



REPUBLIC OF SERBIA

July 2024

THIRD REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF SERBIA

In the context of the Third Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2024, following discussions that ended on March 26, 2024, with the officials of Republic of Serbia on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 10, 2024.
- A **Statement by the Executive Director** for Republic of Serbia.

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IMF Executive Board Concludes the Third Review Under the Stand-By Arrangement for the Republic of Serbia

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded the third review under the Stand-By Arrangement (SBA) with the Republic of Serbia, authorizing additional access to about EUR 400 million (SDR 316.46 million). The authorities will continue to treat the SBA as precautionary and will not make the purchase available upon the approval of this review.
- Macroeconomic outturns under the program remain strong. Growth is increasing, inflation is falling, the current account deficit has narrowed, reserves are at record highs, and public debt is declining. The authorities are firmly committed to their 2024 fiscal plans, which are aligned with the SBA's fiscal targets, but higher public investment mean that deficits over 2025-27 are set to be higher than previously envisaged. Stepped-up public investment will be accompanied by additional transparency and public investment management reforms.
- The financial situation of the energy sector SOEs has been stabilized. Structural reforms in the energy sector companies, SOE governance, and broader fiscal management are progressing well.

Washington, DC – June 26, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Third Review Under the Stand-By Arrangement (SBA) for the Republic of Serbia. The SBA amounting to about SDR 1.89 billion, or approximately EUR 2.4 billion, was approved by the IMF's Board on December 19, 2022 (see Press Release No. 22/447). With this review, about EUR 400 million (SDR 316.46 million) becomes available. The authorities intend to continue treating the SBA as precautionary and not access the available funds.

With the impact of the energy crisis fading, growth is expected to increase to close to 4 percent in 2024 alongside a robust labor market, real wage increases and higher investment. Annual inflation fell to 4.5 percent in May 2024, moving back to the National Bank of Serbia's target range. The current account deficit is projected to widen to around 4 percent in 2024 as domestic demand improves, with ongoing foreign direct investment strength enabling further reserve accumulation.

The 2024 budget foresees a fiscal deficit of 2.2 percent of GDP, but ambitious infrastructure investment under the government's *Leap into the future—Serbia EXPO 2027* development plan entail higher medium-term fiscal deficits than previously envisaged (latest projections are for deficits of 2½ percent of GDP in 2025 and 2¼ percent through 2027). Despite planned higher public investment outlays, public debt remains on a downward path.

The program is on track. All quantitative performance criteria and indicative targets were met, and structural reform momentum has been maintained. Following energy tariff reforms under the program, the finances of the energy SOEs have improved, and fiscal risks have moderated. Advancing the structural reform agenda centered on energy sector and SOE governance, energy pricing, public investment management, and broader fiscal structural reforms, will help address Serbia's remaining vulnerabilities and support long-term growth.

At the conclusion of the Board discussion on the Republic of Serbia, Mrs. Antoinette Sayeh, Deputy Managing Director, made the following statement:

“Serbia continues to recover well from the recent energy crisis, supported by the authorities’ strong performance under the Stand-By Arrangement. Growth is recovering, inflation is falling, and fiscal and external buffers have increased. The finances of energy state enterprises have improved, moderating fiscal risks.

“The return of inflation to the central bank’s target band in May is welcome. Maintaining an appropriately tight monetary policy stance will help guard against remaining inflation risks. Serbia’s financial sector appears sound while ongoing vigilance is advisable.

“Pursuing prudent fiscal policy remains a priority. While higher public investment is needed, the authorities’ new plans mean that fiscal deficits will be higher than under the deficit component of the fiscal rule, which is, as a result, being delayed. Careful prioritization of investment projects, greater transparency, close monitoring of cost pressures, and broader public investment management reforms will help deliver value for money.

“Additional changes to energy pricing and to energy state-owned enterprise (SOE) corporate governance will help bolster their financial positions, make room for energy investment, and contain fiscal risks. Also, progress with broader SOE governance and fiscal structural reforms continues.

Serbia: Selected Economic Indicators, 2022–2026

Population: 6.7 million (2022)

Quota: 654.8 million SDR / 0.14 percent of total

Main products and exports: manufactured goods, food, machinery and transport equipment.

Key export markets: the EU (Germany, Italy) and ex-Yugoslavian states.

	2022	2023		2024		2025	2026
		SBA 2nd Review	Est.	SBA 2nd Review	Proj.	Proj.	Proj.
Output							
Real GDP growth (%)	2.5	2.4	2.5	3.3	3.8	4.2	4.0
Employment							
Unemployment rate (labor force survey) (%)	9.4	9.1	9.5	9.0	9.4	9.3	9.3
Prices							
Inflation (%), end of period	15.1	8.0	7.6	4.0	3.6	3.0	3.0
General Government Finances							
Revenue (% GDP)	43.3	42.5	42.6	42.6	43.3	43.4	43.2
Expenditure (% GDP)	46.4	45.4	44.8	44.8	45.5	45.9	45.5
Fiscal balance (% GDP)	-3.0	-2.8	-2.2	-2.2	-2.2	-2.5	-2.3
Public debt (% GDP)	55.6	53.5	52.3	52.0	52.0	50.4	48.4
Money and Credit							
Broad money, eop (% change)	6.9	8.1	13.1	5.1	6.3	4.7	5.9
Credit to the private sector, eop (% change) 1/	7.4	1.1	1.2	3.9	4.9	6.5	8.5
Balance of Payments							
Current account (% GDP)	-6.9	-2.3	-2.6	-3.3	-4.1	-4.7	-5.0
FDI (% GDP)	7.1	5.9	6.0	5.5	5.6	5.3	5.0
Reserves (months of prospective imports)	5.2	6.6	6.7	6.7	6.8	6.7	6.4
External debt (% GDP)	72.0	66.3	67.2	63.9	64.5	62.9	60.4
Exchange Rate							
REER (% change)	3.3	...	6.2	...	...	...	...

Sources: Serbian authorities and IMF staff estimates.

1/ Calculated at a constant exchange rate to exclude the valuation effect.



REPUBLIC OF SERBIA

June 10, 2024

THIRD REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context: Serbia continues to recover well from the recent energy crisis. Growth is increasing, inflation is falling, the current account deficit has narrowed, reserves are at a record high, and public debt is on a downward path. Having won the December parliamentary elections, the new government is focusing on closing infrastructure gaps and bolstering economic growth. A new development plan envisages higher public investment spending through 2027, accompanied by higher fiscal deficits.

Policies: Building on progress under the program, the authorities remain committed to maintaining external and fiscal sustainability while increasing public investment in the coming years. It is important, therefore, to increase the transparency of public investment, to further strengthen public investment management, and to phase investment carefully to contain costs. Monetary policy should remain tight until disinflation is secured. The banking sector appears sound, but continued vigilance is required and improvements to prudential frameworks are welcome. Energy SOE finances have improved, with no liquidity support expected from the 2024 budget. Further energy pricing and governance reforms will help underpin this progress.

Program Performance: Program performance remains strong, reflecting the authorities' strong program ownership. All quantitative performance criteria (QPCs) and indicative targets (ITs) were met. The authorities removed gas price controls for the non-regulated sector with a delay in April (end-January 2024 SB) with effect from May 1, 2024 (as was targeted under the SB), and request a new SB to update the gas pricing methodology to become effective on August 1, 2024 (new end-July 2024 SB). The authorities request a new end-November 2024 SB to increase transparency of public investment. With reserves at record highs, the authorities request to modify the floor on net international reserves (NIR) to be consistent with gross reserves at 100 percent of the Fund's ARA metric (previously set at 90 percent). With inflation continuing to decline, the authorities request the modification of the inflation consultation band. The authorities will continue to treat the SBA as precautionary and will not make the purchase available on approval of this review (SDR 316.46 million, 48.33 percent of quota). Staff supports completion of the 3rd Review under the SBA and modification of the performance criteria.

