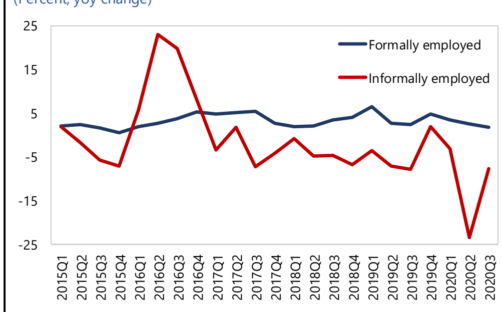
17. Financial stability has been preserved, but downside risks could materialize in the near future. Notably, NPLs reached a historically low level of 3.4 percent of total gross loans at end-September, primarily supported by the resolution strategy introduced in 2015 and the recent crisis mitigation measures. However, due to expanded loan loss provisions and a partial loss of income induced by the loan moratoria, banks' return-on-equity dipped to 8.3 percent at end-July 2020, down from an average of 10.5 percent in 2019. Moreover, staff cautioned that NPLs would likely gradually increase in the future, once the repayment moratorium and other support measures expire. However, the authorities remained confident that the implemented measures would be sufficient to avoid NPL increases going forward. Banks are facing an increasing number of lawsuits (exceeding 65,000 cases thus far in 2020) contesting the legality of loan processing fees, which is posing significant costs. Despite a ruling by the Supreme Court and several steps by the authorities, the issue remains to be resolved.[7] Staff advised the authorities to continue efforts to find a prompt solution, supporting the stability of the financial system while also protecting consumer interests.

18. Real estate markets were buoyant over the past few years, but risks appear tilted to the downside. Based on appraisal data collected by the NBS, residential housing prices at end-Q2 2020 were 3 percent higher than the previous year, but about 5 percent lower than the peak reached in the first quarter. This recent reversal could reflect lower transaction volumes, tighter lending conditions, pent-up supply coming into the market, and, more broadly, the uncertainty induced by the pandemic. Likewise, transactions in the commercial real estate (CRE) market collapsed in H1 2020, representing only one-third of the total in H1 2019. This, in turn, depresses the outlook for CRE prices through the pandemic. Going forward, closely monitoring the real estate market remains a priority for the Serbian authorities, allowing them to act swiftly if market conditions further deteriorate (see Box 2).

C. Structural Policies

19. The labor market outlook remains uncertain. The negative impact of the pandemic on informal employment, labor participation and other labor market indicators seen in 2Q2020 seems to be partially offset in 3Q2020 (Figure 7). Staff reiterated its expectation that unemployment will likely rise later in 2020 and early-2021, after the minimum wage subsidies and other measures supporting firms expire. The authorities noted that they implemented these measures to prevent permanent negative effects on the labor market, but

Formal and Informal Employment
(Percent, yoy change)



Source: Statistical Office of Serbia (SORS), IMF staff calculations.

[7] The Supreme Court has ruled that loan processing fees can only be charged if the bank informed its customer about the specific costs that are covered by the fee, ahead of settlement. A large majority of cases thus far has been ruled in favor of the borrowers.

agreed that if additional assistance is needed it should be targeted to support the most vulnerable groups.

Box 2. Real Estate Markets in the COVID-19 Era

Real estate prices play a major role in assessing financial stability and monitoring systemic risk. A sharp deterioration of housing markets can have severe adverse effects on household balance sheets, business confidence, and on banks' lending capacity. These effects can in turn spill over to the real economy through consumption, investment, and credit allocation.

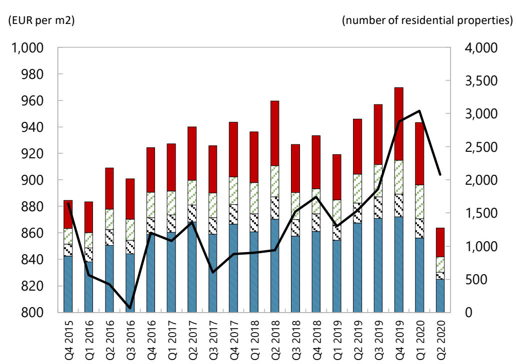
Real estate markets weakened in Q2 2020, with transaction volumes and prices dropping for both residential and commercial segments, in part due to the lockdowns. According to recent appraisal data collected by NBS, housing valuations deteriorated in Q2 2020, especially in Vojvodina and, Southern and Eastern Serbia. These developments followed a continuous build-up of supply in recent years, particularly for apartments. On the demand side, cash transactions represent about 70 percent of the residential market, primarily purchases by the diaspora. These capital inflows could suddenly stop, with a downturn in Western Europe or deteriorating investor risk appetite. At the same time, three-quarters of housing loans are typically insured by the National Mortgage Insurance Corporation (with insured outstanding loans of EUR 2.4 billion), reflecting the systemic importance and potential fiscal risks stemming from the housing market.

The number of transactions in the CRE market fell by two-thirds yoy in the first half of 2020. Prior to the pandemic, CRE prices were trending upward, driven by high office occupancy rates, particularly in Belgrade, and strong demand in the industrial and logistics sectors. Going forward, the effects of the crisis on consumer behavior and working-from-home are expected to negatively impact the office and retail segments.

In the aftermath of the COVID-19 shock, the NBS has taken several support measures aimed at addressing potential imbalances in the housing market. The measures have focused on relaxing lending conditions to households, including: (i) the approval of mortgages prior to completion of construction, and (ii) the option to extend mortgage repayment periods by up to five years. In June 2020, the NBS also lowered the regulatory minimum down-payment for first-time home buyers from 20 to 10 percent.

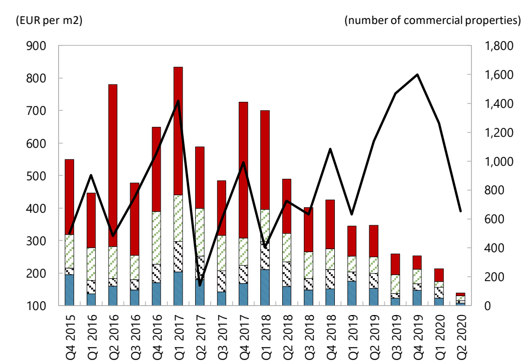
Box Figures. Recent Developments in Real Estate Markets

1. *Residential real estate estimated values (lhs) and number of properties per region (rhs)*



Source: NBS.

2. *Commercial real estate values (lhs) and number of properties per region (rhs)*

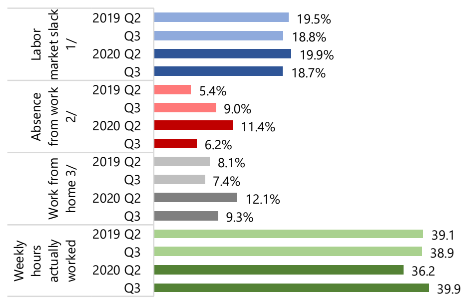


Source: NBS.

Note: Regions for transactions: Belgrade (blue); Southern and Eastern Region (black); Šumadija and Western Serbia (green); Vojvodina (red). Data based on the first real estate valuations in the process of housing loan approval.

20. Staff underscored the importance of advancing the SOE reform agenda, including on corporate governance. The authorities noted the constraints related to the pandemic and delay in the appointment of a new government, but reiterated their commitment to this agenda.

Additional Indicators of Labor Market Trends



Source: Statistical Office of Serbia (SORS)
Notes:
1/ Shortfall between the workers' desired amount of work and the amount of paid work available.
2/ Share of employees who are absent from work in total number of employees.
3/ Share of employees who worked from home in total number of employees.

- **Petrohemija.** Negotiations for a strategic partnership have not been concluded and the authorities noted that launching a tender in 2020 is no longer feasible (**end-February 2019 RT**). Staff reiterated the risks surrounding the firm's long-term viability and encouraged the authorities to resolve this company without undue delay.

- **Elektroprivreda Srbije (EPS).** The authorities launched the tender for the valuation of EPS's property and assets (**end-December 2019 RT**)—the next step for converting EPS into a joint stock company—in November 2020. They also noted that assessment of electricity tariffs has been completed and a tariff adjustment based on this assessment should be expected by the end of 2020 or in early 2021. The mission reiterated the need for cost recovery, while underscoring the importance of incorporating the distributional impact of any potential tariff increases.

- **Others.** Staff appreciated the authorities' expectation that the privatization of Komercijalna Banka—the largest state-owned bank—could be completed by end 2020.The authorities expressed their intention to continue exploring options for potential strategic investments for the chemical company MSK and privatization of the bus company Lasta in 2021.

- **Strategy for SOEs.** After some delays, a government decision on the SOE ownership policy was adopted in early-December and a time-bound action plan to implement it will be adopted in early-2021 (**end-October 2020 RT**). The EBRD has supported the preparation of these documents, which cover criteria for continued government ownership and improvements in the governance structure of the remaining SOEs.

21. The authorities' presented their reform agenda beyond the current PCI. Looking forward, the authorities emphasized the importance of strengthening the health system and its ability to deal with the COVID-19 pandemic, and the need for scaling up investments in infrastructure under the 'Serbia 2025' program. They confirmed their plan to support the transition from a labor-intensive to a knowledge-based and innovation-led economy. They also reiterated that their priorities include continued improvements in the efficiency of SOEs (including EPS) and the shift towards a green economy.

PROGRAM MODALITIES

22. Quantitative program conditionality for the fifth and final review has been met and structural momentum has been broadly maintained.

- **All end-September quantitative targets (QTs) and continuous targets (CTs) were observed** (PS Table 1a)**.** The end-September ceilings on the fiscal deficit of the general government and primary spending of the Republican budget were both met. Domestic arrears by the consolidated general government increased slightly during 3Q2020 but remained below the ceiling. Inflation remained within the band of the inflation consultation clause and all standard CTs were met (PS Table 1b).

- **The prior action has been met.** The 2021 budget consistent with the program's objectives (¶11) was adopted in early December.

- **The actions expected under two remaining reform targets (RTs) have been implemented, albeit with delays due to the pandemic and the recent appointment of a new government** (PS Table 2)**.** A government decision on the SOE ownership policy consistent with the core principles embodied in the OECD Guidelines on Corporate Governance of State-Owned Enterprises was approved in December, and an action plan to implement it is expected to be finalized in early-2021 (**end-October 2020 RT, not met**; ¶20). A methodology for managing fiscal risks associated with SOEs, natural disasters and the state-guarantee scheme designed in response to the COVID-19 crisis (**end-November 2020 RT, not met**) was finalized on with one-day delay (¶12). In addition, in November the authorities completed the outstanding RT to launch a tender to value property and assets of EPS (¶21).

23. Serbia has small sovereign arrears outstanding. The authorities have been 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.

STAFF APPRAISAL

24. The large fiscal package and the monetary and financial measures implemented in response to the crisis have played a vital role in supporting the economy. Economic activity has rebounded following a sharp contraction in 2Q2020. Inflation is low and the banking system has remained stable and liquid. Public debt is expected to stay below 60 percent of GDP, despite the sizable fiscal outlays related to the pandemic.

25. However, the outlook remains highly uncertain, reflecting the unpredictable course of the pandemic. The number of new infections accelerated again in mid-October in Serbia, and a second wave of infection has hit major trading partners, leading to new restrictions on economic activity. These developments could negatively impact the nascent recovery. In addition, the full impact of the pandemic on Serbia's labor market and NPLs is likely to manifest next year, as wage subsidies, and the related cap on dismissing workers, and the loan moratorium will have expired.

26. The authorities need to remain focused on containing risks and preparing contingency measures, while maintaining transparency and accountability. Fiscal risks related to local governments and state-guarantees merit close monitoring, along with those of SOEs. Any support to SOEs should be provided transparently through the budget. Transparency and accountability of COVID-related spending remains critical to maintain public support and build institutional legitimacy. Possible further measures should be targeted to companies and individuals most in need.

27. The 2021 budget has to strike a balance between sustaining the economic recovery and maintaining fiscal responsibility. Given the projected economic rebound and the temporary nature of the fiscal measures, the fiscal deficit should be contained to 3 percent of GDP, also ensuring that public debt in percent of GDP resumes a clear downward path. Within this envelope, public investment should be scaled up to support the recovery and boost potential growth, while increases in public sector wages and pensions should be limited. However, if downside risks to growth were to materialize during 2021, there could be a case to adopt further measures to mitigate the crisis and to limit the negative fiscal impulse.

28. After pandemic-related delays, the implementation of structural reforms needs to be accelerated. Ongoing efforts are needed to strengthen the tax administration, public investment management, and the monitoring and management of fiscal risks. Reforms of public sector wage and employment frameworks, and the creation of new fiscal rules, that were originally foreseen under the PCI, have faced substantial delays, and should be completed during 2021. Enhancing the corporate governance of public enterprises, including EPS, and developing Serbia's capital market also remain vital. Progress towards completing the privatization of Komercijalna Banka is welcome, and further efforts to privatize Petrohemija are encouraged.

29. Going forward, Serbia should build on the achievements of this program by continuing to pursue structural and institutional reforms that will deliver faster income convergence with the EU. Serbia will need faster growth to catch up rapidly with advanced European countries and to mitigate the adverse effects of skilled labor emigration. In this regard, the authorities' intention to continue with reforms aimed at strengthening institutions to support private sector-led growth is welcome. Medium-term priorities should also focus on environmental protection and improving governance, including strengthening the rule of law and improving the court system.

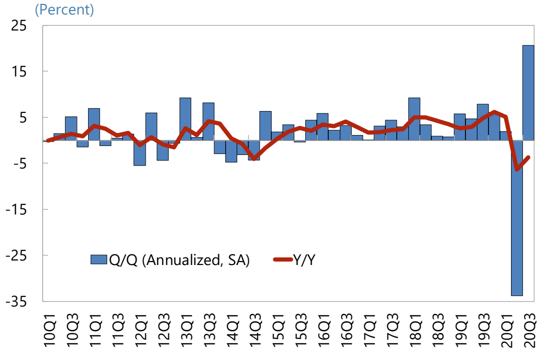
30. Staff supports the completion of the fifth review under the Policy Coordination Instrument.

Figure 1. Serbia: Real Sector Developments

After a severe contraction in 2Q2020, GDP rebounded in 3Q2020….

Gross Domestic Product

(Percent)

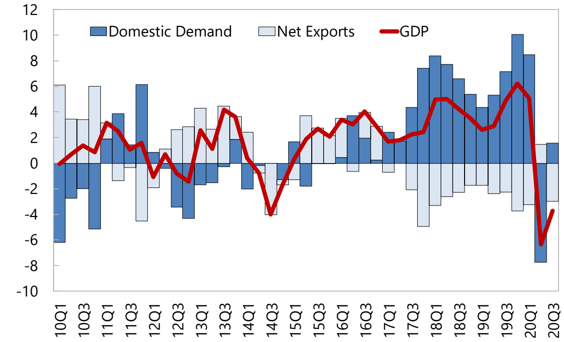


Sources: Haver Analytics; SORS; and IMF staff calculations.

….supported by a pick-up in domestic demand.

Contribution to Growth

(Percent, Y/Y)

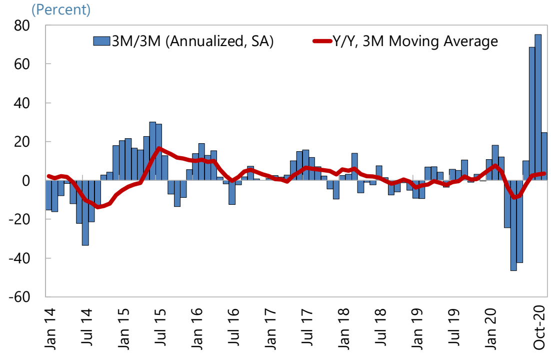


Sources: Haver Analytics; SORS; and IMF staff calculations.

Industrial production recovered since April and stabilized in October….

Industrial Production

(Percent)

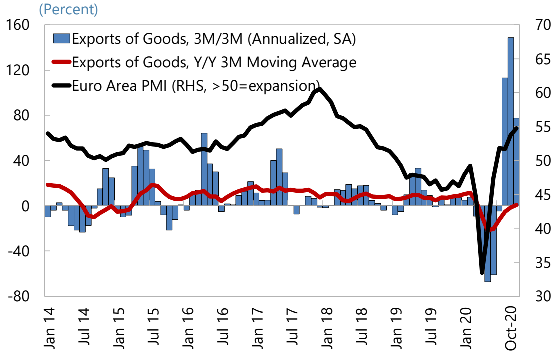


Sources: Haver Analytics; SORS; and IMF staff calculations.

…. while exports started to recover along with activity in Europe.

Exports of Goods and Euro Area PMI

(Percent)

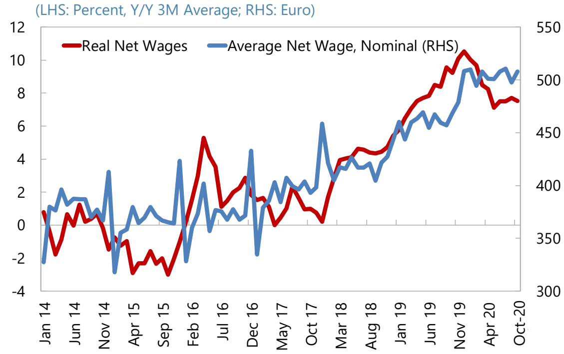


Sources: Haver Analytics; SORS; and IMF staff calculations.