Approved By
Kristina Kostial (EUR)
 and **Anna Ivanova**
(SPR)

Discussions were held in Belgrade during March 13–26, 2024. The staff team comprised Donal McGettigan (head), Andre Geis, Christiane Roehler, Mengxue Wang (all EUR), Mariano Moszoro (FAD), Lukas Kohler (SPR), Yulia Ustyugova (resident representative), Lev Ratnovski (incoming resident representative), Desanka Obradović and Marko Paunović (local economists). HQ support was provided by Zeju Zhu and Monique Odoño (EUR).

CONTENTS

CONTEXT	4
RECENT ECONOMIC DEVELOPMENTS	4
OUTLOOK AND RISKS	7
PROGRAM PERFORMANCE	8
POLICY DISCUSSIONS	9
A. Monetary Policy—Securing Sustainable Disinflation	9
B. Fiscal Policy—New Investment and Growth Plans	10
C. Energy Sector Policies—A Focus of the Program	13
D. Financial Sector Policies—Maintaining Continued Resilience	15
E. Governance and Other Structural Policies	15
PROGRAM MODALITIES	16
STAFF APPRAISAL	17
FIGURES	
1. Regional Import Prices, 2021–24	19
2. Real Sector Developments	20
3. Labor Market Developments	21
4. Inflation and Monetary Policy	22
5. Balance of Payments	23
6. Fiscal Developments	24
7. Fiscal Financing	25
8. Financial and Exchange Rate Developments	26
9. Selected Interest Rates and Credit Development	27
10. Key Banking Sector Indicators	28

TABLES

1. Selected Economic and Social Indicators, 2022–29 _____	29
2. Medium-Term Framework, 2022–29 _____	30
3. Growth Composition, 2022–29 _____	31
4a. Balance of Payments (Billions of Euros), 2022–29 _____	32
4b. Balance of Payments (Percent of GDP), 2022–29 _____	33
5a. External Financing Requirements and Sources (Baseline), 2022–29 _____	34
5b. Indicators of Capacity to Repay the Fund, 2022–29 _____	35
6a. General Government Fiscal Operations (Billions of RSD), 2022–29 _____	36
6b. General Government Fiscal Operation (Percent of GDP), 2022–29 _____	37
7. Decomposition of Public Debt and Debt Service by Creditor, 2023–25 _____	38
8. Monetary Survey, 2022–29 _____	39
9. NBS Balance Sheet, 2022–29 _____	40
10. Banking Sector Financial Soundness Indicators, 2020–24 _____	41
11. Schedule of Reviews and Available Credit Under the 2–Year SBA Arrangement, 2022–24 _____	42

ANNEXES

I. Risk Assessment Matrix _____	43
II. Sovereign Risk and Debt Sustainability Assessment _____	49
III. External Sector Assessment _____	57
IV. Tax Administration Staffing Challenges _____	60

APPENDIX

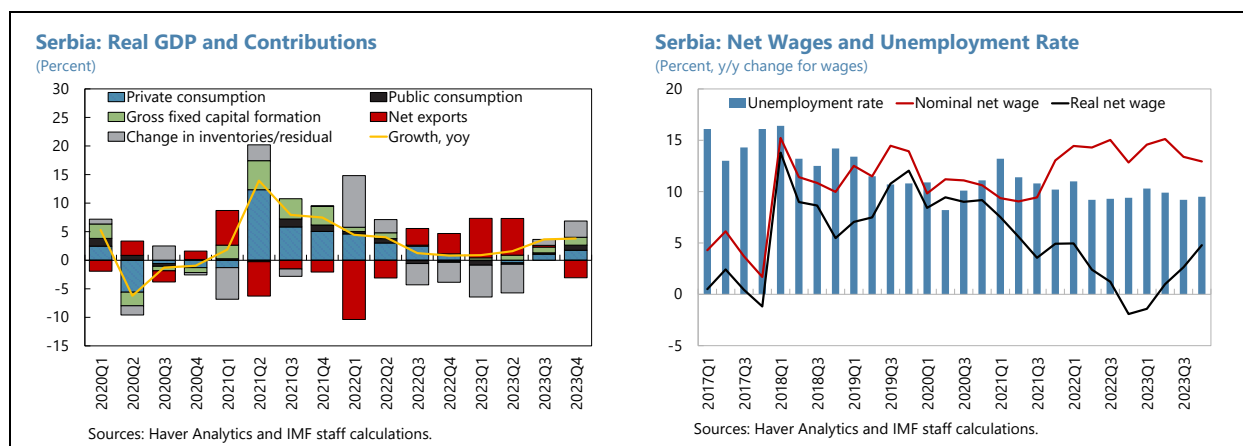
I. Letter of Intent _____	65
Attachment I. Memorandum of Economic and Financial Policies _____	67
Attachment II. Technical Memorandum of Understanding _____	88

CONTEXT

- 1. Serbia continues to recover well from the recent energy crisis.** Growth is increasing, inflation is falling, the current account deficit has narrowed, reserves are at a record high, and public debt is on a downward path. Program reviews have been completed successfully, with the program turning precautionary earlier than envisaged given the strength of program outcomes.
- 2. With a decisive win in the December parliamentary elections, the new government is focused on bolstering investment and economic growth.** The ruling SNS-led coalition is focused on a new development plan, “Leap into the Future—Serbia EXPO 2027,” anchored around Specialized EXPO 2027 which will be held in Belgrade. The plan envisages higher public investment spending through 2027, accompanied by higher fiscal deficits, while keeping public debt on a downward path (see Box 1).
- 3. Geopolitical and regional developments present challenges and opportunities.** Serbia is an EU candidate country, but limited progress on normalizing Serbia-Kosovo relations, and limited alignment with the EU on foreign policy positions remain obstacles to accession. The unified labor market recently established under the Open Balkans Initiative offers potential for regional economic integration and could help alleviate constraints on the Serbian labor market.

RECENT ECONOMIC DEVELOPMENTS

- 4. Growth has picked up and the labor market remains strong.** Growth was driven by net exports in H1:2023, as imports declined alongside weaker domestic demand. Private consumption has since begun to recover, supported by falling inflation and positive real wage growth. Investment has also picked up, reflecting continued high FDI, government spending on capital projects, and a recovery in inventories. Unemployment is near historic lows and real wages are staging a recovery.



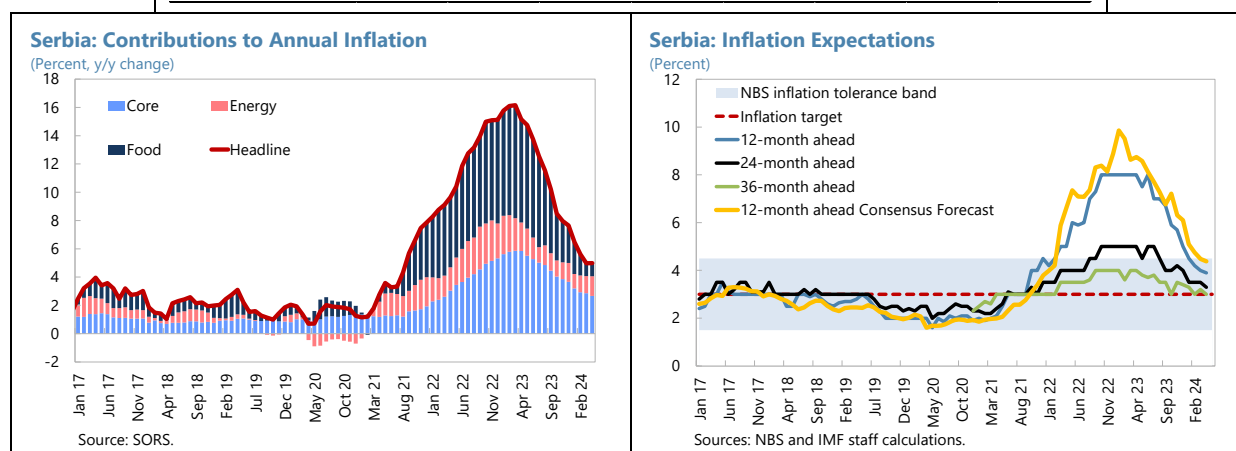
- 5. Headline and core Inflation are falling towards the upper bound of the NBS's inflation target band.** Headline (5.0 percent y/y in April 2024) and core (4.8 percent y/y) inflation have fallen sharply to just above the upper bound of the NBS's inflation target band of 4½ percent, supported

by tight NBS and ECB monetary policy, easing global price pressures, falling food and energy inflation, and favorable base effects. Inflation expectations have also fallen sharply, with 12-month ahead financial market participant expectations down to 4 percent.