Net wages growth stabilized….

Net Wages

(LHS: Percent, Y/Y 3M Average; RHS: Euro)

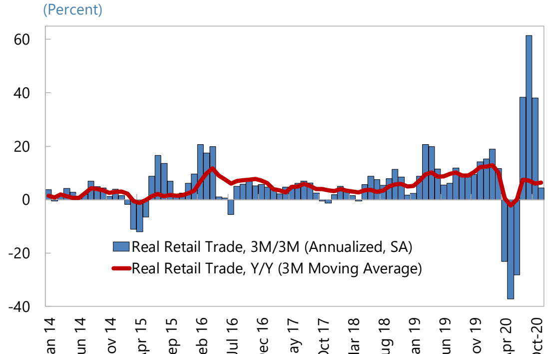


Sources: Haver Analytics; SORS; and IMF staff calculations.

…. while retail trade growth eased in October.

Retail Turnover

(Percent)



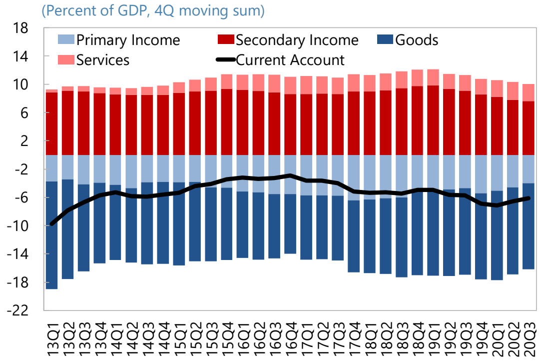
Sources: Haver Analytics; SORS; and IMF staff calculations.

Figure 2. Serbia: Balance of Payments and NIR

The current account deficit continued to decline in 3Q2020....

Current Account Balance

(Percent of GDP, 4Q moving sum)

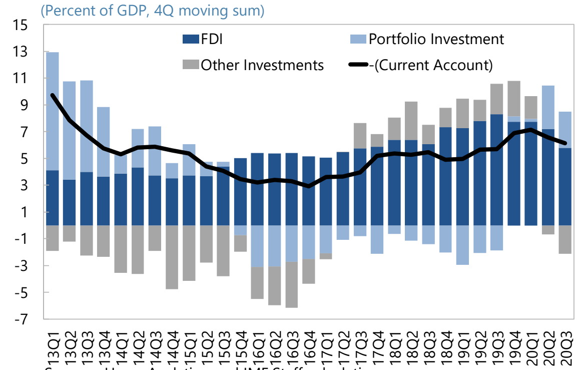


Sources: Haver Analytics; and IMF Staff calculations.

.... and remained covered by the FDI.

Financial Account Composition

(Percent of GDP, 4Q moving sum)

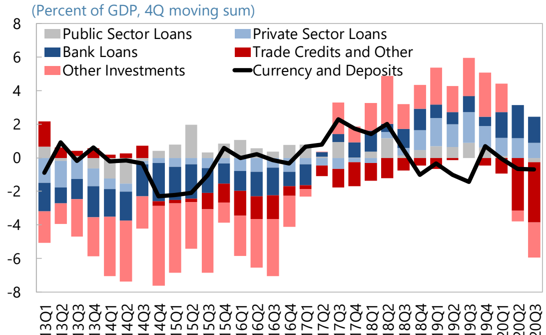


Sources: Haver Analytics; and IMF Staff calculations.

Other investments were driven by trade credits and loans.

Other Investments 1/

(Percent of GDP, 4Q moving sum)



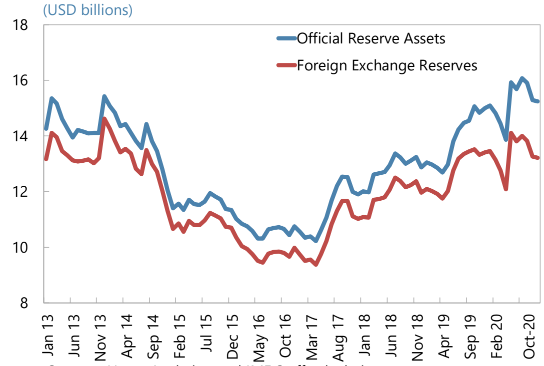
Sources: Haver Analytics; and IMF Staff calculations.

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

International reserves increased on the back of the Eurobond sale in May and gradually declined afterwards.

Reserves

(USD billions)



Sources: Haver Analytics; and IMF Staff calculations.

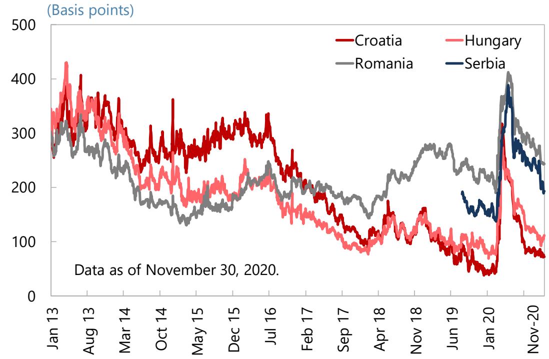
Figure 3. Serbia: Financial and Exchange Rate Developments

After rising sharply in March, EMBI spreads declined….

…. and efforts to lengthen the maturity of domestic securities continued until the COVID-19 shock hit.

Sovereign Risk - Euro EMBIG Spreads

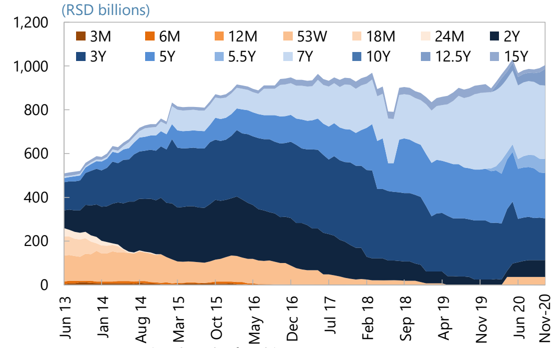
(Basis points)



Source: Bloomberg.

Domestic Debt Stock 1/

(RSD billions)



Source: National Bank of Serbia.

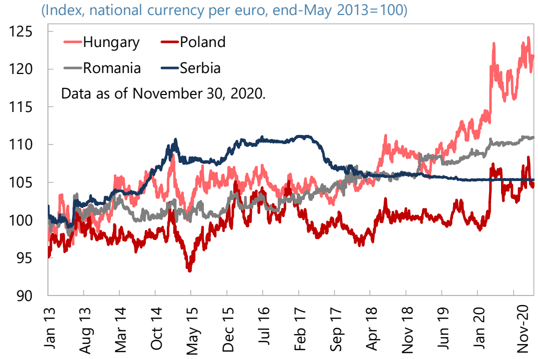
1/ Sum of dinar and FX-denominated securities at current exchange rate.

The exchange rate against the euro remains stable….

…. while the NBS foreign exchange interventions switched to net sales in 2020.

Exchange Rates in the Region

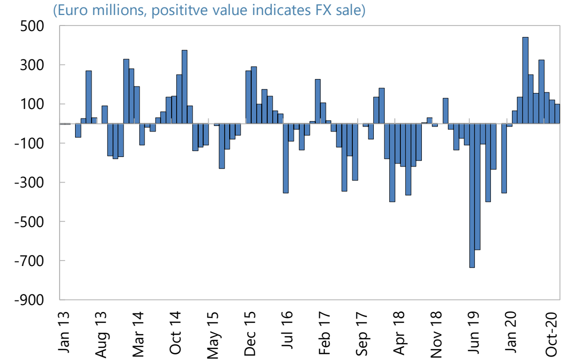
(Index, national currency per euro, end-May 2013=100)



Sources: Bloomberg.

FX Interventions by NBS

(Euro millions, posititve value indicates FX sale)



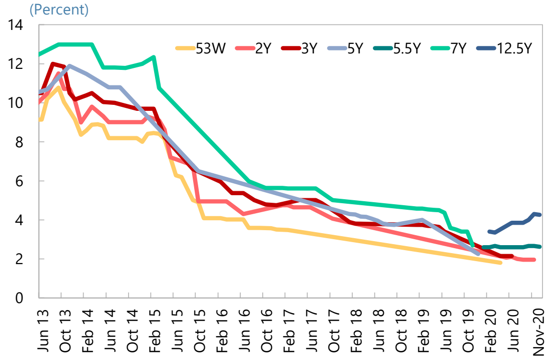
Sources: National Bank of Serbia.

Yields for dinar-denominated securities remain low….

…. similar to the yields for euro-denominated securities.

Yields on Dinar-Denominated Domestic Securities

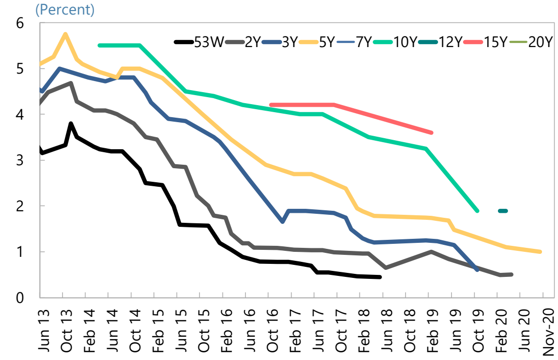
(Percent)



Source: National Bank of Serbia.

Yields on Euro-Denominated Domestic Securities

(Percent)



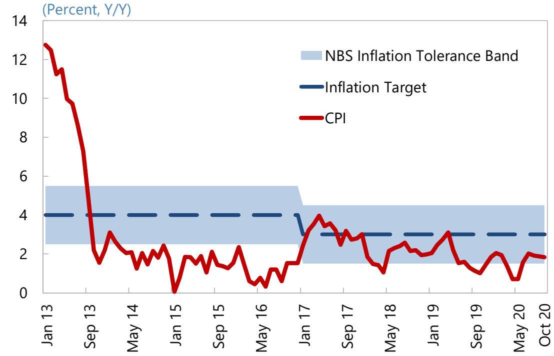
Sources: National Bank of Serbia.

Figure 4. Serbia: Inflation and Monetary Policy

Headline inflation came back inside the lower limit of the tolerance band….

Inflation

(Percent, Y/Y)

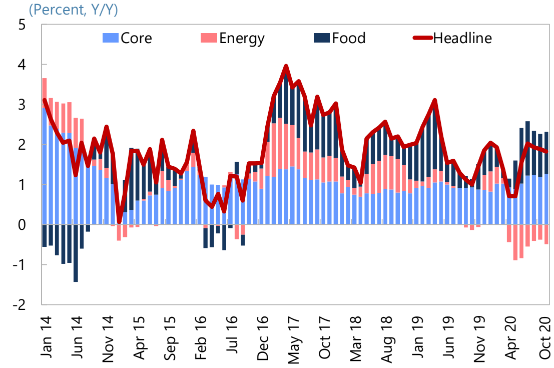


Source: National Bank of Serbia; and IMF staff calculations.

…. as core inflation and food prices increased.

Contribution to Annual Inflation

(Percent, Y/Y)

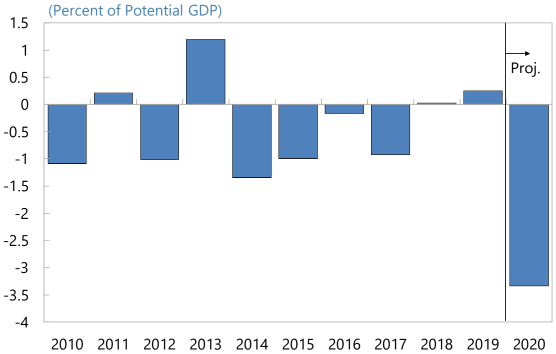


Source: SORS.

Preliminary projections show a large output gap in 2020.

Output Gap

(Percent of Potential GDP)

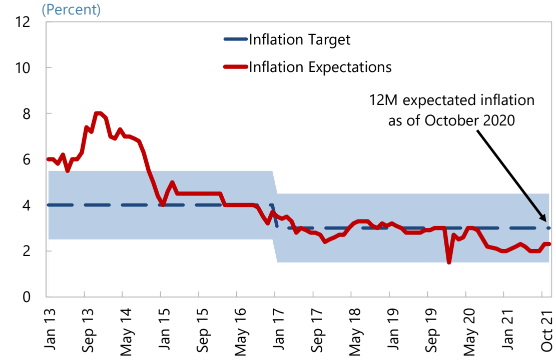


Sources: National Bank of Serbia; and IMF staff projections.

Inflation expectations remain well anchored.

One-Year-Ahead Inflation Expectations

(Percent)

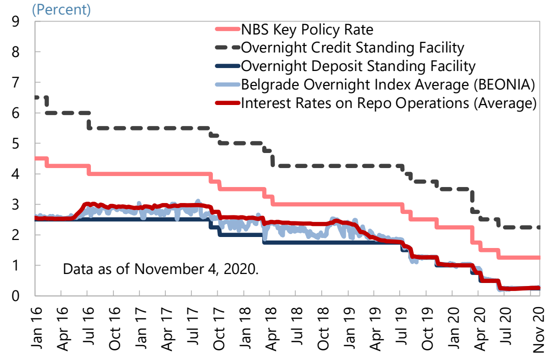


Sources: Bloomberg; SORS; and IMF staff projections.

The key policy rate has been cut several times since the COVID-19 shock hit…

Interest Rates

(Percent)

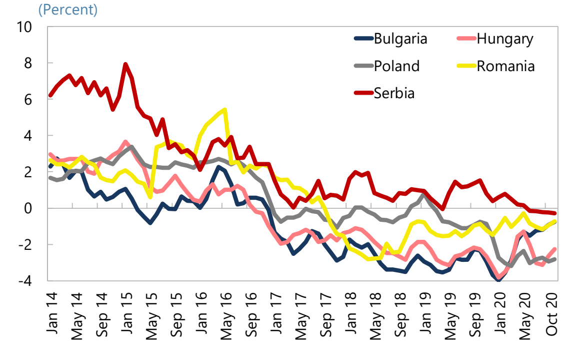


Sources: National Bank of Serbia; and Haver Analytics.

…. but remains above peer countries in real terms.

Policy Rate in Real Terms in Selected Countries

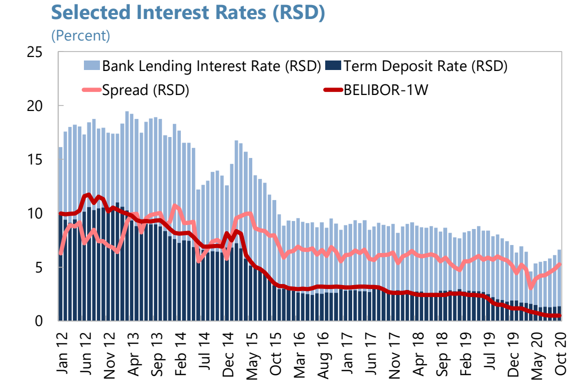
(Percent)



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

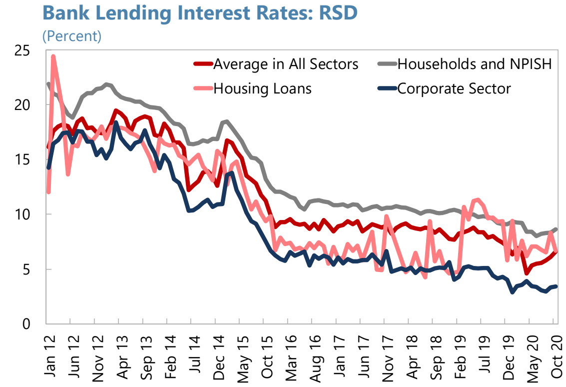
Figure 5. Serbia: Selected Interest Rates

Monetary policy easing contributed to a decline in dinar interest rates on short-term deposits....



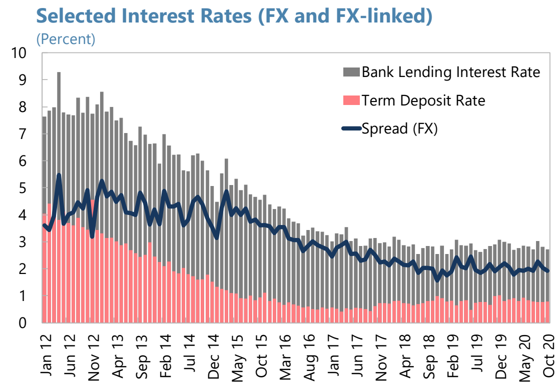
Source: National Bank of Serbia.

....while bank lending rates in dinar edged up since March.



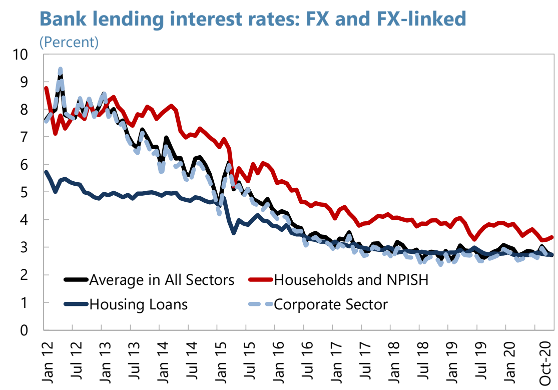
Source: National Bank of Serbia.

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



Source: National Bank of Serbia.

.... with lower lending rates to corporates.

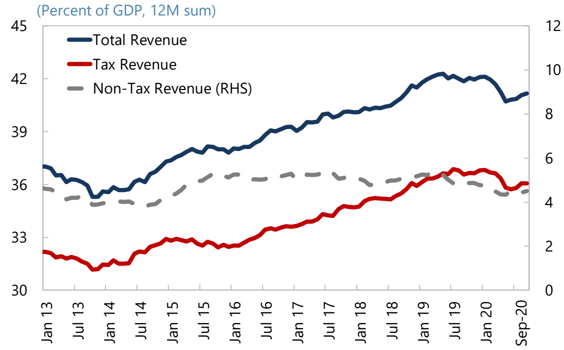


Source: National Bank of Serbia.

Figure 6. Serbia: Fiscal Developments

Revenues declined as a result of the COVID-19 shock but recovered in 2H2020.

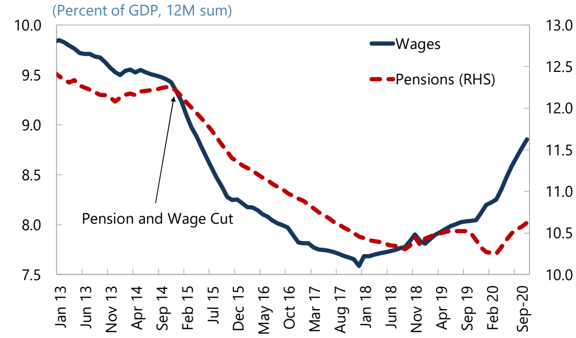
Total Revenue Composition
(Percent of GDP, 12M sum)



Sources: Ministry of Finance; and IMF staff calculations.

Previously legislated increases pushed public sector wages higher, while the pension bill remains below 11 percent of GDP.

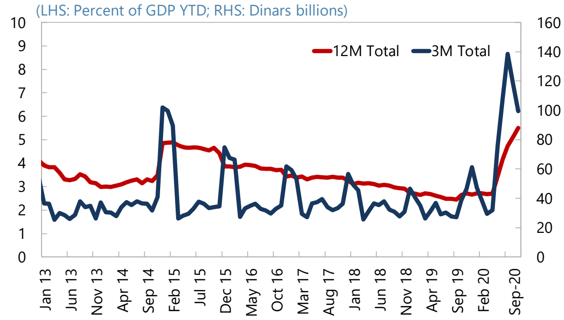
Wages and Pensions 1/
(Percent of GDP, 12M sum)



Sources: Ministry of Finance; and IMF staff calculations.
1/ Excludes employers' contributions.

State aid picked up due to the economic support measures....

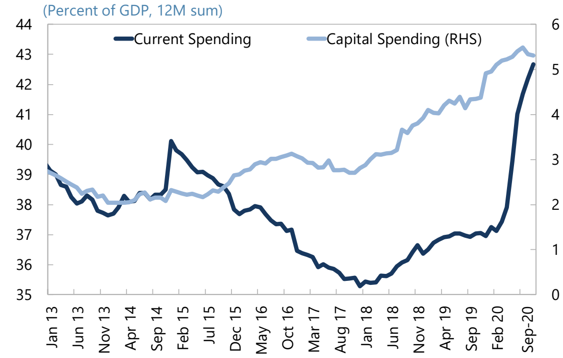
State Aid 2/
(LHS: Percent of GDP YTD; RHS: Dinars billions)



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.

.... and current spending increased markedly.

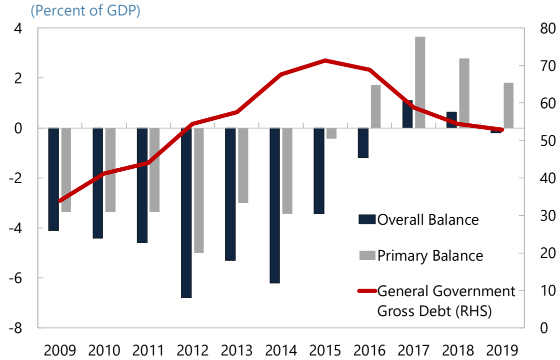
Current and Capital Spending
(Percent of GDP, 12M sum)



Sources: Ministry of Finance; and IMF staff calculations.

Government debt declined in 2019...

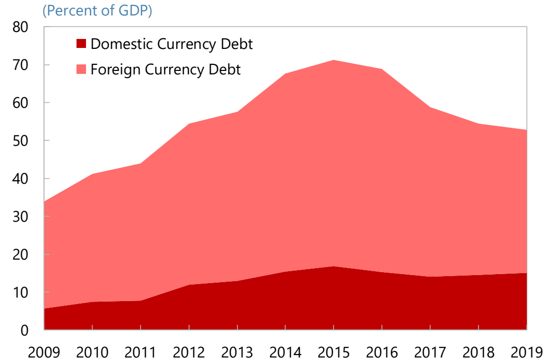
Fiscal Balance and Debt
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

.... with marginal improvement in its currency composition.

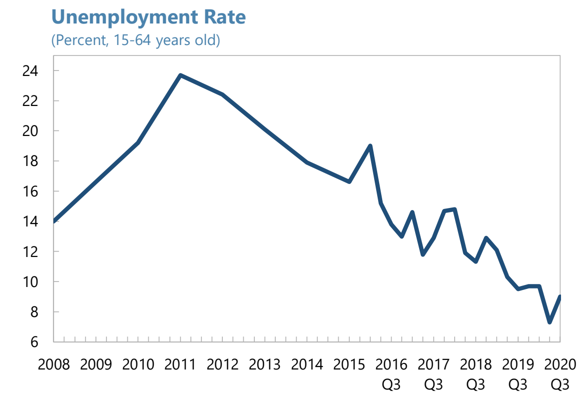
Public Debt
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

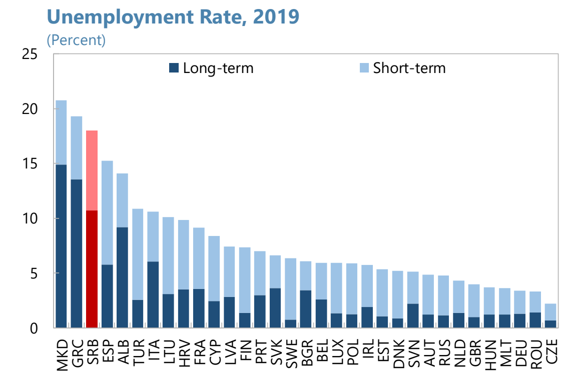
Figure 7. Serbia: Labor Market Developments

Unemployment picked up in 3Q2020….



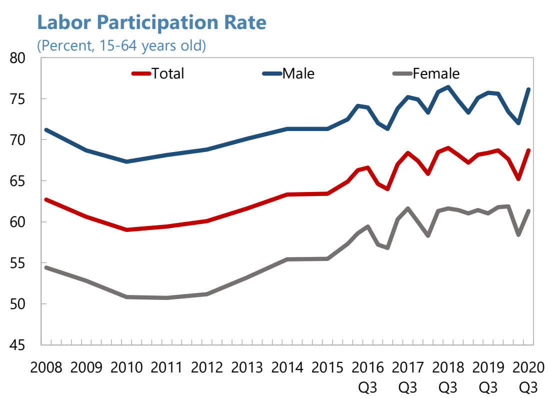
Source: Haver Analytics.

Long-term unemployment persists.



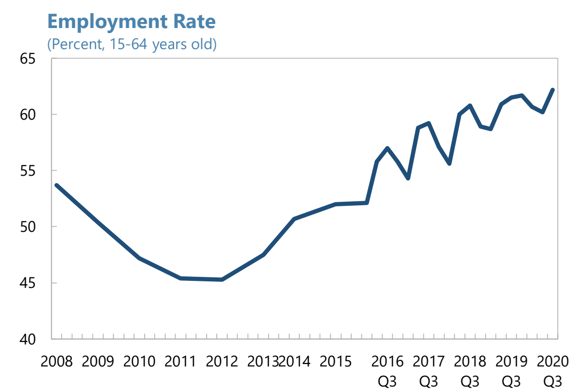
Sources: International Labour Organization; OECD database; Republic of Serbia National Employment Service; and IMF staff calculations.

Labor market participation recovered in 3Q2020….



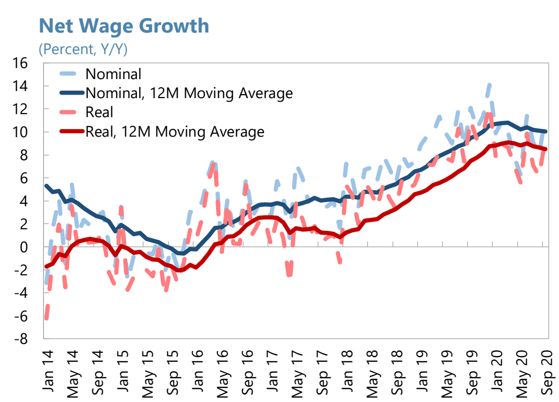
Sources: SORS.

…. along with employment growth.



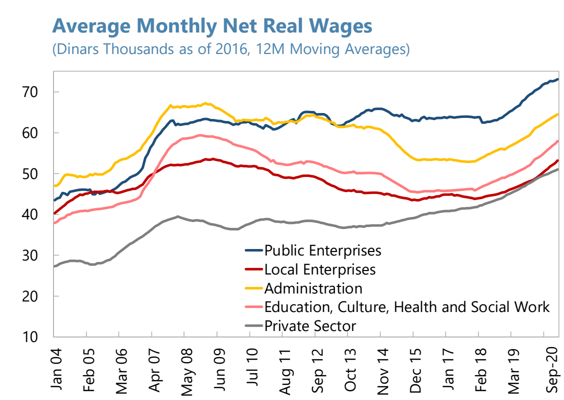
Sources: SORS.

Growth of net wages has slowed…



Sources: SORS.

…. while public sector wages remain above private sector wages, on average.



Sources: SORS; and IMF staff calculations.

Table 1. Serbia: Selected Economic and Social indicators, 2016-2022

	2016	2017	2018	2019	2020		2021		2022
					CR 20/270	Proj.	CR 20/270	Proj.	Proj.
	(Percent change, unless otherwise indicated)								
Real sector									
Real GDP	3.3	2.1	4.5	4.2	**-3.0**	-1.5	**6.0**	5.0	4.5
Real domestic demand (absorption)	1.5	3.9	6.5	6.2	**-1.8**	-1.7	**8.0**	6.7	4.6
Consumer prices (average)	1.1	3.1	2.0	1.9	**1.5**	1.7	**1.9**	1.9	2.3
GDP deflator	1.5	3.0	2.0	2.4	**3.8**	3.5	**2.3**	2.4	2.7
Unemployment rate (in percent) 1/	15.9	14.1	13.3	10.9	**...**	...	**...**	...	...
Nominal GDP (in billions of dinars)	4,528	4,761	5,073	5,418	**5,448**	5,524	**5,907**	5,940	6,375
	(Percent of GDP)								
General government finances									
Revenue 2/	40.7	41.5	41.5	42.1	**38.2**	40.3	**41.1**	40.8	41.3
Expenditure 2/	41.9	40.4	40.9	42.3	**46.8**	49.2	**43.2**	43.8	42.8
Current 2/	37.9	36.7	36.4	36.9	**42.3**	43.1	**37.5**	37.6	36.7
Capital and net lending	3.2	3.1	4.1	5.1	**4.3**	5.9	**5.3**	6.0	5.8
Amortization of called guarantees	0.9	0.6	0.4	0.2	**0.2**	0.1	**0.4**	0.2	0.3
Fiscal balance 3/	-1.2	1.1	0.6	-0.2	**-8.6**	-8.9	**-2.0**	-3.0	-1.5
Primary fiscal balance (cash basis)	1.7	3.6	2.8	1.8	**-6.6**	-6.9	**-0.1**	-1.1	0.3
Structural primary fiscal balance 4/	1.7	3.7	2.8	1.6	**1.1**	1.2	**1.1**	0.5	0.4
Gross debt /5	68.8	58.6	54.4	52.8	**59.8**	59.1	**57.0**	57.7	55.5
	(End of period 12-month change, percent)								
Monetary sector									
Money (M1)	20.3	9.7	20.1	16.3	**6.0**	24.2	**12.2**	7.5	8.7
Broad money (M2)	9.8	3.3	15.0	8.8	**5.5**	12.7	**9.0**	7.1	7.3
Domestic credit to non-government 6/	1.8	4.4	10.1	9.5	**6.6**	10.6	**8.4**	6.5	7.8
	(Period average, percent)								
Interest rates (dinar)									
NBS key policy rate	3.3	3.9	3.1	2.3	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	3.1	3.1	2.8	3.1	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Balance of payments									
Current account balance	-2.9	-5.2	-4.8	-6.9	**-6.4**	-5.7	**-6.5**	-5.8	-5.6
Exports of goods	34.8	35.9	35.2	35.7	**33.2**	32.6	**33.5**	33.8	36.8
Imports of goods	-43.3	-46.1	-47.1	-47.9	**-44.1**	-43.5	**-46.0**	-46.5	-49.4
Trade of goods balance	-8.5	-10.2	-11.9	-12.2	**-10.9**	-10.9	**-12.6**	-12.7	-12.6
Capital and financial account balance	0.6	4.8	6.7	10.6	**6.1**	5.6	**7.3**	6.6	6.6
External debt (percent of GDP) 7/	76.4	68.8	66.1	66.1	**68.6**	67.4	**65.3**	64.3	61.4
of which: Private external debt	29.4	29.6	30.9	31.7	**30.3**	29.9	**29.0**	28.8	27.3
Gross official reserves (in billions of euro)	10.2	10.0	11.3	13.4	**13.2**	13.4	**13.6**	13.7	14.3
(in months of prospective imports)	5.5	4.7	4.8	6.2	**5.6**	5.5	**5.1**	5.0	4.7
(percent of short-term debt)	345.2	200.3	194.2	204.4	**247.9**	204.0	**255.8**	209.8	217.9
(percent of broad money, M2)	58.7	53.2	52.2	57.8	**57.2**	56.8	**54.8**	54.6	53.2
(percent of risk-weighted metric)	...	...	113.1	121.8	**177.3**	122.0	**180.2**	120.7	119.2
Exchange rate (dinar/euro, period average)	123.1	121.4	118.3	117.9	**...**	...	**...**	...	...
REER (annual average change, in percent; + indicates appreciation)	-1.0	2.9	2.8	1.0	**...**	...	**...**	...	...
Social indicators									
Per capita GDP (in US$)	5,765	6,293	7,252	7,392	**7,458**	7,723	**8,442**	8,922	9,653
Real GDP per capita (percent change)	3.9	2.6	5.1	4.5	**-2.6**	-1.1	**6.4**	5.5	4.9
Population (in million)	7.1	7.0	7.0	7.0	**6.9**	6.9	**6.9**	6.9	6.9

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

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

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

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

5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 0.7 percent of GDP as of mid-October 2020.

6/ At constant exchange rates.

7/ After CR19/369, domestic securities held by non-residents are included in external debt. Historical data were updated since 2015.