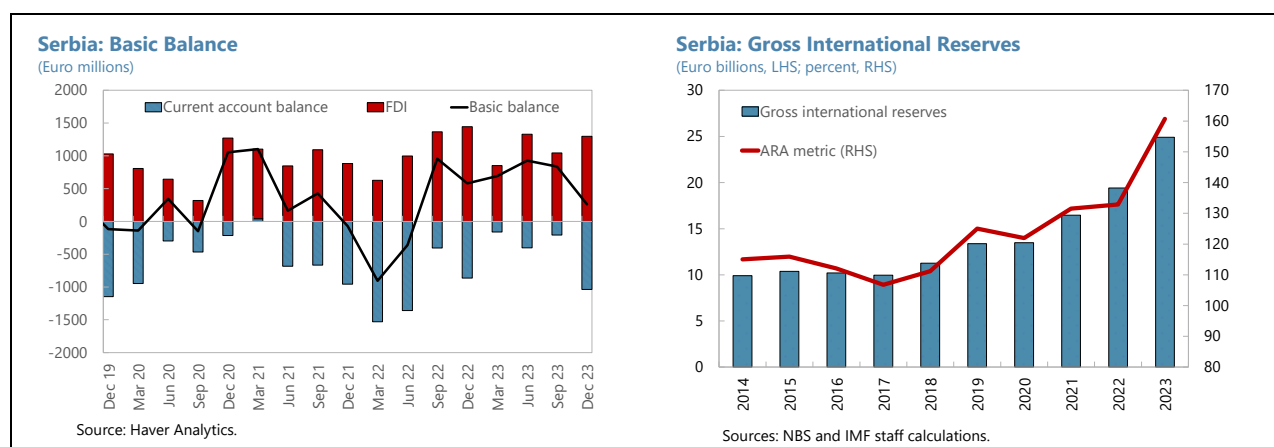
Serbia: Inflation Developments, 2022–24

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Jan-24	Mar-24	Apr-24
Headline, yoy	15.1	16.2	13.7	10.2	7.6	6.5	5.0	5.0
Headline, 3mma	13.9	12.9	7.8	4.4	4.5	4.5	3.0	3.7
Core, yoy	10.1	11.3	9.9	8.2	6.5	5.9	5.0	4.8
Core, 3mma	11.6	9.6	6.4	4.0	5.6	4.8	4.0	5.2

Note: All figures are annualized



6. With a narrower current account deficit and continued high FDI, reserves increased further (Figure 5). The current account deficit narrowed to 2½ percent of GDP in 2023 from almost 7 percent in 2022, supported by falling energy prices, resilient exports (including of ICT services), some import compression, and strong remittances. With continued high FDI inflows, reserves increased to almost €25 billion, or about 160 percent of the IMF’s reserve ARA metric at end-2023. These dynamics are consistent with Serbia’s external position in 2023 being stronger than implied by fundamentals and desirable policies (see Annex II).



Box 1. Leap into the Future—Serbia EXPO 2027

In January 2024, the President unveiled an ambitious "**Leap into the Future – Serbia EXPO 2027**" investment program, which spans 2024–27, and culminates in Specialized EXPO 27. The program comprises mainly infrastructure investment at a cost of EUR 17.8 billion (about 23 percent of 2024 GDP). Since most of this investment will be accommodated within the large public investment envelope already penciled in for the coming years (about 7 percent of GDP annually), the increases in annual public investment outlays and fiscal deficits over the next years are projected at 0.7–1 pps of GDP. This would bring public investment to about 8 percent of GDP a year and raise the fiscal deficit to 2½ percent of GDP for 2025 and 2¼ percent in the following years—up from 1½ percent under the fiscal rule.

Transportation infrastructure constitutes the bulk of the program and envisages constructing and upgrading 500 kilometers of highways and expressways, 2,000 kilometers of railways, and two inaugural metro lines in Belgrade.

Energy sector projects include renewable electricity production (solar and wind), reversible hydroelectric plants, expanded natural gas storage, a gas interconnector with North Macedonia, and an oil pipeline to Hungary. While it is yet to be decided whether the large energy projects will be financed through the budget or by the energy SOEs, it is highly unlikely that the energy SOE's balance sheets will be able to carry such large investments without budgetary support.

The program also allocates resources to **education, science, and culture**, with proposals to construct a research campus catering to 4,000 students. Cultural initiatives include repurposing the old hall of the Belgrade Fair into an opera and ballet venue, alongside the construction of a new Belgrade Concert Hall.

The program also entails the development of infrastructure and facilities for **EXPO 2027**, including a new National Stadium with 52,000 seats and a railway connecting the Expo site and national stadium with Belgrade Airport and the city center.

Serbia: Leap into the Future—Serbia EXPO 2027

Description	Number of projects	Value (EUR, mln)	Percent of 2024 GDP
1 EXPO (including infrastructure, aquatic center, railway Zemun - Airport - EXPO, etc)	6	1,290	1.7
2 Infrastructure	121	11,434	15.0
2.1. Roads (Morava Corridor, Vožd Karadjordje highway, Fruška Gora corridor, Preljina - Požega, etc)	13	5,247	6.9
2.2. Local Roads		2,000	2.6
2.3. Railways (Novi Sad - Subotica, Vrbas - Sombor, Niš - Dimitrovgrad, Niš - Brestovac etc)	11	1,982	2.6
2.4. Water, air and other infrastructure	97	2,205	2.9
3 Industrialization (Power plant Kostolac B3, oil pipeline, Kostolac wind farm, expansion of natural gas storage Banatski Dvor, irrigation, water treatment plants)	81	3,353	4.4
4 Modernization (Bio4 campus, innovation district, data center, training centers)	97	1,599	2.1
5 Integral development and tourism	18	127	0.2
Total	323	17,803	23.4

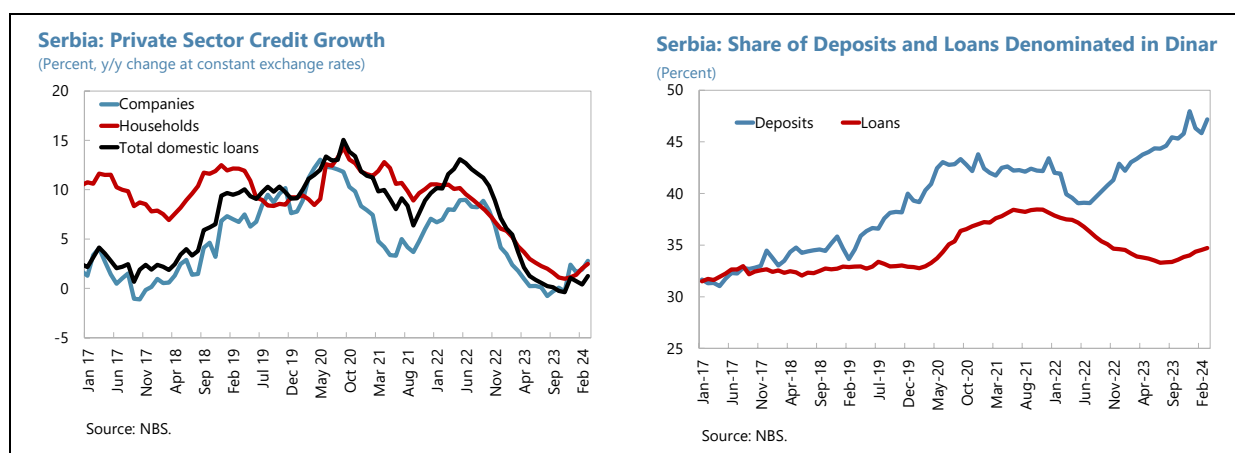
Source: National authorities.