Table 2. Serbia: Medium-Term Framework, 2016-2025

	2016	2017	2018	2019	2020		2021		2022		2023	2024	2025
					CR 20/270	Proj.	CR 20/270	Proj.	CR 20/270	Proj.	Proj.	Proj.	Proj.
					(percent change)								
Real sector													
GDP growth	3.3	2.1	4.5	4.2	-3.0	-1.5	6.0	5.0	6.0	4.5	4.0	4.0	4.0
Domestic demand (contribution)	1.6	4.1	7.0	6.8	-2.0	-1.9	8.9	7.4	6.7	5.1	4.5	4.2	3.9
Net exports (contribution)	1.8	-2.0	-2.5	-2.6	-1.0	0.4	-2.9	-2.4	-0.7	-0.7	-0.5	-0.2	0.1
Consumer price inflation (average)	1.1	3.1	2.0	1.9	1.5	1.7	1.9	1.9	2.3	2.3	2.6	2.9	3.0
Consumer price inflation (end of period)	1.5	3.0	2.0	1.9	1.6	1.7	2.0	1.9	2.3	2.3	2.6	2.9	3.0
Output gap (in percent of potential)	-0.2	-0.9	0.0	0.2	-4.0	-2.2	-2.6	-0.9	-1.1	-0.4	-0.3	-0.2	0.0
Potential GDP growth	2.5	2.9	3.5	4.0	1.4	0.9	4.5	3.7	4.4	4.0	3.8	3.9	3.8
Domestic credit to non-gov. (constant exchange rate) 1/	1.8	4.4	10.1	9.5	6.6	10.6	8.4	6.5	9.0	7.8	8.0	9.1	9.4
					(percent of GDP, unless otherwise indicated)								
General government													
Revenue 2/	40.7	41.5	41.5	42.1	38.2	40.3	41.1	40.8	41.4	41.3	41.2	41.1	41.0
Expenditure 2/	41.9	40.4	40.9	42.3	46.8	49.2	43.2	43.8	42.0	42.8	42.1	41.6	41.5
Current 2/	37.9	36.7	36.4	36.9	42.3	43.1	37.5	37.6	36.3	36.7	36.5	36.1	36.0
of which: Wages and salaries 2/	9.2	9.0	9.2	9.5	10.4	10.4	9.7	10.2	9.5	10.0	9.9	9.8	9.7
of which: Pensions	11.1	10.6	10.4	10.5	10.9	10.7	10.4	10.5	10.1	10.2	10.0	9.9	9.9
of which: Goods and services	7.5	7.7	8.1	8.7	10.2	11.2	9.1	8.9	8.6	8.5	8.5	8.4	8.4
Capital and net lending	3.2	3.1	4.1	5.1	4.3	5.9	5.3	6.0	5.3	5.8	5.5	5.4	5.4
Amortization of called guarantees	0.9	0.6	0.4	0.2	0.2	0.1	0.4	0.2	0.4	0.3	0.2	0.2	0.1
Fiscal balance 3/	-1.2	1.1	0.6	-0.2	-8.6	-8.9	-2.0	-3.0	-0.5	-1.5	-1.0	-0.5	-0.5
change (+ = consolidation)	*2.3*	*2.3*	*-0.5*	*-0.8*	*-8.4*	*-8.7*	*6.6*	*5.9*	*1.5*	*1.5*	*0.6*	*0.5*	*0.0*
Primary fiscal balance	1.7	3.6	2.8	1.8	-6.6	-6.9	-0.1	-1.1	1.3	0.3	0.9	1.3	1.4
change (+ = consolidation)	*2.1*	*1.9*	*-0.9*	*-1.0*	*-8.4*	*-8.7*	*6.5*	*5.8*	*1.4*	*1.4*	*0.6*	*0.4*	*0.1*
One-off fiscal items, net 4/	0.1	0.3	-0.1	0.1	-6.2	-7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural primary balance	1.7	3.7	2.8	1.6	1.1	1.2	1.1	0.5	1.1	0.4	0.4	0.4	0.4
change (+ = consolidation)	*1.7*	*2.0*	*-0.8*	*-1.3*	*-0.4*	*-0.4*	*-0.1*	*-0.7*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*
Structural primary balance net of capital expenditures	4.8	6.5	6.8	6.5	4.9	6.4	5.9	6.3	5.9	5.9	5.6	5.5	5.5
Gross debt	68.8	58.6	54.4	52.8	59.8	59.1	57.0	57.7	53.2	55.5	53.2	50.3	47.5
Effective interest rate on government borrowing (percent)	4.3	4.1	3.9	3.9	3.8	3.9	3.5	3.5	3.4	3.4	3.6	3.7	3.9
Domestic borrowing (including FX)	5.8	5.6	5.0	4.7	4.6	4.6	4.3	4.3	4.5	4.4	4.4	4.6	4.9
External borrowing	3.3	3.2	3.1	3.3	2.8	2.8	2.7	2.7	3.0	2.9	3.1	3.3	3.7
					(percent of GDP, unless otherwise indicated)								
Balance of payments													
Current account	-2.9	-5.2	-4.8	-6.9	-6.4	-5.7	-6.5	-5.8	-6.3	-5.6	-5.6	-5.4	-5.2
of which: Trade balance	-8.5	-10.2	-11.9	-12.2	-10.9	-10.9	-12.6	-12.7	-12.7	-12.6	-12.5	-12.2	-11.6
of which: Current transfers, net (excl. grants)	8.4	8.6	9.2	7.9	6.6	6.7	8.0	8.1	8.1	8.3	8.2	8.2	7.9
Capital and financial account	0.6	4.8	6.7	10.6	6.1	5.6	7.3	6.6	7.0	6.6	6.4	6.0	5.9
of which: Foreign direct investment	5.2	6.2	7.4	7.7	4.7	4.8	5.6	5.5	5.9	5.9	6.0	6.0	5.9
External debt (end of period) 5/	76.4	68.8	66.1	66.1	68.6	67.4	65.3	64.3	61.5	61.4	59.3	55.7	53.6
of which: Private external debt	29.4	29.6	30.9	31.7	30.3	29.9	29.0	28.8	27.4	27.3	25.8	24.4	22.9
Gross official reserves													
(in billions of euros)	10.2	10.0	11.3	13.4	13.2	13.4	13.6	13.7	14.0	14.3	14.7	15.1	15.6
(in percent of short-term external debt)	345.2	200.3	194.2	204.4	247.9	204.0	255.8	209.8	262.5	217.9	225.2	231.1	238.0
REER (ann. av. change; + = appreciation)	-1.0	2.9	2.8	1.0	...	...	...	...	...	...	...	...	...

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

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

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

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

5/ After CR19/369, domestic securities held by non-residents are included in external debt. Historical data were updated since 2015.

Table 3. Serbia: Growth Composition, 2016-2025

	2016	2017	2018	2019	2020		2021		2022		2023	2024	2025
					CR 20/270	Proj.	CR 20/270	Proj.	CR 20/270	Proj.	Proj.	Proj.	Proj.
					(Percent change, unless otherwise noted)								
Real													
Gross Domestic Product (GDP)	3.3	2.1	4.5	4.2	**-3.0**	-1.5	**6.0**	5.0	**6.0**	4.5	4.0	4.0	4.0
Domestic demand	1.5	3.9	6.5	6.2	**-1.8**	-1.7	**8.0**	6.7	**5.9**	4.6	4.0	3.7	3.4
Consumption	1.5	2.3	3.2	3.3	**-0.1**	-1.3	**5.8**	5.3	**4.8**	4.0	3.3	3.2	2.8
Non-government	1.9	2.2	3.1	3.6	**-0.6**	-3.2	**6.5**	6.8	**5.3**	4.9	3.8	3.6	3.0
Government	0.0	2.9	3.8	2.0	**1.9**	7.0	**2.9**	-0.8	**2.8**	0.0	1.1	1.1	1.8
Investment	1.2	11.1	20.8	17.4	**-7.3**	-2.9	**15.8**	11.4	**9.3**	6.4	5.9	5.5	5.3
Gross fixed capital formation	5.1	6.6	17.5	17.2	**-7.9**	-3.2	**17.0**	13.1	**9.9**	7.3	6.5	6.0	5.7
Non-government	2.8	8.9	13.2	14.5	**-3.5**	-5.6	**13.5**	12.0	**11.0**	9.5	8.0	7.0	6.0
Government	20.2	-6.1	45.2	30.7	**-24.2**	7.3	**33.7**	17.2	**5.4**	-1.0	0.1	1.8	4.4
Exports of goods and services	12.0	8.2	7.5	7.7	**-8.6**	-6.5	**8.3**	9.7	**11.2**	12.5	10.5	10.4	10.2
Imports of goods and services	7.0	11.1	10.8	10.7	**-5.7**	-6.1	**11.3**	11.8	**9.9**	11.2	9.4	8.8	8.5
					(contributions to GDP, percent)								
Gross Domestic Product (GDP)	3.3	2.1	4.5	4.2	**-3.0**	-1.5	**6.0**	5.0	**6.0**	4.5	4.0	4.0	4.0
Domestic demand (absorption)	1.6	4.1	7.0	6.8	**-2.0**	-1.9	**8.9**	7.4	**6.7**	5.1	4.5	4.2	3.9
Net exports of goods and services	1.8	-2.0	-2.5	-2.6	**-1.0**	0.4	**-2.9**	-2.4	**-0.7**	-0.7	-0.5	-0.2	0.1
Consumption	1.4	2.0	2.8	2.8	**-0.1**	-1.1	**5.0**	4.5	**4.2**	3.4	2.8	2.7	2.3
Non-government	1.4	1.6	2.2	2.5	**-0.4**	-2.2	**4.5**	4.7	**3.7**	3.4	2.7	2.5	2.1
Government	0.0	0.5	0.6	0.3	**0.3**	1.1	**0.5**	-0.1	**0.5**	0.0	0.2	0.2	0.3
Investment	0.2	2.0	4.1	4.0	**-1.9**	-0.8	**3.9**	2.9	**2.5**	1.7	1.6	1.5	1.5
Gross fixed capital formation	0.9	1.1	3.2	3.5	**-1.9**	-0.7	**3.9**	2.9	**2.5**	1.8	1.6	1.5	1.5
Non-government	0.4	1.3	2.1	2.4	**-0.7**	-1.0	**2.6**	2.1	**2.2**	1.8	1.6	1.4	1.3
Government	0.5	-0.2	1.1	1.0	**-1.2**	0.3	**1.4**	0.8	**0.3**	-0.1	0.0	0.1	0.2
Change in inventories	-0.6	0.9	1.0	0.5	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Exports of goods and services	5.4	4.0	3.9	4.1	**-4.8**	-3.6	**4.4**	5.1	**6.1**	6.9	6.2	6.5	6.8
Imports of goods and services	3.7	6.0	6.3	6.7	**-3.8**	-4.0	**7.3**	7.5	**6.7**	7.5	6.7	6.7	6.7
					(Percent change, unless otherwise noted)								
Nominal													
Gross Domestic Product (GDP)	4.9	5.1	6.6	6.8	**0.7**	2.0	**8.4**	7.5	**8.6**	7.3	7.0	7.4	7.4
Domestic demand (absorption), contribution to GDP growth	3.0	7.2	9.2	8.8	**0.3**	0.5	**10.4**	9.7	**9.1**	7.9	7.5	7.6	7.4
Net exports of goods and services, contribution to GDP growth	2.0	-2.1	-2.6	-2.0	**0.4**	1.5	**-2.0**	-2.2	**-0.5**	-0.6	-0.5	-0.2	0.0
Non-government	3.2	5.3	4.4	5.0	**0.8**	-1.6	**8.6**	8.8	**7.7**	7.3	6.5	6.6	6.1
Government	2.3	6.1	9.2	7.5	**7.3**	14.2	**3.3**	3.0	**6.6**	4.3	5.7	5.8	6.6
Investment	1.6	13.8	23.3	18.3	**-6.6**	-3.2	**18.0**	14.1	**11.5**	9.1	8.6	8.5	8.7
Gross fixed capital formation	5.5	9.3	20.4	19.8	**-5.5**	-2.5	**20.4**	16.4	**13.2**	9.7	9.0	8.8	8.7
Non-government	2.5	12.2	15.0	16.4	**-0.8**	-5.3	**16.7**	15.1	**14.4**	12.3	10.9	10.0	9.1
Government	21.7	-3.9	48.9	33.6	**-22.1**	7.7	**37.4**	20.5	**8.6**	1.6	2.8	4.6	7.4
Exports of goods and services	12.7	9.4	6.5	8.1	**-9.0**	-6.8	**9.0**	10.4	**12.8**	14.0	12.3	12.3	12.3
Imports of goods and services	7.2	12.5	10.3	10.4	**-8.4**	-8.1	**11.2**	12.8	**11.6**	12.7	11.1	10.7	10.5
Memorandum items:													
GDP deflator (percent)	1.5	3.0	2.0	2.4	**3.8**	3.5	**2.3**	2.4	**2.4**	2.7	3.0	3.2	3.4
Nominal GDP (billions of dinars)	4528	4761	5073	5418	**5448**	5524	**5907**	5940	**6414**	6375	6824	7328	7873

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

Table 4a. Serbia: Balance of Payments, 2016-2025 1/

(Billions of euros)

	2016	2017	2018	2019	2020		2021		2022		2023	2024	2025
					CR 20/270	Proj.	CR 20/270	Proj.	CR 20/270	Proj.	Proj.	Proj.	Proj.
							(Billions of euros)						
Current account balance	-1.1	-2.1	-2.1	-3.2	**-3.0**	-2.7	**-3.2**	-2.9	**-3.4**	-3.0	-3.2	-3.3	-3.4
Trade of goods balance	-3.1	-4.0	-5.1	-5.6	**-5.0**	-5.1	**-6.2**	-6.3	**-6.8**	-6.7	-7.1	-7.4	-7.6
Exports of goods	12.8	14.1	15.1	16.4	**15.3**	15.3	**16.6**	17.0	**18.8**	19.7	22.3	25.3	28.7
Imports of goods	-15.9	-18.1	-20.2	-22.0	**-20.3**	-20.4	**-22.9**	-23.3	**-25.6**	-26.4	-29.5	-32.7	-36.2
Services balance	0.9	1.0	1.0	1.0	**0.7**	1.2	**1.0**	1.4	**1.2**	1.5	1.6	1.7	1.9
Exports of nonfactor services	4.6	5.2	6.1	6.9	**6.0**	6.5	**6.6**	7.1	**7.4**	7.8	8.5	9.3	10.1
Imports of nonfactor services	-3.7	-4.3	-5.1	-5.9	**-5.3**	-5.3	**-5.6**	-5.7	**-6.2**	-6.3	-6.9	-7.5	-8.2
Income balance	-2.0	-2.5	-2.2	-2.5	**-1.8**	-2.0	**-2.0**	-2.1	**-2.2**	-2.3	-2.5	-2.8	-3.1
Net interest	-1.0	-0.9	-0.7	-0.7	**-0.7**	-0.8	**-0.7**	-0.7	**-0.7**	-0.8	-0.6	-0.5	-0.7
Current transfer balance	3.2	3.5	4.2	3.9	**3.2**	3.3	**4.1**	4.2	**4.5**	4.6	4.8	5.1	5.3
Others, including private remittances	3.1	3.4	3.9	3.7	**3.1**	3.1	**4.0**	4.0	**4.3**	4.4	4.7	5.0	5.1
Capital and financial account balance 2/	0.2	1.9	2.9	4.9	**2.8**	2.6	**3.6**	3.3	**3.7**	3.5	3.6	3.7	3.9
Foreign direct investment balance	1.9	2.4	3.2	3.6	**2.2**	2.2	**2.8**	2.8	**3.2**	3.2	3.4	3.6	3.8
Portfolio investment balance	-0.9	-0.8	-0.9	0.2	**1.7**	1.7	**0.1**	0.0	**-0.2**	-0.2	0.2	0.1	0.3
of which: debt liabilities	-0.9	-0.8	-0.9	0.3	**1.7**	1.7	**0.1**	0.0	**-0.2**	-0.2	0.2	0.1	0.3
Other investment balance	-0.7	0.3	0.6	1.2	**-1.1**	-1.2	**0.8**	0.5	**0.7**	0.5	0.1	0.0	-0.3
Public sector 2/ 3/	0.3	0.0	0.2	0.3	**0.1**	0.1	**0.3**	0.2	**0.4**	0.6	0.6	-0.1	0.7
Domestic banks	-0.5	0.9	0.1	0.6	**-0.3**	-0.3	**0.4**	0.2	**0.2**	0.0	-0.2	0.3	-0.5
Other private sector 4/	-0.5	-0.6	0.3	0.4	**-0.9**	-1.0	**0.0**	0.1	**0.1**	-0.1	-0.3	-0.2	-0.4
Errors and omissions	0.5	0.4	0.3	0.2	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	-0.3	0.2	1.3	1.9	**-0.2**	0.0	**0.4**	0.4	**0.4**	0.5	0.5	0.4	0.4
Financing	0.3	-0.2	-1.3	-1.9	**0.2**	0.0	**-0.4**	-0.4	**-0.4**	-0.5	-0.5	-0.4	-0.4
Gross international reserves (increase, -)	0.3	-0.2	-1.3	-1.9	**0.2**	0.0	**-0.4**	-0.4	**-0.4**	-0.5	-0.5	-0.4	-0.4
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	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	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	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	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, 2016-2025 1/

(Percent of GDP)

	2016	2017	2018	2019	2020		2021		2022		2023	2024	2025
					CR 20/270	Proj.	CR 20/270	Proj.	CR 20/270	Proj.	Proj.	Proj.	Proj.
							(Percent of GDP)						
Current account balance	-2.9	-5.2	-4.8	-6.9	**-6.4**	-5.7	**-6.5**	-5.8	**-6.3**	-5.6	-5.6	-5.4	-5.2
Trade of goods balance	-8.5	-10.2	-11.9	-12.2	**-10.9**	-10.9	**-12.6**	-12.7	**-12.7**	-12.6	-12.5	-12.2	-11.6
Exports of goods	34.8	35.9	35.2	35.7	**33.2**	32.6	**33.5**	33.8	**35.1**	36.8	39.2	41.6	44.1
Imports of goods	-43.3	-46.1	-47.1	-47.9	**-44.1**	-43.5	**-46.0**	-46.5	**-47.8**	-49.4	-51.8	-53.8	-55.7
Services balance	2.5	2.5	2.3	2.2	**1.5**	2.6	**1.9**	2.8	**2.2**	2.8	2.8	2.9	3.0
Income balance	-5.5	-6.5	-5.1	-5.4	**-4.0**	-4.2	**-4.1**	-4.3	**-4.2**	-4.3	-4.3	-4.6	-4.7
Current transfer balance	8.6	9.0	9.8	8.5	**6.9**	6.9	**8.3**	8.4	**8.3**	8.5	8.5	8.5	8.2
Official grants	0.2	0.4	0.6	0.6	**0.3**	0.3	**0.3**	0.3	**0.3**	0.3	0.3	0.3	0.3
Others, including private remittances	8.4	8.6	9.2	7.9	**6.6**	6.7	**8.0**	8.1	**8.1**	8.3	8.2	8.2	7.9
Capital and financial account balance 2/	0.6	4.8	6.7	10.6	**6.1**	5.6	**7.3**	6.6	**7.0**	6.6	6.4	6.0	5.9
Capital transfers balance	0.0	0.0	0.0	-0.2	**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	7.7	**4.7**	4.8	**5.6**	5.5	**5.9**	5.9	6.0	6.0	5.9
Portfolio investment balance	-2.5	-2.1	-2.1	0.4	**3.7**	3.5	**0.2**	0.0	**-0.3**	-0.3	0.3	0.1	0.4
Other investment balance	-2.0	0.7	1.5	2.7	**-2.3**	-2.7	**1.6**	1.1	**1.4**	1.0	0.1	0.0	-0.4
Public sector 2/ 3/	0.8	0.0	0.5	0.6	**0.2**	0.2	**0.7**	0.5	**0.7**	1.1	1.1	-0.2	1.0
Domestic banks	-1.4	2.2	0.3	1.3	**-0.6**	-0.6	**0.9**	0.4	**0.4**	0.0	-0.3	0.4	-0.8
Other private sector 4/	-1.5	-1.4	0.7	0.8	**-1.9**	-2.2	**0.0**	0.1	**0.2**	-0.2	-0.6	-0.3	-0.7
Errors and omissions	1.5	1.0	0.8	0.4	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	-0.8	0.6	3.0	4.1	**-0.3**	-0.1	**0.9**	0.8	**0.7**	1.0	0.8	0.6	0.7
Memorandum items:													
Nominal growth of exports of goods	11.9	9.8	7.4	8.7	**-6.7**	-7.1	**8.4**	11.2	**13.3**	16.0	13.5	13.4	13.3
Nominal growth of import of goods	5.5	13.4	11.8	9.1	**-7.7**	-7.5	**12.4**	14.3	**12.2**	13.3	11.5	11.0	10.8
Volume growth of exports of goods	12.7	8.5	5.7	8.4	**-6.3**	-6.9	**7.7**	10.4	**11.7**	14.4	11.7	11.4	11.2
Volume growth of import of goods	11.0	10.0	8.9	9.8	**-5.1**	-5.5	**12.4**	13.3	**10.4**	11.8	9.8	9.1	8.8
Trading partner import growth	6.0	6.9	5.1	2.4	**-12.5**	-11.8	**8.8**	9.8	**5.8**	7.0	5.5	4.1	4.0
Export prices growth	-0.7	1.2	1.6	0.2	**-0.4**	-0.2	**0.6**	0.7	**1.4**	1.3	1.5	1.7	1.8
Import prices growth	-4.9	3.1	2.6	-0.6	**-2.8**	-2.1	**-0.1**	0.9	**1.6**	1.4	1.6	1.7	1.8
Change in terms of trade	4.4	-1.8	-1.0	0.8	**2.5**	1.9	**0.7**	-0.2	**-0.1**	0.0	0.0	0.0	0.0
Gross official reserves (in billions of euro)	10.2	10.0	11.3	13.4	**13.2**	13.4	**13.6**	13.7	**14.0**	14.3	14.7	15.1	15.6
(In months of prospective imports of GNFS)	5.5	4.7	4.8	6.2	**5.6**	5.5	**5.1**	5.0	**4.8**	4.7	4.4	4.1	4.2
(in percent of short-term debt)	345.2	200.3	194.2	204.4	**247.9**	204.0	**255.8**	209.8	**262.5**	217.9	225.2	231.1	238.0
(in percent of broad money, M2)	58.7	53.2	52.2	57.8	**57.2**	56.8	**54.8**	54.6	**52.0**	53.2	51.7	49.6	47.8
(in percent of risk-weighted metric, other) 5/	…	…	113.1	121.8	**121.3**	122.0	**120.8**	120.7	**118.0**	119.2	115.9	115.2	111.5
GDP (billions of euros)	36.8	39.2	42.9	46.0	**46.1**	46.9	**49.7**	50.1	**53.6**	53.5	56.9	60.8	65.0

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/ Serbia was reclassified as stabilized exchange rate regime in 2019.

Table 5. Serbia: External Financing Requirements, 2016-2025

(Billions of euros)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
					(Billions of euros)					
1. Total financing requirement	**5.3**	**5.2**	**8.4**	**10.8**	**9.2**	**8.3**	**7.7**	**7.4**	**8.1**	**6.4**
Current account deficit	1.1	2.1	2.1	3.2	2.7	2.9	3.0	3.2	3.3	3.4
Debt amortization	4.6	3.0	5.0	5.8	6.5	5.0	4.2	3.8	4.4	2.6
Medium and long-term debt	4.3	2.3	4.1	4.4	5.5	4.4	3.5	3.1	3.8	1.9
Public sector	2.3	1.4	3.1	3.4	2.7	2.2	1.9	1.8	2.6	1.4
Of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Eurobonds	0.1	0.5	1.0	1.5	0.9	0.7	0.0	0.0	0.0	0.0
Of which: Domestic bonds (non-residents)	1.3	0.9	1.1	1.0	1.1	0.5	0.8	0.7	0.7	0.5
Commercial banks	1.0	0.3	0.3	0.4	0.2	0.2	0.3	0.3	0.3	0.1
Corporate sector	1.0	0.6	0.8	0.6	2.6	1.9	1.3	1.0	0.9	0.4
Short-term debt	0.3	0.7	0.8	1.4	1.1	0.7	0.7	0.7	0.7	0.7
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.6	0.8	1.3	1.0	0.7	0.7	0.7	0.7	0.7
Corporate sector	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in gross reserves (increase=+)	-0.3	0.2	1.3	1.9	0.0	0.4	0.5	0.5	0.4	0.4
2. Total financing sources	**5.3**	**5.2**	**8.4**	**10.8**	**9.2**	**8.3**	**7.7**	**7.4**	**8.1**	**6.4**
Capital transfers	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	1.9	2.4	3.2	3.6	2.2	2.8	3.2	3.4	3.6	3.8
Portfolio investment (net) 1/	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	3.2	2.4	5.0	7.1	7.7	5.7	4.8	4.7	4.5	3.6
Medium and long-term debt	2.9	1.8	4.2	5.7	6.7	5.0	4.1	4.0	3.8	2.9
Public sector 2/	1.9	0.7	2.4	3.9	4.4	2.5	2.4	2.6	2.5	2.4
Of which: Eurobonds	0.0	0.0	0.0	1.5	2.9	0.8	0.0	0.0	0.0	0.0
Of which: Domestic bonds (non-residents)	0.8	0.7	1.3	1.2	0.6	0.4	0.6	0.9	0.7	0.8
Commercial banks	0.3	0.4	0.5	0.6	0.2	0.3	0.4	0.3	0.3	0.1
Corporate sector	0.7	0.6	1.3	1.1	2.1	2.3	1.4	1.1	1.0	0.4
Short-term debt	0.3	0.7	0.8	1.4	1.1	0.7	0.7	0.7	0.7	0.7
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.6	0.8	1.3	1.0	0.7	0.7	0.7	0.7	0.7
Corporate sector	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other net capital inflows 3/	0.3	0.4	0.2	0.4	-0.8	-0.1	-0.3	-0.7	0.0	-1.0
o/w trade credit and currency and deposits	0.7	-0.1	1.5	0.5	0.8	0.1	0.3	0.7	0.0	1.0
3. Total financing needs	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:										
Debt service	5.5	3.8	5.6	6.4	7.4	5.8	5.0	4.4	5.1	3.3
Interest	0.9	0.8	0.7	0.6	0.8	0.7	0.8	0.7	0.6	0.8
Amortization	4.6	3.0	5.0	5.8	6.5	5.0	4.2	3.8	4.4	2.6

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, 2016-2025 1/

(Billions of RSD)

	2016	2017	2018	2019	2020		2021		2022		2023	2024	2025
					CR 20/270	Proj.	CR 20/270	Proj.	CR 20/270	Proj.	Proj.	Proj.	Proj.
Revenue	1,843	1,973	2,105	2,279	2,080	2,224	2,430	2,423	2,658	2,634	2,810	3,009	3,229
Taxes	1,586	1,718	1,822	1,994	1,837	1,962	2,171	2,175	2,392	2,380	2,543	2,734	2,943
Personal income tax	155	168	179	204	170	202	227	228	259	248	264	287	307
Social security contributions 2/	527	567	620	676	580	660	775	785	861	861	911	977	1,049
Taxes on profits	80	112	112	127	99	122	96	106	109	114	127	143	159
Value-added taxes	454	479	500	551	566	547	610	604	660	651	698	746	801
Excises	266	280	290	307	296	300	324	316	353	351	378	401	432
Taxes on international trade	36	40	44	48	44	51	50	52	57	59	64	72	80
Other taxes	67	72	77	82	82	80	88	86	93	96	101	107	116
Non-tax revenue	239	241	263	259	226	245	243	231	249	236	247	255	267
Capital revenue	8	6	6	11	0	0	0	0	0	0	0	0	0
Grants	9	9	15	15	17	16	17	17	18	18	19	20	20
Expenditure	1,897	1,921	2,073	2,290	2,549	2,716	2,550	2,603	2,693	2,731	2,876	3,046	3,267
Current expenditure	1,715	1,745	1,845	2,002	2,306	2,379	2,216	2,234	2,327	2,339	2,489	2,642	2,833
Wages and salaries 3/	418	426	469	516	565	576	572	606	611	640	679	719	762
Goods and services	339	365	412	472	554	621	540	530	554	543	582	615	661
Interest	132	121	109	109	108	111	114	114	115	118	127	133	145
Subsidies	113	113	110	121	239	258	127	132	138	142	152	163	175
Transfers	714	720	746	783	839	814	864	853	909	896	949	1,012	1,091
Pensions 4/	503	506	525	568	595	593	616	621	649	648	685	729	783
Other transfers 5/	211	214	221	215	244	221	247	232	259	247	264	283	308
Capital expenditure	139	134	199	266	207	287	285	345	310	351	361	377	405
Net lending	3	13	9	11	27	42	25	12	33	21	14	15	16
Amortization of activated guarantees	39	29	20	11	9	8	24	12	24	21	12	11	12
Fiscal balance	-54	52	32	-11	-469	-492	-121	-180	-35	-97	-66	-37	-37
Financing	54	-52	-32	11	469	492	121	180	35	97	66	37	37
Privatization proceeds	5	4	3	49	53	53	0	0	0	0	0	0	0
Equity investment	0	0	0	-26	0	0	0	0	0	0	0	0	0
Domestic	20	-40	41	-64	214	203	94	164	18	52	20	74	-18
External	29	-16	-77	52	202	236	26	17	17	45	46	-38	55
Program	0	61	0	0	0	0	0	0	0	0	0	0	0
Project	73	60	79	90	64	57	131	120	150	151	150	150	150
Bonds and loans	23	0	40	213	251	370	188	101	10	30	30	45	15
Amortization	-67	-137	-195	-251	-113	-191	-292	-204	-143	-136	-134	-233	-110
Memorandum items:													
Gross 1 wages and salaries	354	361	397	440	479	492	488	516	522	547	579	614	650
Arrears accumulation (domestic)	-1	-1	1	2	-1	-1	-1	-1	-1	-1	-1	-1	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	86	54	38	32	11	11	3	3	7	7	5	5	0
Government deposits (stock)	107	102	105	212	162	166	175	180	185	180	196	213	243
Gross public debt 6/	3114	2792	2760	2859	3261	3264	3369	3429	3415	3540	3628	3686	3743
Gross public debt (including restitution) 6/	3357	3035	3003	3102	3504	3508	3592	3652	3618	3744	3812	3850	3886
Nominal GDP (billions of dinars)	4528	4761	5073	5418	5448	5524	5907	5940	6414	6375	6824	7328	7873

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 severence 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.

6/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 0.7 percent of GDP as of mid-October 2020.

Table 6b. Serbia: General Government Fiscal Operations, 2016-2025 1/

(Percent of GDP)

	2016	2017	2018	2019	2020		2021		2022		2023	2024	2025
					CR 20/270	Proj.	CR 20/270	Proj.	CR 20/270	Proj.	Proj.	Proj.	Proj.
Revenue	40.7	41.5	41.5	42.1	**38.2**	40.3	**41.1**	40.8	**41.4**	41.3	41.2	41.1	41.0
Taxes	35.0	36.1	35.9	36.8	**33.7**	35.5	**36.7**	36.6	**37.3**	37.3	37.3	37.3	37.4
Personal income tax	3.4	3.5	3.5	3.8	**3.1**	3.7	**3.8**	3.8	**4.0**	3.9	3.9	3.9	3.9
Social security contributions 2/	11.6	11.9	12.2	12.5	**10.6**	11.9	**13.1**	13.2	**13.4**	13.5	13.3	13.3	13.3
Taxes on profits	1.8	2.3	2.2	2.3	**1.8**	2.2	**1.6**	1.8	**1.7**	1.8	1.9	2.0	2.0
Value-added taxes	10.0	10.1	9.9	10.2	**10.4**	9.9	**10.3**	10.2	**10.3**	10.2	10.2	10.2	10.2
Excises	5.9	5.9	5.7	5.7	**5.4**	5.4	**5.5**	5.3	**5.5**	5.5	5.5	5.5	5.5
Taxes on international trade	0.8	0.8	0.9	0.9	**0.8**	0.9	**0.9**	0.9	**0.9**	0.9	0.9	1.0	1.0
Other taxes	1.5	1.5	1.5	1.5	**1.5**	1.4	**1.5**	1.4	**1.5**	1.5	1.5	1.5	1.5
Non-tax revenue	5.3	5.1	5.2	4.8	**4.2**	4.4	**4.1**	3.9	**3.9**	3.7	3.6	3.5	3.4
Capital revenue	0.2	0.1	0.1	0.2	**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	0.3	0.3
Expenditure	41.9	40.4	40.9	42.3	**46.8**	49.2	**43.2**	43.8	**42.0**	42.8	42.1	41.6	41.5
Current expenditure	37.9	36.7	36.4	36.9	**42.3**	43.1	**37.5**	37.6	**36.3**	36.7	36.5	36.1	36.0
Wages and salaries 3/	9.2	9.0	9.2	9.5	**10.4**	10.4	**9.7**	10.2	**9.5**	10.0	9.9	9.8	9.7
Goods and services	7.5	7.7	8.1	8.7	**10.2**	11.2	**9.1**	8.9	**8.6**	8.5	8.5	8.4	8.4
Interest	2.9	2.5	2.1	2.0	**2.0**	2.0	**1.9**	1.9	**1.8**	1.8	1.9	1.8	1.8
Subsidies	2.5	2.4	2.2	2.2	**4.4**	4.7	**2.2**	2.2	**2.2**	2.2	2.2	2.2	2.2
Transfers	15.8	15.1	14.7	14.5	**15.4**	14.7	**14.6**	14.4	**14.2**	14.1	13.9	13.8	13.9
Pensions 4/	11.1	10.6	10.4	10.5	**10.9**	10.7	**10.4**	10.5	**10.1**	10.2	10.0	9.9	9.9
Other transfers 5/	4.7	4.5	4.4	4.0	**4.5**	4.0	**4.2**	3.9	**4.0**	3.9	3.9	3.9	3.9
Capital expenditure	3.1	2.8	3.9	4.9	**3.8**	5.2	**4.8**	5.8	**4.8**	5.5	5.3	5.1	5.1
Net lending	0.1	0.3	0.2	0.2	**0.5**	0.8	**0.4**	0.2	**0.5**	0.3	0.2	0.2	0.2
Amortization of activated guarantees	0.9	0.6	0.4	0.2	**0.2**	0.1	**0.4**	0.2	**0.4**	0.3	0.2	0.2	0.1
Fiscal balance	-1.2	1.1	0.6	-0.2	**-8.6**	-8.9	**-2.0**	-3.0	**-0.5**	-1.5	-1.0	-0.5	-0.5
Financing	1.2	-1.1	-0.6	0.2	**8.6**	8.9	**2.0**	3.0	**0.5**	1.5	1.0	0.5	0.5
Privatization proceeds	0.1	0.1	0.1	0.9	**1.0**	1.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Equity investment	0.0	0.0	0.0	-0.5	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Domestic	0.4	-0.8	0.8	-1.2	**3.9**	3.7	**1.6**	2.8	**0.3**	0.8	0.3	1.0	-0.2
External	0.6	-0.3	-1.5	1.0	**3.7**	4.3	**0.4**	0.3	**0.3**	0.7	0.7	-0.5	0.7
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	0.0
Project	1.6	1.3	1.5	1.7	**1.2**	1.0	**2.2**	2.0	**2.3**	2.4	2.2	2.0	1.9
Bonds and loans	0.5	0.0	0.8	3.9	**4.6**	6.7	**3.2**	1.7	**0.2**	0.5	0.4	0.6	0.2
Amortization	-1.5	-2.9	-3.8	-4.6	**-2.1**	-3.5	**-5.0**	-3.4	**-2.2**	-2.1	-2.0	-3.2	-1.4
Memorandum items:													
Gross 1 wages and salaries	7.8	7.6	7.8	8.1	**8.8**	8.9	**8.3**	8.7	**8.1**	8.6	8.5	8.4	8.3
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	0.0
Government deposits (stock)	2.4	2.1	2.1	3.9	**3.0**	3.0	**3.0**	3.0	**2.9**	2.8	2.9	2.9	3.1
Gross financing need	12.3	9.0	8.5	10.3	**14.0**	15.5	**9.3**	8.7	**6.8**	7.8	7.1	6.3	4.4
Gross public debt 6/	68.8	58.6	54.4	52.8	**59.8**	59.1	**57.0**	57.7	**53.2**	55.5	53.2	50.3	47.5
Gross public debt (including restitution) 6/	74.1	63.8	59.2	57.3	**64.3**	63.5	**60.8**	61.5	**56.4**	58.7	55.9	52.5	49.4
Nominal GDP (billions of dinars)	4,528	4,761	5,073	5,418	**5,448**	5,524	**5,907**	5,940	**6,414**	6,375	6,824	7,328	7,873

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 severence 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.