7. Fiscal outcomes were good last year despite further ad hoc spending measures. The general government overall fiscal deficit fell to 2.2 percent of GDP in 2023, well below the 2.8 percent of GDP envisaged under the revised 2023 budget, despite additional ad-hoc transfers. VAT receipts were high, while wages and subsidies were lower than budgeted. Capital budget execution was close to target, but heavily backloaded. Favorable financing conditions and IFI loan disbursements allowed some pre-funding of the 2024 budget.

8. Energy SOE finances have improved. The electricity utility Elektroprivreda Srbije (EPS) and the natural gas utility Srbijagas benefitted from tariff hikes agreed under the program, lower energy

import prices, and improved supply conditions. With a good hydropower season and higher generation in coal-fired plants, EPS moved from emergency electricity imports to electricity exports, and achieved record profits of close to €800 million (1.2 percent of GDP). Srbijagas also made a profit.

9. The banking system appears sound, while credit growth remains sluggish (Figures 9, 10). Aggregate bank capital adequacy, liquidity, and profitability are high, and non-performing loans (NPLs) and stage 2 loans are low. At the same time, high interest rates, tight credit standards, and the expiry of various loan guarantee schemes have contributed to subdued credit growth. While Euroization remains high, deposit dinarization has increased over the past couple of years.



OUTLOOK AND RISKS

10. The baseline outlook remains favorable, with growth recovering and inflation falling, and with a sustainable external position, all with stepped up public investment through 2027.

- **Growth** is projected to increase to close to 4 percent in 2024, reflecting carryover from 2023 (1½ percentage points), rising private consumption as real wages increase and employment remains robust, and higher investment as FDI inflows remain high, the government increases capital spending, economic uncertainty declines, and inventories recover. Indeed, growth so far this year has been higher than expected. Growth is expected to reach its potential of about 4 percent over the medium term.
- **Inflation** is expected to fall soon to within the NBS's target band, before moving to the inflation target of 3 percent, reflecting past monetary policy tightening and falling energy and food inflation.
- With consumption and investment picking up, the **external** current account deficit is projected to widen to around 4 percent of GDP in 2024, before rising somewhat further over the medium term. Reserves are set to continue to increase and to move to within the IMF's recommended

reserve adequacy bands over the medium term (reserves are currently above the upper band), although they are projected to increase by less than before reflecting the new investment plans.

		2022	2023	2024	2025	2026	2027	2028	2029
Real GDP growth (percent)	<i>Current</i>	2.5	2.5	3.8	4.2	4.0	4.0	4.0	4.0
	<i>Program request</i>	2.5	2.3	3.0	4.5	4.0	4.0		
CPI, average (percent)	<i>Current</i>	12.0	12.4	4.6	3.1	3.0	3.0	3.0	3.0
	<i>Program request</i>	12.1	12.2	5.3	3.5	3.2	3.0		
CPI, eop (percent)	<i>Current</i>	15.1	7.6	3.6	3.0	3.0	3.0	3.0	3.0
	<i>Program request</i>	15.8	8.2	4.0	3.5	3.2	3.0		
Current account (percent of GDP)	<i>Current</i>	-6.9	-2.6	-4.1	-4.7	-5.0	-5.1	-5.2	-5.4
	<i>Program request</i>	-9.0	-8.4	-6.0	-5.3	-5.3	-5.3		

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

11. Risks to the outlook appear broadly balanced (Annex I). Downside growth risks include an escalation of regional or global geopolitical tensions, an abrupt global economic slowdown, and renewed global financial market instability. Geopolitical fragmentation risks could hamper investment but could also fuel nearshoring. On the domestic policy side, risks associated with stepped up public investments will need to be managed carefully, including construction cost pressures. Besides possible additional nearshoring, upside risks include higher growth.

PROGRAM PERFORMANCE

12. All program quantitative targets were met. All end-December 2023 quantitative performance criteria (QPCs) on the fiscal deficit, on current primary expenditure, and on NIR were met by substantial margins. Headline inflation rates in December 2023 and March 2024 were within the Inflation Consultation Clause (ICC) band. The standard continuous performance criteria and all end-December 2023 and end-March 2024 indicative targets (ITs) were also met. End-June QPCs and ITs are on track.

13. The structural reform agenda continues to progress, albeit with some delays:

- The expansion of the central electronic public wage and employment registry (Iskra) to cover the health sector was met (**end-January 2024 SB**). Iskra now covers around 80 percent of public sector workers.
- The SB on a new gas pricing system for the non-regulated sector (**end-January 2024 SB**) that was to become effective on May 1, 2024, was not met. While there was a broad agreement on the need to remove gas price controls for the non-regulated sector, it took longer than expected to agree on accounting solutions and on Srbijagas' compensation for the high gas and gas storage costs during the crisis. As a result of these discussions, Srbijagas restored the pre-crisis market-based pricing methodology with effect from May 1, 2024, and was compensated for the high gas and gas storage costs during the crisis by reducing liabilities to the Republic of Serbia. At the same time, it has become clear that further changes to the gas pricing system for the

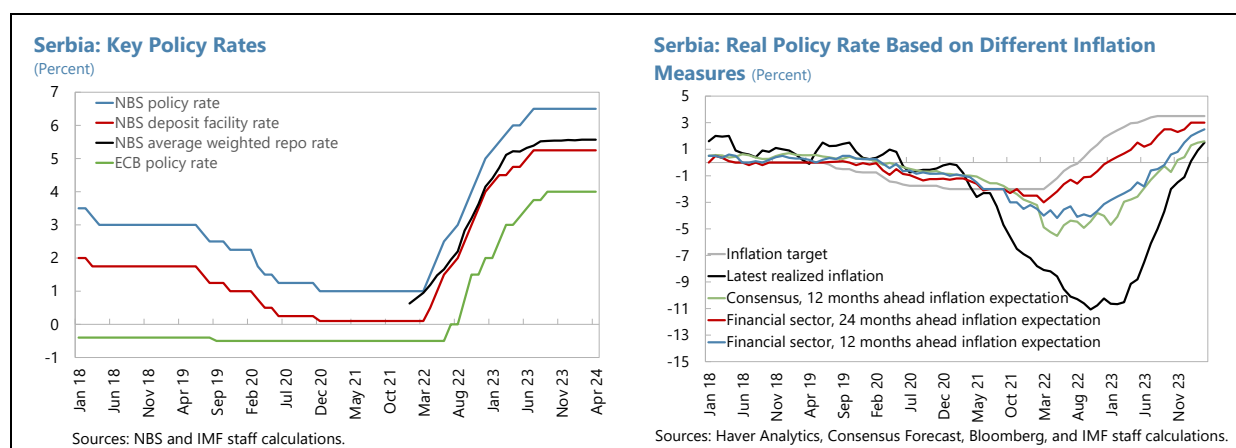
non-regulated sector are needed, focusing on the pricing margin, to help ensure the sustainability of Srbijagas' financial position in the long term, and a new SB is proposed (see ¶126).