6/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 0.7 percent of GDP as of mid-October 2020.

Table 7. Serbia: Monetary Survey, 2016-2025

	2016	2017	2018	2019	2020		2021		2022		2023	2024	2025
					CR 20/270	Proj.	CR 20/270	Proj.	CR 20/270	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/												
Net foreign assets 2/	1156	986	1116	1287	1309	1300	1314	1323	1339	1391	1480	1505	1634
in billions of euro	9.4	8.3	9.4	11.0	11.0	11.0	11.0	11.1	11.2	11.6	12.3	12.5	13.5
Foreign assets	1512	1391	1616	1831	1850	1843	1865	1875	1900	1950	2046	2077	2210
NBS	1271	1191	1342	1585	1578	1568	1638	1622	1690	1696	1766	1826	1897
Commercial banks	241	200	273	247	272	275	227	253	210	254	280	251	313
Foreign liabilities (-)	-356	-405	-500	-544	-542	-543	-550	-551	-561	-559	-565	-572	-576
NBS	-6	-4	-3	-2	-3	-3	-3	-3	-3	-3	-3	-3	-3
Commercial banks	-350	-401	-497	-542	-538	-540	-547	-548	-558	-556	-562	-569	-573
Net domestic assets	989	1,231	1,435	1,486	1,620	1,828	1,878	2,026	2,117	2,202	2,396	2,679	2,858
Domestic credit	2,321	2,362	2,552	2,643	3,010	3,124	3,310	3,387	3,569	3,630	3,900	4,248	4,593
Government, net	341	353	346	225	417	438	486	514	477	521	528	558	546
NBS	-210	-215	-233	-360	-223	-197	-276	-215	-317	-223	-265	-262	-303
Claims on government	4	4	5	1	90	98	50	98	20	90	65	50	40
Liabilities (deposits)	214	219	238	361	313	295	326	313	337	313	330	312	343
Banks	551	568	578	586	639	635	762	729	794	745	793	820	849
Claims on government	638	630	641	676	730	726	853	820	885	836	884	911	940
Liabilities (deposits)	87	63	63	91	91	91	91	91	92	91	92	91	91
Local governments, net	-20	-31	-28	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19
Non-government sector	2,000	2,040	2,235	2,437	2,612	2,705	2,843	2,891	3,110	3,127	3,391	3,708	4,066
Households	840	905	1,018	1,112	1,187	1,227	1,286	1,309	1,400	1,414	1,530	1,671	1,830
Enterprises	1,127	1,103	1,188	1,291	1,389	1,440	1,518	1,542	1,667	1,671	1,814	1,987	2,181
Other	34	32	29	33	36	37	39	40	43	43	47	51	56
Other assets, net	-1,332	-1,131	-1,117	-1,156	-1,390	-1,296	-1,432	-1,361	-1,451	-1,428	-1,504	-1,568	-1,735
Capital accounts (-)	-1,016	-963	-997	-1,046	-1,252	-1,158	-1,281	-1,211	-1,297	-1,268	-1,326	-1,378	-1,511
NBS	-391	-298	-324	-353	-386	-292	-328	-263	-325	-263	-210	-179	-120
Banks	-625	-664	-673	-693	-866	-866	-953	-948	-972	-1,005	-1,116	-1,199	-1,391
Provisions (-)	-281	-161	-121	-106	-133	-133	-146	-145	-149	-155	-172	-184	-217
Other assets	-34	-7	1	-5	-5	-5	-5	-5	-5	-5	-6	-6	-7
Broad money (M2)	2146	2217	2551	2774	2928	3128	3193	3349	3456	3593	3876	4185	4493
M1	566	621	745	867	919	1077	1031	1158	1146	1259	1383	1505	1639
Currency in circulation	159	164	183	210	222	260	249	280	277	304	334	364	396
Demand deposits	407	457	563	657	697	816	782	878	869	954	1049	1141	1243
Time and saving deposits	195	196	220	273	289	339	325	364	361	396	435	474	516
Foreign currency deposits	1385	1400	1585	1634	1720	1713	1837	1827	1949	1939	2058	2206	2337
in billions of euro	11.2	11.8	13.4	13.9	14.5	14.5	15.4	15.4	16.2	16.2	17.1	18.3	19.3
Memorandum items:	(year-on-year change unless indicated otherwise)												
M1	20.3	9.7	20.1	16.3	6.0	24.2	12.2	7.5	11.1	8.7	9.9	8.8	8.9
M2	9.8	3.3	15.0	8.8	5.5	12.7	9.0	7.1	8.2	7.3	7.9	8.0	7.4
Velocity (Dinar part of money supply)	5.9	5.8	5.3	4.8	4.5	3.9	4.4	3.9	4.3	3.9	3.8	3.7	3.7
Velocity (M2)	2.1	2.1	2.0	2.0	1.9	1.8	1.9	1.8	1.9	1.8	1.8	1.8	1.8
Deposits at constant exchange rate	8.5	5.9	15.9	8.7	4.9	11.4	8.3	6.7	7.6	6.8	7.3	7.6	6.9
Credit to non-gov. (current exchange rate)	3.2	1.9	9.6	9.2	3.5	5.8	7.4	6.2	7.4	6.3	6.5	7.2	7.4
Credit to non-gov. (constant exchange rates) 3/	2.1	4.8	10.2	9.8	2.8	5.4	6.8	5.7	7.0	5.8	6.0	6.8	7.1
Domestic	1.8	4.4	10.1	9.5	6.6	10.6	8.4	6.5	9.0	7.8	8.0	9.1	9.4
Households	9.8	9.8	12.9	9.5	6.3	10.1	8.1	6.4	8.6	7.7	7.9	9.0	9.3
Enterprises and other sectors	-3.3	0.5	7.9	9.4	6.8	11.0	8.7	6.6	9.3	7.8	8.1	9.1	9.4
External	2.8	5.4	10.5	10.3	-4.6	-5.0	3.4	3.9	2.2	1.2	1.0	0.9	0.3
Credit to non-gov. (real terms) 4/	1.6	-1.1	7.5	7.2	1.9	4.1	5.3	4.2	5.0	3.9	3.8	4.2	4.3
Domestic credit to non-gov. (real terms)	1.1	-1.0	7.4	7.1	5.5	9.1	6.7	4.9	6.9	5.7	5.7	6.3	6.5
Households	8.8	4.6	10.3	7.3	5.0	8.5	6.2	4.7	6.4	5.5	5.5	6.1	6.3
Enterprises and other sectors	-3.8	-5.1	5.1	6.9	5.9	9.7	7.2	5.1	7.3	5.9	5.8	6.4	6.6
External	2.6	-1.2	7.6	7.6	-5.4	-6.1	2.0	2.5	0.5	-0.4	-1.0	-1.5	-2.1
12-m change in NBS's NFA, billions of euros	0.1	-0.1	0.0	0.3	-0.9	-0.6	0.4	0.1	0.3	0.0	0.1	-0.1	0.2
Deposit euroization (percent of total) 5/	69.7	68.2	66.9	63.7	63.5	59.7	62.4	59.5	61.3	58.9	58.1	57.7	57.1
Credit euroization (percent of total) 5/	68.3	67.1	66.9	66.7	66.7	65.7	65.9	64.9	65.1	64.1	63.1	62.1	61.1

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, 2016-2025

	2016	2017	2018	2019	2020		2021		2022		2023	2024	2025
					CR 20/270	Proj.	CR 20/270	Proj.	CR 20/270	Proj.	Proj.	Proj.	Proj.
					(Billions of dinars, unless otherwise indicated; end of period) 1/								
Net foreign assets	1265	1187	1339	1583	**1574**	1565	**1635**	1618	**1687**	1693	1762	1823	1894
(In billions of euro)	10.3	10.0	11.3	13.5	**13.3**	13.2	**13.7**	13.6	**14.1**	14.2	14.7	15.1	15.6
Gross foreign reserves	1271	1191	1342	1585	**1578**	1568	**1638**	1622	**1690**	1696	1766	1826	1897
Gross reserve liabilities (-)	-6	-4	-3	-2	**-3**	-3	**-3**	-3	**-3**	-3	-3	-3	-3
Net domestic assets	-663	-596	-607	-806	**-728**	-619	**-691**	-603	**-643**	-596	-568	-528	-494
Net domestic credit	-272	-298	-282	-453	**-342**	-327	**-363**	-340	**-318**	-333	-358	-349	-374
Net credit to government	-210	-215	-233	-360	**-223**	-197	**-276**	-215	**-317**	-223	-265	-262	-303
Claims on government	4	4	5	1	**90**	98	**50**	98	**20**	90	65	50	40
Liabilities to government (-)	-214	-219	-238	-361	**-313**	-295	**-326**	-313	**-337**	-313	-330	-312	-343
Liabilities to government (-): local currency	-95	-118	-137	-222	**-222**	-222	**-222**	-222	**-222**	-222	-222	-222	-222
Liabilities to government (-): foreign currency	-119	-101	-101	-140	**-91**	-74	**-105**	-91	**-115**	-91	-108	-91	-121
Net credit to local governments	-43	-48	-46	-36	**-38**	-38	**-38**	-38	**-38**	-38	-38	-38	-38
Net claims on banks	-33	-45	-16	-69	**-94**	-104	**-62**	-101	**24**	-85	-68	-62	-46
Capital accounts (-)	-391	-298	-324	-353	**-386**	-292	**-328**	-263	**-325**	-263	-210	-179	-120
Reserve money	602	591	732	777	**846**	946	**944**	1015	**1045**	1097	1194	1295	1400
Currency in circulation	159	164	183	210	**222**	260	**249**	280	**277**	304	334	364	396
Commercial bank reserves	221	232	269	341	**367**	430	**420**	463	**476**	503	553	601	655
Required reserves	147	156	171	192	**186**	185	**198**	197	**211**	209	222	238	252
Excess reserves	73	76	98	149	**182**	245	**222**	265	**266**	294	330	363	403
FX deposits by banks, billions of euros	1.8	1.6	2.4	1.9	**2.2**	2.2	**2.3**	2.3	**2.4**	2.4	2.6	2.7	2.9

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, 2014-2020

	2014	2015	2016	2017	2018	2019	2020	
							Mar	Jun
Capital adequacy								
CAR: regulatory capital in percent of risk-weighted assets	20.0	20.9	21.8	22.6	22.3	23.4	22.7	22.7
Regulatory Tier 1 capital to risk-weighted assets	17.6	18.8	20.0	21.6	21.1	22.4	21.9	21.8
Nonperforming loans net of provisions to regulatory capital	56.0	44.0	27.1	17.7	9.7	6.3	6.5	6.0
Regulatory Tier 1 capital to assets	10.1	10.7	11.6	13.7	13.5	14.4	14.0	13.6
Large exposures to capital	130.5	115.7	86.0	69.3	77.4	66.5	70.5	71.2
Regulatory capital to assets	11.4	11.9	12.7	14.4	14.2	15.1	14.6	14.2
Asset quality								
Non-performing loans in percent of total loans	21.5	21.6	17.0	9.8	5.7	4.1	4.0	3.7
Sectoral distribution of loans (percent of total loans)								
Deposit takers	0.8	0.1	0.5	0.3	0.4	0.4	0.4	0.2
Central bank	0.4	1.6	1.7	2.1	0.7	2.8	0.4	1.5
General government	2.3	1.7	1.5	1.3	1.1	1.5	1.6	1.5
Other financial corporations	0.5	0.7	0.9	0.9	0.8	0.8	0.8	0.7
Nonfinancial corporations	56.3	55.9	52.6	50.5	50.0	49.2	51.0	50.2
Agriculture	3.5	3.7	3.6	3.5	3.5	3.5	3.2	3.3
Industry	19.2	18.4	16.5	16.2	16.5	15.0	15.1	14.8
Construction	4.2	3.8	4.1	4.0	4.2	4.8	4.8	4.9
Trade	13.9	13.9	14.3	14.6	14.0	13.7	14.6	13.9
Other loans to nonfinancial corporations	15.6	16.2	14.1	12.2	11.8	12.3	13.3	13.3
Households and NPISH	38.3	39.1	41.5	42.9	44.3	43.8	44.0	43.8
Households and NPISH of which: mortgage loans to total loans	18.0	18.1	17.9	16.9	16.8	15.8	16.1	15.7
Foreign sector	1.4	0.9	1.4	2.0	2.6	1.5	1.9	2.2
IFRS provision for NPLs to gross NPLs	54.9	62.3	67.8	58.1	60.2	61.5	61.4	62.6
IFRS provision of total loans to total gross loans	12.7	14.4	12.4	6.6	4.5	3.4	3.4	3.4
Earnings and Profitability								
Return on average assets: earnings before extraordinary items & taxes in percent of assets	0.1	0.3	0.7	2.1	2.2	1.8	1.8	1.4
Return on equity	0.6	1.5	3.3	10.5	11.3	9.8	10.5	8.4
Liquidity								
Customer deposits to total (noninterbank) loans	95.7	99.7	108.1	106.9	110.6	109.2	106.8	111.7
Foreign-currency-denominated loans to total loans	70.1	72.3	69.4	67.5	68.5	67.1	68.7	66.7
Average monthly liquidity ratio	2.2	2.1	2.1	2.0	2.0	2.2	2.2	2.2
Average monthly narrow liquidity ratio	1.7	1.7	1.7	1.7	1.7	1.8	1.8	1.9
Sensitivity to Market Risk								
Foreign-currency-denominated liabilities to total liabilities	74.7	72.7	71.1	69.7	69.3	66.6	66.0	63.8
Classified off-balance sheet items to classified balance sheet assets	27.6	30.6	32.4	36.4	36.8	39.7	37.6	37.1

Source: National Bank of Serbia.

Table 10. Serbia: Schedule of Reviews Under the Policy Coordination Instrument, 2018-2020

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.

Annex I. Adverse Scenario

1. **This scenario illustrates how the economy could be affected if the crisis were to become more severe than expected under the baseline projections.** The baseline assumes the pandemic temporarily picks up in the last quarter of 2020 with ongoing effects in 2021, but no stringent lockdowns. The assumption underlying the alternative scenario involves a more severe worsening of the pandemic in the last months of 2020 and repeated serious outbreaks in Serbia and in its main trading partners through 2021. Consequently, renewed strong containment measures would be needed throughout this period. In addition to constraining domestic supply, this would also reduce export demand, remittances, FDI, and depress demand. The scenario also assumes a tightening of global financing conditions, such that markets are closed to European emerging markets, including Serbia, until 2022.

Serbia: Adverse Scenario, 2020-2022

	Baseline			Adverse scenario		
	2020	2021	2022	2020	2021	2022
GDP growth (percent)	-1.5	5.0	4.5	-3.0	1.5	3.0
Current account (percent of GDP)	-5.7	-5.8	-5.7	-5.9	-6.1	-5.7
Revenue (percent of GDP)	40.3	40.8	41.3	39.0	39.8	41.0
Expenditure (percent of GDP)	49.2	43.8	42.8	49.0	45.9	44.8
Fiscal balance (percent of GDP)	-8.9	-3.0	-1.5	-10.0	-6.1	-3.8
Primary fiscal balance (percent of GDP)	-6.9	-1.1	0.3	-8.0	-3.8	-1.8
Eurobond, net (percent of GDP)	4.8	0.0	0.0	4.8	-1.0	0.0
Debt (percent of GDP)	59.1	57.7	55.5	60.8	65.5	64.3
Reserves (EUR billion)	13.4	13.7	14.3	13.0	9.9	9.6
Risk-weighted ARA metric for fixed ER	122.0	120.7	119.2	120.4	85.9	81.1

2. **Under the adverse scenario, Serbia's public debt would exceed 60 percent, financing needs would increase, and reserves would decline:**

- ***Growth***. Real GDP growth in 2020 drops to -3 percent, with a weaker recovery in 2021 and 2022 relative to the baseline. Given Serbia's integration into European and global supply chains, the impact of a prolonged and stronger COVID-19 shock on manufacturing would be severe, particularly on the automotive sector. The negative impact from tourism would be more limited given its relatively small share of Serbia's economy. Inflation would be lower relative to the baseline scenario and remain at the floor of the tolerance band through 2022.

- ***Budget***. Given limited fiscal space, there would be limited room for additional fiscal spending to counter the further shocks—in contrast with the strong fiscal package deployed so far in response to the pandemic. Nonetheless, the primary fiscal deficit in 2020 would deteriorate by 1.2 pp of GDP relative to the baseline. With weaker revenues and higher spending on amortization of activated guarantees, support to public enterprises, social programs, and interest on new debt, the primary fiscal balance in 2021 and 2022 would deteriorate by 3.1 pp of GDP and 2.3 pp of GDP relative to the baseline, respectively.

- ***Fiscal financing.*** With lower growth and higher deficits, general government debt (including guarantees) would exceed the 60-percent threshold in 2020–2022, and peak at 65.5 percent of GDP in 2021. In the adverse scenario, gross fiscal financing needs would be 0.4 percent and 2.8 percent of GDP higher relative to the baseline in 2020 and 2021, respectively. This scenario assumes that the fiscal deficit is financed domestically thanks to the sizeable excess liquidity in the baking system and large government deposits, with non-residents participating in the domestic market only gradually from 2022, but not in 2021. However, financing the residual needs in the adverse scenario may require additional liquidity support and, possibly, regulatory measures from the NBS. Alternatively, Fund or EU support to the budget could be mobilized.

Serbia: Fiscal Financing Needs (RSD billion)

	Baseline		Adverse	
	2020	**2021**	**2020**	**2021**
Fiscal balance	-492.3	-180.1	-552.0	-362.3
Debt repayment	365.1	333.4	369.3	350.9
Gross financing needs	857.3	513.5	876.2	680.1
Domestic financing	331.5	326.7	331.2	326.7
of which already issued	301.8	-	301.8	-
Foreign financing	427.3	220.8	427.3	126.5
Privatization	53.2	0.0	53.2	0.0
Remaining financing needs	0.0	0.0	0.0	226.9

- ***External sector.*** Compared with the baseline, FDI inflows would be lower as a result of a weaker external environment. Similarly, lower wages and employment levels of migrant workers would cause a larger and more protracted fall in remittances. With exports falling due to weak external demand (particularly from Europe, Serbia's main trading partner) and lower imports related to lower FDI and remittances, the current account balance would not change much relative to the baseline scenario. However, the balance of payments would weaken also as a result of lower assumed rollover rates for commercial and bank debt (full refinancing is assumed only in 2022),the assumed switch to domestic fiscal financing, or in case non-resident investors in government bonds liquidated their positions and/or residents withdrew FX deposits. As a result, reserves would fall below the ARA metric unless additional support is mobilized in 2021 and 2022.

Serbia: External Financing (EUR billion)

	Baseline		Adverse	
	2020	**2021**	**2020**	**2021**
CA deficit	2.7	2.9	2.9	3.1
FDI	2.2	2.8	2.1	1.7
Debt financing	7.7	5.7	7.6	3.2
Public sector	4.4	2.5	4.4	1.2
of which Eurobond	2.9	0.8	2.9	0
Private sector	3.3	3.2	3.2	2.0
Change in reserves	0.0	0.4	0.0	-3.1

3. Staff discussed with the authorities contingent policy options if the pandemic were to have more severe and prolonged adverse effects than foreseen under the baseline. A deeper and more prolonged downturn would have a severe negative impact on corporates and households, whose buffers (credit lines and precautionary savings) could be quickly eroded. Additional support for the most affected sectors and the most vulnerable, including the informally employed, would become necessary. Based on historical trends and in the absence of government intervention, NPLs could rise to more than 20 percent of total loans. At the same time there would be limited fiscal space for additional measures. Against this background, contingent policies could cover the following areas:

- Ensuring continued provision of adequate health care.
- Targeted measures to support those most in need. The existing social assistance system could be expanded, in line with World Bank advice.
- Identifying options to support at risk companies or sectors that are most critical to the economy.
- Identifying options for reallocations of spending within the 2021 budget, including possible spending reductions on goods and services, wages, pensions and bonuses.
- Maintaining a relatively large liquidity buffer and measures to keep domestic markets liquid.
- Reexamining the exchange market intervention strategy to help preserve macroeconomic and financial stability.
- Close monitoring of emerging financial vulnerabilities, in particular in the banking system and of troubled SOEs, including Air Serbia.
- Implementing continued liability management and pre-financing of gross financing needs to ease financing pressures.

Appendix I. Program Statement

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

Belgrade, December 11, 2020

Dear Ms. Georgieva:

As the PCI is approaching its conclusion, we consider that this instrument has been helpful for maintaining macroeconomic stability and advancing our reform agenda. In the current year, both the design and the implementation of our program had to respond to the COVID-19 pandemic. This shock has negatively affected Serbia's economy, mostly through weaker external demand, lower FDI and remittances, and disruptions in supply chains. Following a severe output contraction in the second quarter of 2020, the economy has rebounded strongly. During the pandemic, the PCI has focused on supporting the economy through the crisis while preserving macroeconomic and financial stability, managing risks, and protecting vulnerable groups.

We have deployed a substantial package of fiscal and monetary measures, which have helped mitigate the economic and social effects of the COVID-19 crisis. Owing to sound fiscal policy in previous years, we had sufficient policy space to respond with a large package, which included a combination of healthcare spending, tax deferrals, wage subsidies, universal cash transfers, and a state guarantee scheme for bank loans to SMEs. On the monetary front, we responded by cutting the key policy rate, injecting liquidity in the system, and introducing measures to support bank lending, while introducing a moratorium on bank loan repayments.

This Program Statement (PS) describes recent performance and sets out the economic policies that the Government and the National Bank of Serbia (NBS) intend to implement through the end of the PCI. The end-September quantitative program targets (QTs)—including on the fiscal balance and current primary spending—have been met. Inflation has remained low and stable and within the inner limit of the program inflation consultation clause. As a prior action for the review, we will adopt the 2021 budget consistent with program objectives.

The implementation of our program has continued 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). IMF reviews have continued to be completed on a semi-annual basis to assess program implementation progress and reach understandings on additional measures needed to achieve its objectives.

We believe that the policies set forth in this PS are adequate to achieve the objectives of the PCI during the months that remain before its expiration, and we will promptly take any additional measures that may become appropriate for this purpose. We will consult with the IMF 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 IMF 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 fifth review of the PCI. 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 the Policy Coordination Instrument (PCI).** The program has aimed to maintain macroeconomic stability and advance our structural reform agenda. During the pandemic, the focus has shifted to supporting the economy through the crisis while preserving macroeconomic and financial stability, managing remaining risks, and protecting vulnerable groups.

2. **Our strong policy response has helped mitigate the economic and social effects of the pandemic.** We have deployed a large fiscal package, aimed at supporting households and businesses, preserving jobs, and enhancing public health. The implementation of these measures, together with the decline in fiscal revenues, has temporarily increased the fiscal deficit in 2020. Public debt has also increased but will revert to a downward trajectory in 2021 and over the medium term. Amid low inflation, monetary policy has focused on supporting economic activity and maintaining exchange rate stability. The external position has remained broadly in line with fundamentals.

3. **We have prioritized key structural reforms, taking into account existing constraints.** We have made progress in reforming tax administration, strengthening public financial management, enhancing SOEs corporate governance, and privatizing the largest state-owned bank.

4. **The goals of the program have remained compatible with our aspirations to join the EU.** Program implementation has allowed Serbia to maintain macroeconomic stability, support the economic recovery, and accelerate convergence towards EU-income levels.

Recent Economic Developments and Outlook

5. **After a sharp contraction in 2Q2020, economic activity has rebounded.** Notwithstanding a large fiscal stimulus and supportive monetary and financial measures, economic activity was adversely affected by the COVID-19 pandemic and the lockdown, with output contracting by 6.3 percent in the second quarter. However, monthly economic indicators have pointed to a recovery since June and real GDP growth reached -1.4 percent yoy in the third quarter. Formal employment has remained broadly stable. Headline and expected inflation have stayed in the lower half of the NBS tolerance band.

6. **Real GDP is projected to recover in 2021, while inflation is expected to remain low and stable.**

- **Real GDP growth** is projected at around -1 percent in 2020 and to rebound by 6 percent in 2021, converging to 4 percent over the medium term. Moreover, risks are on the upside.

- **Inflation** is projected to stay within the lower bound of the inflation target band by end-2020 and to gradually converge to 3 percent by over the medium term.

- **The current account deficit** is projected at 5 percent of GDP in 2020 and 5½ percent of GDP in 2021, gradually falling to 4 percent of GDP over the medium term. These 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. To mitigate the impact of the COVID-19 crisis, we deployed a large fiscal package. The total cost in 2020 of fiscal measures adopted amounts to almost 8½ percent of GDP. Measures have included increased healthcare spending, deferment of corporate income taxes, labor taxes and social security contributions for private companies, wage subsidies, a one-off payment to pensioners, new loans to MSMEs from the Development Fund, and universal cash transfers. Moreover, a state guarantee scheme for bank loans to SMEs was introduced, for loans of up to EUR 2 billion, with a maximum cost to the budget of EUR 480 million.

8. The overall fiscal deficit and public debt are temporarily increasing in 2020 due to the policy response. The general government recorded a deficit of RSD 360.8 billion in the first three quarters, compared to the adjusted program target of RSD 476.9 billion. Current primary spending of the Republican Budget also stayed below the program ceiling for this period. Revenue performance has been somewhat stronger than expected at the time of the last review. Public debt increased to 57.6 percent of GDP at end-September. The fiscal deficit is projected at about 8.9 percent of GDP in 2020, while public debt is expected to remain below 60 percent of GDP by the end of the year.

9. We are committed to maintain fiscal discipline in 2021 and over the medium term. For 2021, the general government deficit is projected to narrow to about 3 percent of GDP and public debt to resume a declining path. The fiscal stance in 2021 would accommodate the delayed effects of fiscal measures, such as possible calls on loans backed by state guarantees. Public wage and pension increases will be limited and the budget will create space for scaling up public investment. To ensure fiscal sustainability we will adopt new fiscal rules during 2021, that will be effective starting with the 2022 budget, and that will limit the annual fiscal deficits with a view to put public debt as a percent of GDP on a clear downward trajectory (see paragraph 16).

10. As a **prior action**, the National Assembly will approve the 2021 budget consistent with program fiscal parameters aimed at reducing the overall deficit and containing primary current spending. Consistent with these parameters:

- We will increase capital spending by RSD 44 billion to address Serbia's infrastructure end environmental protection needs, support the recovery and foster long-term growth.

- We will increase the threshold of non-taxable personal income to RSD 18,300.

- We will increase pensions based on the existing indexation mechanism, linking 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 refrain from further ad-hoc pension increases.

- We will increase the general government wage bill by RSD 27 billion. After three consecutive years of increases in percent of GDP, this will ensure that the ratio will decline 2021. The wage increases are designed to help attract and retain employees.

- We will provide support to Air Serbia, which has been strongly affected by the pandemic, amounting to RSD 12 billion.

- We are making provisions of RSD 2.8 billion, for expected calls on state guarantees from bank loans under the credit guarantee scheme introduced in response to the crisis.

11. We will aim to contain fiscal risks and will prepare contingency measures as needed. We will closely monitor revenue and expenditure risks related to the pandemic and its economic impact—in particular, risks stemming from troubled SOEs, local governments, and state-guaranteed loans. We will maintain adequate liquidity buffers 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 the Republican budget, excluding capital spending and interest payments (indicative target).

12. We are committed to ensuring transparency and accountability for COVID19-related spending. Specifically, we will: (i) continue to ensure that the new procurement procedures are followed in line with the procurement regime that became effective in July 2020; (ii) ensure that execution of this spending is officially accounted for through regular budget execution reports; and (iii) subject all spending to regular ex-post control mechanisms and publish ex-post audits by the State Audit Institution. Any financial support to public enterprises will be delivered in a transparent manner and will be channeled through the government budget.

B. Structural Fiscal Policies

13. We remain 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 Program Action Plan (TPAP, 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.

- Over the last few years, tangible reform agenda outcomes have been achieved. A strategic risk management unit is implementing modern compliance risk management (CRM) approaches. A Large Taxpayer Office (LTO) is fully operational and there has been a steady increase in the availability of e-services for taxpayers. In 2019, we completed the separation of the administration of core and non-core activities and consolidated core activities into fewer sites. In late-2019, a decision was made to replace STA's existing IT system with a commercial-off-the shelf-system (COTS). A tender for procuring the system will be launched by mid-2021. This new system will facilitate an effective implementation of key reform activities, including the modernization of business processes.
- The next phase of reforms will be implemented through a World Bank Tax Administration Modernization Project with 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.
- A project manager and an assistant manager have been appointed to ensure an efficient implementation of the modernization project.
- A new Strategic Plan for the period 2021-2025, with agreed resource commitments, will be approved in December 2020.
- In August 2020, we launched a tender to hire an external consultant to review the STA's existing business processes, which will guide the business process re-engineering.
- To help ensure that the STA has adequate capacity to fulfill its tasks, we will aim at reducing staffing shortages.
- Efforts to reduce the average processing time for VAT refunds have continued. Refunds continue to be processed according to the legally prescribed timelines and the STA takes a cautious approach to minimize fraud. Going forward, the 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), the STA has continued to 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.
- Following the recent adoption of the Law on Origin of Assets, becoming effective March 2021, we 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. This unit will be established in early 2021, with Fund TA support.
- The COVID-19 relief measures managed by the STA have included (i) the deferment of labor taxes and social security contributions for private companies to be repaid in 24 installments commencing 2021; (ii) the deferment of the corporate income tax advance payment during

the second quarter of 2020; and (iii) a three-month moratorium on compliance enforcement and a reduction of the interest rate on tax arrears.

14. The general government employment and wage system reforms have been delayed due to the COVID-19 pandemic.

- **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 had planned to apply the new wage system to all public sector employees (including the police and army) during 2020, in time for the 2021 budget.

    - A new Law on Salaries of Civil Servants and General Service Employees, as well as amendments to the job catalogue for public sector institutions and other organizations in the public sector, have been postponed due to delays in the formation of the new parliament and government and are now expected to be adopted during 2021. This, coupled with delayed negotiations with trade unions due to the pandemic and the related postponement of the national elections, has delayed the timeline for the adoption of the decree specifying the coefficients under the new wage system (**end-July 2020 reform target**). We remain committed to implement the new system and make it effective as of 2022.

- **General government employment framework**

    - The current framework is governed by the Budget System law, which regulates hiring decisions 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 with a new system based on personnel planning for all public sector entities. The new system should ensure medium-term workforce planning by all public sector institutions as well as alignment with budgetary constraints. Our earlier plan to adopt a government decision on a revised public employment framework along these lines has been delayed due to the COVID crisis and related delays in delivery of TA and will not be effective in 2021. The need for firm control of public employment and the wage bill in the current situation also calls for postponing this planned reform.

- During the transition to the new system, and through 2021, the Employment Commission will continue to allow the hiring of staff within the institutions' budget limits. However, in December 2020 we will amend the budget system law and adopt a decree to retain controls over total new hiring, while making hiring practices more flexible and better tailored to institutions' staffing needs. Specifically, public sector entities can replace up to 70 percent of the staff leaving the institution or retiring, without approval of the Commission. Any additional hiring beyond this 70 percent would require the Commission's approval. At the same time, we have set a limit on overall hiring approvals, such that the total number of permanent staff in the public sector cannot exceed by more than 1 percent the end-December 2020 level during 2021-23. The amendments to the budget system law also increase transparency of the process, by requiring the publication of decisions on hiring approvals on the institutions' website.

- Once the new, permanent system is sufficiently effective and comprehensive, we aim to phase out the existing framework of hiring approvals through the Employment Commission.

- We have also developed a new electronic public employment registry for the Public Administration, and a pilot for the Ministry of Finance has already become effective. The system will be fully in place by 2023.

15. We are strengthening the public investment management (PIM) framework.

- We will continue to include all project loans of the general government in the budget.

- We have developed a single project pipeline that will continue to cover all ongoing and future projects.

- We continue to develop working practices in the MOF's PIM Unit, including processes, information flows and working relationships to operationalize the new system.

- We are also developing, with World Bank support, a Public Investment Management System (PIMIS)—including an integrated database of public investment projects. The new system is procured with a view to have the first modules operational in 2021 and the full system in 2022.

- We have prepared a Manual for Project Preparation and Appraisal to provide clear but generic guidance on how to prepare prefeasibility and feasibility studies. We will continue to build human resource capacity within the PIM Unit and strengthen coordination and information flows within the Ministry of Finance (MOF) departments.

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 2020 and will refrain from any further ad-hoc pension increases. Indexation will automatically be suspended should the pension bill exceed 11 percent of GDP.

- Due to the COVID-19 crisis, we have postponed the adoption of a new fiscal rule. As part of a broader revision of the budget system law, during 2021 we will adopt a deficit-based fiscal rule anchored on public debt. We aim to achieve: (i) a more transparent and credible operational annual ceiling for the overall general government fiscal deficit (in principle, at zero, 0.5 or 1 percent of GDP depending on the level of public debt (including restitution bonds) compared with preset debt thresholds); (ii) improved accountability and facilitate transition towards the EU fiscal framework; and (iii) retain a strong role of the Fiscal Council. We will continue collaboration with the IMF to define key elements of the new rules, such as the debt thresholds, escape clauses, possible cyclical adjustment, correction mechanisms, and a strong accountability framework. The new fiscal rule will become effective with the 2022 budget.

17. We will continue to enhance public financial management (PFM).

- 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 prepare a plan to settle the arrears accumulated during the pandemic and will adopt measures to prevent further arrears as needed.

- We will continue to strictly limit the issuance of state guarantees. We will not issue any new state guarantees for liquidity support to SOEs, or state guarantees for any company in the portfolio of the former Privatization Agency. The Government will refrain from issuing any implicit state guarantees.