- The SB on a restructuring plan for EPS (**May 1, 2024 SB**) was completed with a short delay on May 31, 2024 on account of interruptions from a cyber-attack on EPS IT systems.
- EPS' work on a new electricity pricing system for the non-regulated sector (**end-August 2024 SB**) is progressing.
- The preparation of a draft bylaw under the new SOE governance law, which will set out regulations for determining public service obligations incurred by SOEs when implementing broader public sector goals (**end-September 2024 SB**), is making progress and is being supported by IMF technical assistance.

POLICY DISCUSSIONS

A. Monetary Policy—Securing Sustainable Disinflation

14. It was agreed that monetary policy is appropriately tight. The NBS has kept its policy rate at 6.5 percent since July 2023, as inflation and inflation expectations have fallen. As a result, real ex ante policy rates are now positive and above the estimated neutral rate by most measures, and inflation momentum has improved.



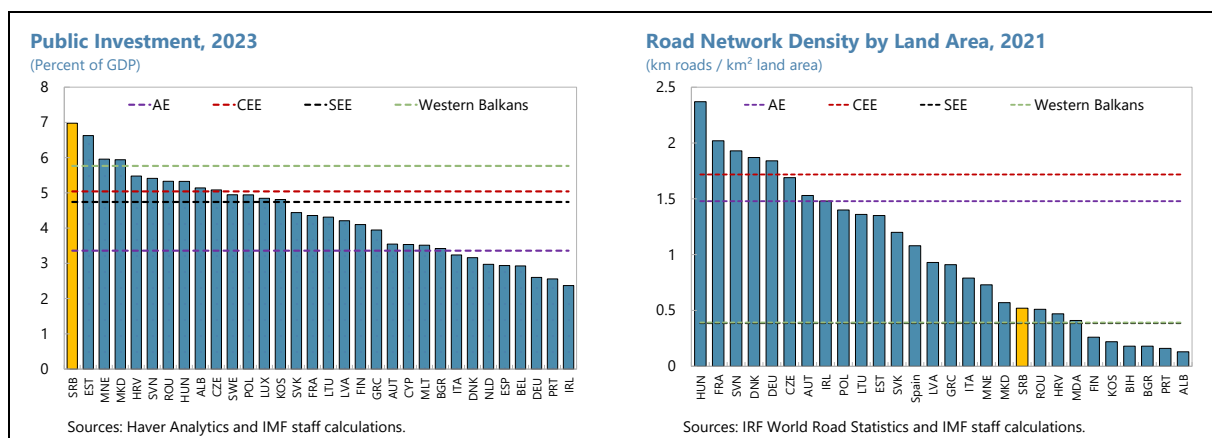
15. It was also agreed that monetary policy should remain tight until disinflation is safely secured. Staff argued that disinflation could be considered secured only once inflation expectations are firmly within the NBS's inflation target band and headline and core inflation have fallen close to the upper bound of the band, given risks to disinflation from an uncertain external environment, a tight labor market, and fiscal spending plans. The authorities are closely monitoring euro area inflation developments and ECB policy rate actions given the high degree of euroization and the importance of the ECB rate in Serbia's monetary transmission mechanism.

16. The de-facto stabilized exchange rate remains a key anchor, although staff indicated that greater exchange rate flexibility over time could be considered. A gradual return to a more flexible exchange rate over the medium term would be more consistent with the official inflation targeting regime and would provide an important shock absorbing role. The authorities emphasized the importance of a stable exchange rate for macroeconomic stability and private sector confidence, a view echoed in meetings with private sector counterparts.

B. Fiscal Policy—New Investment and Growth Plans

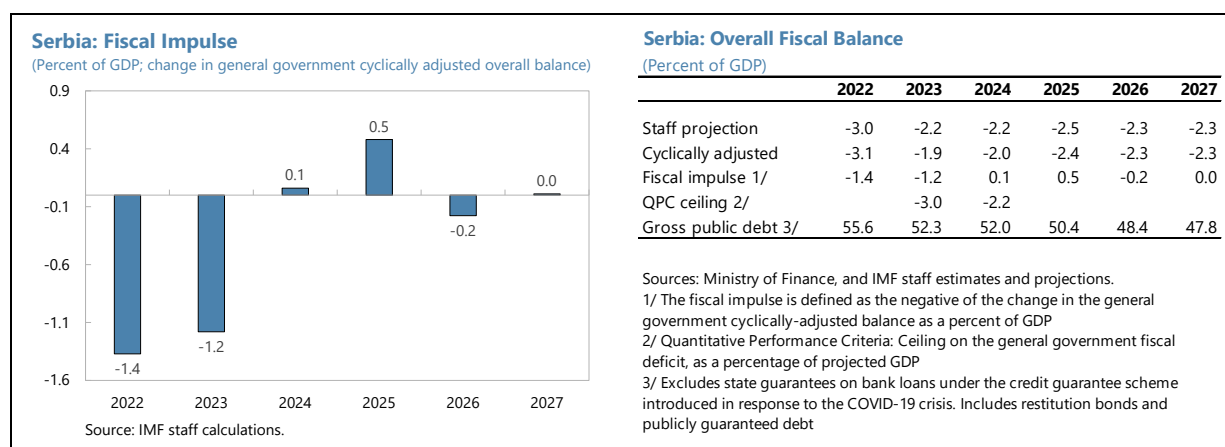
17. The authorities remain committed to their 2024 fiscal program targets. The deficit target of 2.2 percent of GDP is consistent with a broadly neutral fiscal impulse and with falling public debt. Although scheduled excise tax increases were delayed, revenues are performing well, with VAT and social security contributions especially high. Energy SOEs are not expected to require any liquidity support this year. And, beyond a small increase in the new birth grant program, announced in January 2024, and yet to be implemented, the authorities intend to refrain from ad hoc spending measures.

18. The authorities plan on higher deficits over 2025–27 than envisaged under the fiscal rule to allow for higher investment under their development plan (see Box 1). The revised deficit targets of about 2½ percent of GDP for 2025 and 2¼ percent through 2027—up from 1½ percent under the fiscal rule—were agreed with staff. These new targets make room for infrastructure projects under the *Leap into the future—Serbia EXPO 2027* development plan. While infrastructure gaps exist, staff urged caution over stepped-up investment spending from already high levels, which could, especially under a tight labor market, lead to steep project cost increases. Staff also called for careful project prioritization and for public investment management and transparency reforms to help ensure project quality and manage risks (see below), considering that government-to-government agreements circumvent the traditional public procurement process. The fiscal deficit element of the rule due to be introduced in 2025 is being postponed to allow for higher investments, which risks undermining the effectiveness of the fiscal rule. That said, staff acknowledged that the new deficits appear consistent with macroeconomic stability and the pension and wage elements of the fiscal rule remain in place. Staff also called on the authorities to clearly communicate their fiscal plans and fiscal deficit and debt objectives.



19. Public debt continues to fall under the new higher deficit path, and staff assesses debt as sustainable. The latest Debt Sustainability Assessment (DSA) findings suggest that debt remains sustainable. Public and publicly guaranteed debt should fall to about 47 percent by 2029 (Annex II), higher than under the 2nd review as additional public investment under the *Leap into the future—Serbia EXPO 2027* development plan implies higher fiscal deficits and a further accumulation of contingent liabilities.

20. Debt management continues to address fiscal financing risks. Large external financing inflows and robust domestic issuances at longer maturities have allowed a further build up in large Treasury cash reserves, which both staff and authorities saw as a welcome buffer in uncertain times. Domestic debt issuance in 2024 will continue to focus on longer-term dinar denominated benchmark bonds, to support higher non-resident participation, increase the proportion of dinar debt, and continue to lengthen average debt maturities. The debt management strategy also envisages the issuance of bonds on international markets when conditions are favorable. Sizeable borrowing from international and bilateral development partners continues to finance priority capital investment projects.