- We will adopt a new PFM reform program for 2021-25 by end-2020, incorporating the findings of a Public Expenditure and Financial Accountability (PEFA) assessment conducted by the World Bank.

- We are committed to ensure that a full assessment of all proposed Public-Private Partnerships (PPPs) is reviewed by the MOF, including PPPs' key financing features, cost-benefit analysis, and risk sharing arrangements with the government.

- We will continue to strengthen the role and capacity of the Fiscal Risks Management unit at the MOF. The preparation of a strategy and methodology to properly monitor fiscal risks has been delayed due to the COVID-19 outbreak and will be completed by May 2021, in line with the timeline for World Bank technical assistance. 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.

- In December 2020, we finalized—with World Bank support—the sub-components of this methodology addressing risks from SOEs and from natural disasters, and developed a methodology for managing fiscal risks associated with the state-guarantee scheme designed in response to the COVID-19 crisis **(end-November 2020 reform target)**.

- With the World Bank support, we aim to develop and strengthen fiscal risk management through three main components: (i) strengthening legislative and methodological framework on monitoring and management of fiscal risks; (ii) developing tools and models to effectively monitor and manage fiscal risks; and (iii) capacity building of the MOF's Fiscal Risks Department and other key stakeholders.

- The new Law on Public Procurement became effective on July 1, 2020. The law, prepared with support from the EU, helps to ensure alignment with the EU acquis and enhance competition and transparency. The law also envisages that all contracting authorities are required to conduct public procurement procedures electronically, through the new Public Procurement Portal.

- We will make plans to move to a medium-term budget orientation and will continue to ensure a strict adherence to the budget calendar and transparency of the budget process. In this regard, we will publish the 2019 financial statement by end-2020. However, due to the COVID-19 outbreak, our fiscal strategy for 2021 has been published in November 2020.

- We will promptly resolve any new domestic arrears that may emerge due to the COVID-19 crisis and address the underlying factors to prevent the emergence of new ones.

C. Monetary and Exchange Rate Policies

18. Inflation has remained low. After temporarily falling below the lower bound of the inflation target range in the period March-May, headline inflation has moved within the lower half of that range since June. Core inflation remains low and inflation expectations well-anchored—one-year ahead inflation expectations of the financial and corporate sectors are below the 3 percent target.

19. We have eased the monetary stance to support lending and economic activity in response to the COVID-19 shock.

- We implemented three key policy rate cuts in March, April, and June, reducing it from 2.25 percent to 1.25 percent. In March, we also narrowed the interest rate corridor from ±1.25pp to ±1pp relative to the key policy rate.

- We have also provided liquidity (both in dinars and euros) to banks through additional and regular EUR/RSD swap auctions as well as repo purchase auctions at lowered, preferential rates in local currencies, and conducted outright purchases of dinar government securities at market rates, which helped ensure stability on the government bond (primary and secondary) market. These measures provided additional liquidity to the banking system, and excess dinar liquidity has remained high.

- During April and May, we conducted outright purchases of government securities for a total of RSD 97 billion, which helped prevent disruptions in secondary markets, by ensuring adequate liquidity and preventing an increase in yields.

- In May, local-currency denominated corporate bonds became eligible for open market operations (OMOs) and as collateral for banks to receive daily liquidity loans and short-term liquidity from the NBS. Only corporate bonds issued before end-2020, with an original maturity of up to 10 years, and from companies with a solvency rating of at least "acceptable solvency" according to Serbia's Business Registry Agency, are eligible. Total NBS's purchases of corporate bonds are capped at RSD 55 billion, with limits to the purchase of individual bonds (up to 70 percent of a bond's issuance) and companies (up to RSD 11 billion of bonds of a single issuer).

- Consistent with the above decision, in September, we purchased RSD 25 billion of corporate bonds from domestic banks in secondary markets. These purchases helped to support the development of this segment of Serbia's capital markets and provide an alternative source of financing to corporates, thus supporting firms through the economic recovery.

- In July, we set up a repo line arrangement with the ECB to address possible euro liquidity needs of Serbian financial institutions in the presence of market dysfunction due to the COVID-19 shock. Under this repo line, the ECB provides euro liquidity (up to EUR 1 billion) to the NBS in exchange for adequate euro-denominated collateral. The maximum maturity of each drawing is three months, and the repo line will remain in place until end-June 2021, unless an extension is agreed.

- In July, we introduced measures to make dinar loans under the state guarantee scheme introduced in response to the COVID-19 crisis more attractive. Specifically, we increased the remuneration (by 0.50 percentage points relative to the standard remuneration rate on allocated required reserves in dinars, which equals 0.10 percent) to eligible banks. This preferential remuneration rate is available for banks approving dinar loans under the state guarantee scheme at an interest rate that is at least 0.50 percentage points lower than the ceiling interest rate envisaged by the scheme (1M BELIBOR+2.5 percentage points).

20. 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 ±1½ percentage points). Inflation developments will continue to be monitored via a consultation clause with consultation bands set around the central projection (Table 1).

21. We aim to maintain relative stability of the exchange rate during the crisis period. Foreign exchange interventions will continue to be used to smooth excessive short-term exchange rate volatility, while considering the implications for financial sector and price stability. In the context of heightened uncertainty due to the pandemic, we intervened in the FX market with a net sale of EUR 1.6 billion since March through end-November. We assess the current level of gross international reserves as adequate and comfortable for precautionary purposes.

22. Promoting dinarization remains an important medium-term 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.

- Several measures to foster dinarization remain in place, such as higher reserve requirements on FX deposits, mandatory down-payment ratios for FX loans, and systemic risk buffers. 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.

- Based on results from a survey of banks' exposures to foreign currency borrowers, in December 2019 we adopted a set of prudential measures related to banks' capital adequacy and risk management, aimed at supporting dinar lending. In May 2020, due to the COVID-19 crisis, we postponed the effectiveness of these measures to January 2021.

- As described earlier, we have also introduced measures to make dinar loans under the state guarantee scheme introduced in response to the COVID-19 crisis more attractive. These measures are supporting bank credit dinarization. Loans under the scheme amounted to about EUR 1.25 billion—more than 60 percent of the total amount envisaged under the scheme—by end-October, with about 57.5 percent of the loans extended in local currency.

- By October 2020, deposit and credit dinarization reached 38.6 percent and 36.8percent, respectively. We have also increased the share of public debt in local currency, which reached 29.4 percent by September, while extending the average maturity of dinar-denominated securities. The COVID-19 shock, however, temporarily increased market demand for shorter-term dinar securities.

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

- Once the uncertainty associated to the COVID-19 pandemic dissipates, 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.

- We will continue to strengthen public debt management. We aim 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 also plan to establish a primary dealer system and develop adequate supervisory framework. Implementation of these plans, however, has been delayed by the COVID-19 crisis. Thus, a Market Maker

Agreement will be agreed with the involved parties by the end of 2020 or as soon as possible in 2021Q1. 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 representatives of the PDA, MOF, prospective primary dealers, and other relevant institutions has been established and a pilot will be effective by mid-2021.

24. 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

25. Several actions were taken in response to the emergency created by the pandemic.

- In March, we introduced a 3-months moratorium relieving debtors of repayment of their obligations under loan and lease agreements. During the state of emergency, banks could not charge any default interest on past due outstanding receivables and could not initiate enforcement or enforced collection procedures or take legal actions to collect receivables from customers.

- In late July, a new 2-month moratorium was introduced, relieving debtors of repaying their liabilities during August and September, as well as those obligations that were due in July but were not settled.

- In June, we relaxed the loan-to-value (LTV) cap for first-home buyers mortgage loans in foreign currency, increasing the limit from 80 percent to 90 percent.

- In September, we kept the countercyclical buffer rate (CCyB) at 0 percent, considering that the estimated credit-to-GDP gap level, while increasing, is still below its long-term trend. Regarding the systemic risk buffer, in February 2020 we decided to keep this rate at 3 percent, taking into account the still high degree of euroization.

26. We will continue to strengthen financial sector regulatory and supervisory frameworks, to fully align them with international standards. We 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.

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

- We have further aligned the deposit insurance scheme with EU directives. In October 2019, we amended the Law on Deposit Insurance to address the findings and recommendations of the IADI core principles assessment. These amendments 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. In collaboration with the NBS, the DIA adopted a methodology for implementation of a risk-based premium assessment model in October 2020.

- In response to the pandemic, the DIA limit to invest in foreign currency government securities (of up to 25 percent of its portfolio) was temporarily lifted. In this context, the DIA has increased its holding of government securities from 25 percent to about 47 percent of its foreign currency investment portfolio by end-September. The DIA will revert to the previous exposure limit within 12 months after the expiration of the state of emergency.

28. NPL ratios have reached historically low levels. As of end-September, the NPL ratio had fallen to 3.4 percent, the lowest level since 2008. While the COVID-19 may negatively impact NPLs, such impact should be mitigated by the comprehensive measures to support firms and households deployed by the NBS and the government. We will continue to closely monitor NPLs trends, including after the expiration of the moratorium of bank loan repayments and the fiscal measures to support companies.

29. We will continue our efforts to contain NPLs. Our updated NPL resolution strategy focuses on measures to prevent accumulation of new NPLs, further improve bankruptcy frameworks, 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 resolving the DIA portfolio of bad assets through a tendering process implemented in two phases. In June 2019 the first phase of the sale was completed.

- In September 2019, we launched the tender for the sale of the second, larger portfolio (of EUR 1.8 billion). After some delays due to the pandemic, in September 2020 we received 5 binding offers, with a view to complete the transaction by end-2020. We will develop, by end-2020, a time-bound plan to resolve any residual assets of the DIA portfolio.

- We have established, with support of the IFC and an external consultant, an internet portal for online auctions of bankruptcy assets.

30. We will continue to implement our state-owned financial institutions reform agenda. We will further strengthen our oversight of state-owned financial institutions.

- The privatization of Komercijalna Bank is expected to be completed by end-2020.

- We will 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, and (iii) enhancement of its IT infrastructure.

- In April, we amended the government conclusion on BPS to (i) allow the bank to lend to medium-size companies through the state guarantee scheme introduced in response to the COVID-19 crisis, (ii) eliminate the loan-size limit for private enterprises, (iii) introduce the possibility of lending to municipalities and local governments (while requiring MOF consent for any loan over RSD 20 million), and (iv) and abolish the cap on exposure to SOEs.

- We will continue to closely monitor risks related to new lending to medium-size companies, SOEs and local governments, including in the context of the state guarantee scheme.

- A new Business Plan for 2020–22 was adopted in June 2020, to reflect: (a) the significant organic growth of total assets in 2019; (b) changed operational circumstances due to the COVID-19 pandemic; and (c) the recent amendments of the government conclusion on BPS.

- The procurement of a new core banking system has been delayed until the ongoing acquisition of MTS bank is completed.

- The Development Fund 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.

31. We will continue strengthening the AML/CFT framework. While Serbia is either largely or fully compliant with FATF standards, we will further enhance AML/CFT frameworks:

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

- 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.

- A new National Strategy Against Money Laundering and the Financing of Terrorism for 2020-2024 was adopted in February 2020 together with an action plan for 2020-22.

- A new national risk-assessment update will be completed in 2021.

- We have continued to align regulations with the amended AML/CFT Law. The Securities Commission aligned its regulations in June 2020. The MOF passed an amended Rulebook on the Methodology for Complying with the AML/CFT Law and a Rulebook on the licensing examination for compliance officers.

- Good progress has been made in terms of prosecution, with several persons convicted for money laundering this year.

- A new Law on Digital Assets in Serbia, entirely in accordance with FATF updated Recommendation 15, will be adopted by end-2020.

32. 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 very small 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, has prepared a strategic outline of the main objectives, priority areas and measures, which will serve as a guide for the development of a strategy and an action plan to enhance Serbia's capital markets. Work on this front has been delayed due to the pandemic and the strategy and action plan will be completed by the end of 2020.

- External consultants hired with EU support are working on a draft Capital Markets Act. Based on an EBRD comparative study analyzing corporate bond markets in CESEE countries, in April 2020 we introduced regulatory changes to simplify the process of issuing corporate bonds as well as reducing issuance costs.

- A working group for Development Finance has been formed, led by the Ministry of Economy and with support from the World Bank. Preparation of a strategy for development finance and an action plan to implement it has been delayed due to the COVID-19 crisis and is expected to be completed by end-2020.

E. Structural Policies

33. 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, and enhance corporate governance of public and state-owned enterprises.

34. 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 have included 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 will further improve coordination across inspections through an e-inspection system, which provides a horizontal e-platform facilitating full implementation of a risk-based approach to inspection oversight.

35. We will 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. We will closely monitor and tackle fiscal risks from these companies.

- **Elektroprivreda Srbije (EPS).** We continue to improve corporate governance with support of the EBRD. In 2021, 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. In this context, in November we launched a tender for the valuation of the company's properties and assets (**end-December 2019 reform target**). We have conducted 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. Based on this assessment, we plan to implement a tariff adjustment by end-2020.

- **Srbijagas.** Collection rates have been affected by the COVID-19 crisis. We will closely monitor the emergence of new arrears and make efforts to improve payment discipline. We remain committed to phase out Srbijagas' reliance on government support for servicing debt incurred in the period 2008-2012 by the end of 2020.

36. We will make further efforts to resolve the remaining strategic companies in the portfolio of the former Privatization Agency:

- Negotiations with potential investors regarding Petrohemija have continued, and we intend to launch a privatization tender following the ongoing discussions (**end-February 2019 reform target**).

- We will explore options for potential strategic investments or partnerships for MSK.

- We remain committed to the privatization of Lasta. The process has been delayed due to the pandemic, and a new timeline will be set once market conditions normalize.

- We will implement a time-bound action plan for Resavica mines, developed with the assistance of the World Bank, 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.

37. 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 September 2020, more than 310 companies entered bankruptcy, and 67 were privatized since end-2014. About 36,000 employees from 357 companies have received severance payments. 78 companies with nearly 28,000 employees remain.

38. 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.

- In December 2020, we will adopt, with the EBRD support, a government decision on the SOE ownership policy consistent with the core principles embodied in the OECD Guidelines on Corporate Governance of State-Owned Enterprises, and in early 2021 will adopt a time-bound action plan to implement it **(end-October 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-March 2021 that fits with our long-run views of the key PEs and SOEs.
- We will make efforts to promptly resolve the excessive reliance on acting directors in state-owned companies.

39. 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 MOF, SORS and NBS) for statistical purposes.
- By end-December 2020, the Ministry of Finance will start submitting monthly fiscal accounts to the European Department of the IMF using the templates in line with the GFSM 2014 framework, developed with the assistance of IMF TA.
- By end-June 2021, the Serbian Statistical Agency (SORS) will publish these monthly GFSM 2014 fiscal accounts under the Enhanced General Data Dissemination System (eGDDS), covering the budgetary government and Roads and Corridors of Serbia, and will resume reporting of annual data, covering the general government, to the GFS Database of the IMF Statistics Department. These annual data should also be consistent with GFSM 2014.

Program Monitoring

40. Progress in the implementation of the policies under this program has been 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 Program Targets 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/	Adj. Prog.	Act.	Prog. QT	Adj. Prog.	Act.	IT 7/	Adj. Prog.	Act.	Prog. QT	Adj. Prog.	Act.	IT 7/
	CR 18/375			CR 18/375			CR 19/238			CR 19/238			CR 19/369			CR 19/369			CR 19/369			CR 19/369
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	11.5	11.1	37.6	65.2	52.6	32.7	43.3	311.5	476.3	476.9	360.8	457.8
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	988.9	970.8	234.5	241.5	266.3	478.3	479.8	755.5	1113.6	1112.6	1084.8	1385.2
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	...	2.4	1.0	...	0.2	1.0	...	0.3	1.0	...	0.4	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	...	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			3.0			3.1
End of period inflation, center point 6/	*2.9*	...	*2.8*	*2.0*	...	*1.5*	*1.9*	...	*1.2*	*2.0*		*1.9*	*1.8*	...	*1.3*	*2.5*	...	*1.6*	*1.5*	...	*1.8*	*1.6*
Lower band limit (1.5 percent below center point)	1.4			0.5			0.4			0.5			0.3			1.0			0.0			0.1

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: Reform Targets

	Actions	Target Date	Status	Objective
	Prior Actions			
1	Adoption by the National Assembly of the 2021 budget consistent with fiscal parameters.			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-July 2020	Not met.	Rationalize pay and improve incentives across public sector.
2	Prepare methodologies to: (i) monitor fiscal risks from SOEs and natural disasters, and (ii) manage fiscal risks associated with the state-guarantee scheme designed in	End-November, 2020	Not met. Completed with one day delay.	Reduce fiscal risks.
	Structural			
3	Adopt a government decision to launch a privatization tender for Petrohemija.	End-February, 2019	Not met.	Reduce fiscal risks.
4	Launch a tender for the valuation of EPS property and assets.	End-December, 2019	Not met. Launched in November 2020.	Improve SOE governance.
5	Government adoption of an ownership policy document and a time-bound action plan to implement it.	End-October, 2020	Not Met. Government decision on the SOE ownership policy delayed to December 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.

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 March and June 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.

- 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 EUR 170 million to the extent that the Republican Budget assumes expenditures associated with state owned enterprise recapitalization, or the assumption of debt obligations on behalf of the company. 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 executes the transaction.

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 ear-marked 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.

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