21. Staff and the authorities agreed that additional public investment management (PIM) reforms were needed given the stepped-up investment budget (MEFP ¶19–20). Reforms will

focus on public investment transparency, which is critically important, and will also encompass project preparation, selection, and implementation, supported by IMF technical assistance.

- Since the lack of comprehensive information on total costs of various public investment projects in official documents impedes public scrutiny of their value-for-money, it was agreed that the authorities will include in their annual fiscal strategy documents a new table reporting on each project (excluding security and defense) the following: expenditure to date, spending estimates for the current year, budgeted amounts for the budget year, expenditure projections for the two outer years, and estimated total project cost (proposed **new end-November 2024 SB**). Disclosing this information under a new accelerated timeline underscores the authorities' commitment to increase the transparency of capital investment projects, as outlined in the action plan for improving the medium-term budget framework adopted in 2023.
- For all projects above €20 million (except where government-to-government contracts prescribe confidentiality), ministries will publish appraisal documents. Moreover, for projects included in the *Leap into the Future—Serbia EXPO 2027* development plan, the information on the website [Srbija 2027](#) will be expanded.
- Progress is being made in implementing the new Decree on Capital Projects (adopted in September 2023), which seeks to establish a single project pipeline for all ongoing and future investment projects. All necessary secondary legislation, rule books, and forms have been adopted and broader implementation of the new Decree is taking place.
- The new Public Investment Management Information System (PIMIS), operational from June 1, 2023 is being upgraded to make it consistent with the Decree on Capital Projects. In April 2024, the authorities sent a circular to all line ministries regarding the upgraded version of PIMIS and their obligations thereon. The expansion of PIMIS's usage to the national level by mid-2024 is on track, and local and provincial capital projects are scheduled to be included into PIMIS in 2025.
- The Public Procurement Office will continue its public reporting, including on procedures that were exempted from the regular procurement regime.
- A carefully phased approach to investment will be needed to help contain construction costs. Staff called for carefully monitoring of such costs.

22. The authorities continue to press ahead with broader fiscal structural reforms:

- **Medium-term budgeting (MTB), fiscal risk management, and fiscal data.** MTB reforms are focusing on strengthening baseline budget estimates. The authorities are working on improving and expanding coverage of government finance statistics. Related adjustments to the parameters of the fiscal rule will be considered in 2024:H2 (**end-November 2024 SB**, MEFP ¶16).
- **Tax administration** (STA, MEFP ¶22). The recent tender for a commercial off-the-shelf tax IT system (COTS) was unsuccessful. The authorities remain committed to procuring a COTS and are

considering next steps with World Bank TA. The unit evaluating tax non-compliance of high-net-worth individuals issued a tax assessment in their first case. And VAT gap analysis and risk management improvements continue. Looming staff shortages because of retirements and administrative rigidities in hiring remain a critical risk to tax collection. Responding to staff concerns, the STA is intensifying its reform efforts in the areas of HR planning, management, and recruitment, but staff cautioned that further efforts would likely be needed (Annex IV). Fund TA is continuing in this important area.

- **Public wage and employment registry.** The central public wage registry Iskra is being expanded further to include indirect beneficiaries of local self-government by 2024:Q4, and remaining public employees (Ministries of Defense/Internal Affairs, Security Information Agency and higher education institutions) by 2027. The Iskra registry will play an essential role in designing a public sector wage reform, which is becoming increasingly important because of mounting difficulties in attracting essential skilled employees such as engineers, IT specialists, and managers to the public sector.¹

C. Energy Sector Policies—A Focus of the Program

Electricity Sector

23. EPS finances have improved, and further reforms to its pricing systems aim to underpin the company’s financial sustainability and support investment needs. EPS is developing a new electricity pricing system for the non-regulated sector (mostly firms), to become effective November 1, 2024 (**end-August 2024 SB**). Starting from May 1, 2024, the authorities replaced the fixed electricity price for the non-regulated sector, introduced during the energy crisis, with pricing that follows pre-energy crisis market-based methodology. As a result, average EPS electricity supply tariffs fell reflecting the decline in regional electricity prices. Should regional electricity prices decline further, there is a risk that average electricity tariffs may fall below cost-recovery levels absent higher tariffs for the regulated sector (mostly households). The authorities are, therefore, developing a holistic electricity pricing system for regulated and non-regulated sectors that aims to address these risks.

24. The EPS restructuring plan is an attempt to bring tangible changes to the company’s operations.

- The plan was developed by EPS management and the Ministry of Energy with input from consultants and specifies reform priorities in the areas of organizational and financial restructuring, human resources, procurement, project development, reporting, risk management and the environment.
- It was agreed that the envisaged restructuring would take time to implement given the many previous failed attempts and the complexity of the reforms. Without pursuing restructuring and

¹ See “Annex III. Public Sector Compensation” in [IMF Country Report No. 2023/433](#), pp. 51-52.

introducing a new electricity pricing system, EPS would likely not manage to finance the new major energy investments and would need support from the budget for investment financing. Thus, developing a holistic electricity pricing system for regulated and non-regulated sectors is pivotal to allow EPS to pursue the new investment cycle, achieve energy security, deliver on green agenda goals, and reach a sustainable financial position in the long term.

- Continued governance reforms in EPS are a precondition for successful EPS restructuring. While the new EPS supervisory board, in place since June 2023, has appointed several permanent executive directors, it has yet to appoint a permanent CEO. Pressing ahead with filling the remaining executive positions is fundamental for making tangible changes in EPS operations and implementing the EPS restructuring plan.

25. Governance reforms of the distribution company Elektrodistribucija Srbije (EDS) should also be stepped up, especially given ongoing large-scale investments in the distribution network financed by international loans under sovereign guarantees.

Natural Gas Sector

26. Srbijagas agreed to finalize its new gas pricing methodology to support its long-term financial sustainability and its investment needs. After removing gas price controls for the non-regulated sector on May 1, gas prices for this consumer segment (mostly firms) returned to the pre-energy crisis gas pricing methodology, and gas prices fell as a result. Non-regulated tariffs now reflect gas import costs plus an average margin of about 5 percent. To ensure the long-term financial sustainability of Srbijagas, a higher average margin is likely needed, especially given large infrastructure investments needs. The authorities agreed to review the margin and to increase it as needed. This review will help update the pricing methodology for the non-regulated sector, to come into effect on August 1, 2024 (proposed **new end-July 2024 SB**).

27. To bolster its energy security, Serbia has diversified its gas import routes and plans to ramp up its domestic gas storage facilities.

- The Serbia-Bulgaria gas interconnector, completed in late 2023, allows Serbia to access gas from Azerbaijan and LNG terminals in Greece and Türkiye. While the interconnector is currently at trial stage with limited capacity, the full capacity of the pipeline on the Serbian side is 1.8 bcm a year (about 60 percent of Serbia’s current annual gas consumption). Serbia also signed a contract with Azerbaijan for the delivery of 0.4 bcm of natural gas by the end of 2024.
- Since late 2022, the authorities have rented natural gas storage facilities in Hungary to supplement domestic storage. Going forward, the authorities plan to expand domestic gas storage capacity, form strategic reserves, and develop a system for the management of such reserves.

D. Financial Sector Policies—Maintaining Continued Resilience

- 28. Bank prudential indicators remain sound but continued vigilance is warranted.** The NBS continues to undertake regular stress tests of the banking sector, which have to date indicated that Serbian banks remain resilient to a variety of macroeconomic shocks.
- 29. The NBS plans on allowing remaining forbearance measures, adopted during the energy crisis, to expire as scheduled.** The NBS continues to phase out the exceptional accounting treatment of unrealized losses on bank holdings of government bonds. The NBS also plans to drop mortgage interest rate caps at end-2024, to be accompanied by monitoring its impact on borrowers. Loans to financially distressed natural persons, rescheduled in 2022–23, will be assessed for reclassification from IFRS9 stage 2 to stage 3 if necessary.
- 30. Strengthening of the prudential framework continues, in consultation with financial sector stakeholders.** The new foreign currency net stable funding ratio (FX NSFR) requires a phased approach to implementation to allow time to assess its potential impact on bank funding and credit supply.
- 31. Initiatives to develop credit markets continue.** The first placements under the new Corporate Bond Issuance Program are expected soon, offering a complement to the prevailing bank-based model of corporate finance. Reforms to improve the legal environment for debt resolution and to ensure more judicial and tax certainty for lenders could also help with credit market development.
- 32. Serbia is making progress in strengthening its AML-CFT framework.** The latest MONEYVAL Enhanced Follow-up Report assessed Serbia to be fully or largely compliant with all 40 FATF recommendations.² The authorities also enacted a new *Law on Central Records of Beneficial Owners* to strengthen beneficial ownership reporting, data management, and enforcement. The NBS continues its enforcement of AML/CFT regulations through on- and off-site inspections of financial institutions, including assessing transactions by non-residents from high-risk foreign countries. Reform plans for 2024 include: (i) updating the national risk assessment (NRA); (ii) updating the national AML-CFT strategy and action plan to reflect the recent peer assessment and NRA; and (iii) preparing for the mutual evaluation process for the MONEYVAL evaluation round.

E. Governance and Other Structural Policies

- 33. Staff called for continued efforts to implement the new landmark SOE governance law, given the importance of bolstering SOE performance.** The new SOE governance law, which is aligned with the OECD Guidelines on Corporate Governance of SOEs, is set to take effect from mid-September 2024, while some transition provisions last until early 2025. The authorities are working closely with international experts to prepare secondary legislation that will allow the law to take

² [Serbia: 5th Enhanced Follow-up Report](#) (December 2023), MONEYVAL.

effect, including an important bylaw on public service obligations (**end-September 2024 SB**). Yet addressing staffing shortages at the Ministry of Economy is urgently needed to allow the relevant unit to handle its greatly expanded responsibilities under the new law.

34. Staff welcomed the expansion of the protection program for energy-vulnerable households. The number of eligible households increased by about 100,000 to around 170,000 by end-2023 after the relevant decree was amended to include pensioners on minimum pensions and recipients of means-tested social assistance programs. The authorities plan to digitize the procedure for obtaining energy-vulnerable customer status by end-2024.

35. The NBS is implementing the recommendations from the safeguards report of June 2023. In particular, the internal regulations for the NBS Council and its Audit Committee have been updated to provide for external subject matter expertise (when needed) and work is progressing on strengthening the risk management function and updating the Internal Audit Charter.

PROGRAM MODALITIES

36. The authorities intend to continue treating the SBA as precautionary (Table 11). With supportive external conditions, gross international reserves (GIR) have increased further. The authorities do not plan to make a purchase after completion of this review (SDR 316.46 million or about Euro 399.8 million), increasing available, undisbursed balances including the 2nd review tranche to SDR 632.99 million or about Euro 799.7 million.

37. The program remains fully financed, and Serbia's capacity to repay the Fund is assessed to be adequate. Firm official financing commitments are in place for the next year with good prospects thereafter, and the authorities have demonstrated access to international capital market financing (Table 5a). Capacity to repay metrics remain strong in terms of exports and reserves (Table 5b). Fund credit outstanding would reach a maximum of 3.1 percent of GDP, and 8.5 percent of gross reserves in 2024, under the baseline, with purchases of total authorized access, including precautionary tranches. Debt service to the Fund would peak at 1.7 percent of exports of goods and nonfactor services in 2027 before declining.

38. The authorities have requested modifications of program performance criteria and indicative targets (MEFP Table 1a):

- Raise the NIR floor to be consistent with GIR of 100 percent of the ARA metric (end-June 2024 QPC, and end-September 2024 IT);
- Modification of the Inflation Consultation Band (+/- 1.5 ppt around the central inflation projection) in line with latest projections (end-June and end-September 2024 ITs).

39. New proposed structural benchmarks complete the reform agenda on energy pricing, and enhance the transparency of public investments (MEFP Table 2):

- A new structural benchmark on updating the Srbijagas methodology for gas price calculation for the non-regulated sector that will come into effect on August 1, 2024 (**end-July 2024 SB**).
- A new structural benchmark on including in the Revised Fiscal Strategy 2025 with Projections for 2026 and 2027 a table that incorporates the following information for all budgeted public investment projects apart from those related to defense and security: project expenditure to date; spending estimate for current year, budgeted amount for the budget year; expenditure projections for two outer years; and estimated total project cost (**end-November 2024 SB**).

STAFF APPRAISAL

40. Serbia continues to make good progress under its Fund-supported SBA program.

Growth is increasing, unemployment is at a record low, and inflation is falling towards target. With a narrower current account deficit and still-high FDI flows reserves have reached record highs. Fiscal consolidation has succeeded in lowering public debt further. And, with lower global energy prices and sizable tariff increases, fiscal risks from energy SOEs have subsided.

41. The current tight monetary policy stance is consistent with ongoing disinflation. The NBS inflation target is within reach. It is important not to loosen monetary policy prematurely given remaining inflation risks, including from the tight labor market. The high degree of Euroization and the importance of the ECB rate in the monetary transmission mechanism warrant holding off on rate cuts until the ECB starts to lower rates.

42. With higher public investment and the postponement of the deficit element of the fiscal rule, a prudent fiscal stance remains a priority. The new fiscal deficit path is higher than under the program and fiscal rule to allow room for higher investment under the authorities' ambitious new development plan. Public investment projects should be carefully prioritized and phased in, however, to help contain construction costs in a tight labor market. At the same time, the new fiscal path remains consistent with falling and sustainable public debt, though it could increase inflationary pressures, challenge project implementation capacity, and weigh on external buffers. These risks warrant close monitoring.

43. Greater transparency and broader public investment reforms are critically important to ensure that planned higher investment spending is cost effective. Increasing investment transparency to the public, enabling centralized project monitoring by the Ministry of Finance through PIMIS, and fully operationalizing the public investment management framework will also help underpin investment quality and cost control.

44. Pressing ahead with broader fiscal structural reforms will also help support fiscal performance. Progress on fiscal risk management is welcome. Medium-term budgeting reforms remain a priority. Further progress with expanding the central public wage registry will also help with much needed public sector wage reform going forward. Tax administration reforms should be

underpinned by accelerated hiring of skilled staff to ensure adequate staffing and to protect government revenue collection.

45. Energy sector reforms have lowered sector risks and remain an important focus of the program. The removal of energy price controls for the non-regulated sectors is welcome. This should be followed by further revisions to the electricity and gas pricing systems to ensure the financial sustainability of energy SOEs and their ability to finance much-needed investment projects. Energy SOE governance reforms and restructuring need to be stepped up. Progress with diversifying natural gas supply routes is welcome.

46. Broader SOE reforms remain a priority given the important role of SOEs in the economy and the need to improve SOE governance. Close collaboration with international experts to prepare the necessary secondary legislation for the landmark SOE governance law is welcome. At the same time, staffing at the Ministry of the Economy needs to be increased to meet the Ministry's expanded responsibilities under the new laws.

47. The financial sector appears sound, yet continued vigilance is needed. Temporary forbearance measures should be allowed to lapse as scheduled and the impact on bank balance sheets be monitored. Rigorous stress testing by the NBS should continue.

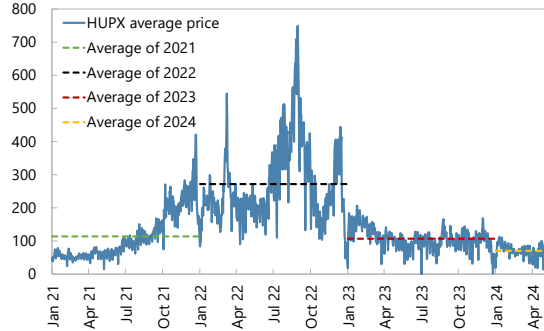
48. Staff supports the authorities' request for completion of the 3rd Review under the SBA. Staff also supports the authorities' request for new structural benchmarks and the modification of performance criteria, indicative targets, and the inflation consultation band.

Figure 1. Serbia: Regional Import Prices, 2021–24^{1/}

With supply concerns abating, regional electricity prices ...

Hungarian Power Exchange Electricity Average Price

(EUR/MWh)

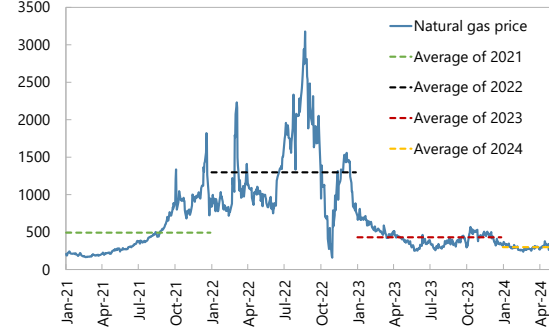


Source: HUPX.

... the reference price for natural gas ...

Dutch TTF Natural Gas Price

(EUR/1000 Cubic Meters)

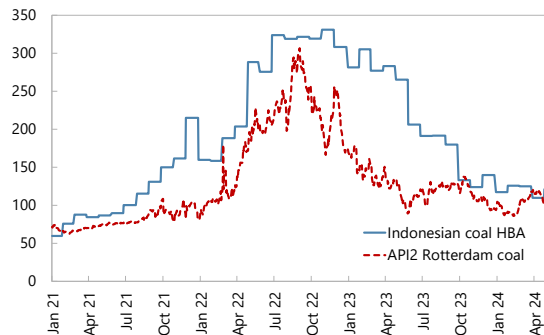


Source: Bloomberg.

... and coal prices have fallen amid easing volatility.

Indonesian and Rotterdam Coal Prices

(USD/metric tonne)

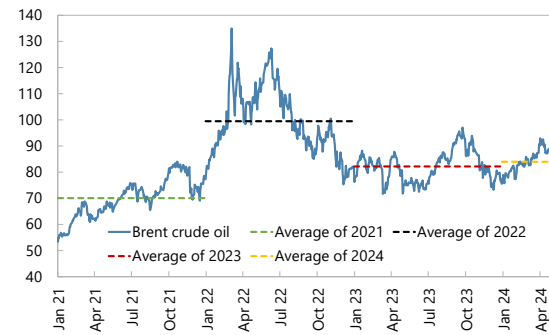


Source: Bloomberg.

Crude oil prices have declined from their peak.

Brent Crude Oil Price

(USD/Barrel)

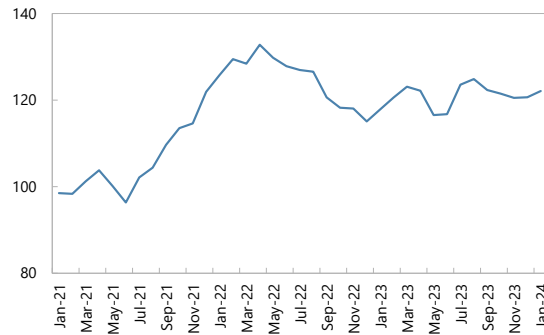


Source: Bloomberg.

International food prices have stabilized, albeit at a higher level ...

International Commodity Food Price Index

(Index, 2016=100; as of January 2024)

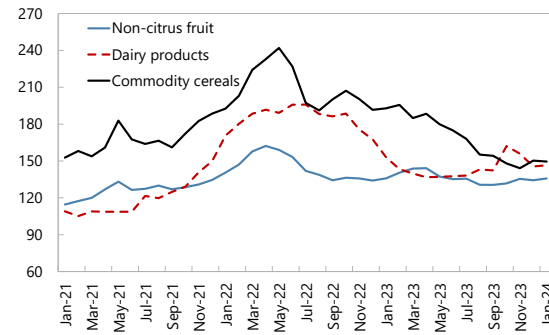


Source: IMF GAS database.

... yet without benefitting the prices of some of Serbia's key agricultural exports.

Key International Food Prices

(Index, 2016=100; as of January 2024)



Source: IMF GAS database.

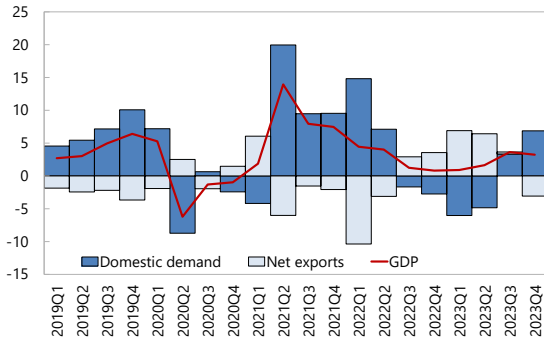
^{1/} Serbia's energy imports mainly follow European prices. It also imports coal from Indonesia.

Figure 2. Serbia: Real Sector Developments

Growth has picked up with domestic demand taking over from net exports as the main growth driver.

Serbia: Contributions to Growth

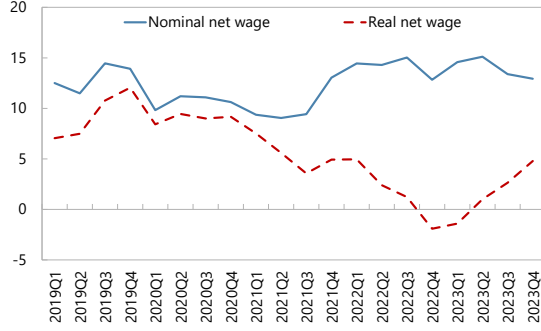
(Percent, y/y)



Real net wage growth has picked up with declining inflation and robust nominal wage increases.

Serbia: Change of Net Wages

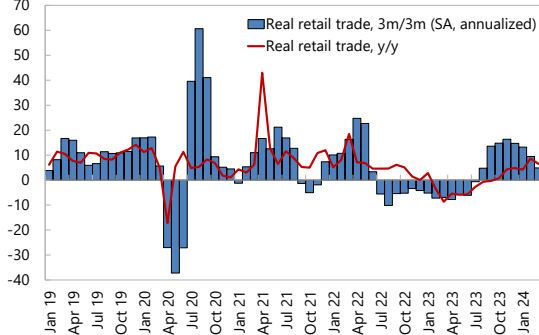
(Percent, y/y)



Activity in the retail sector has improved ...

Serbia: Real Retail Trade

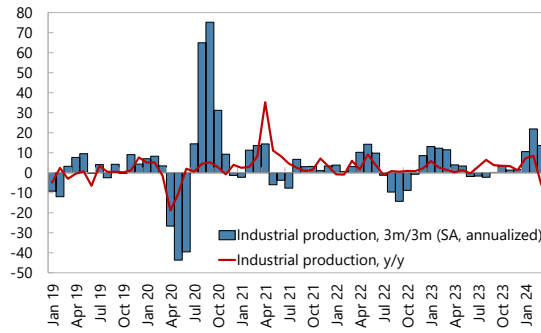
(Percent; as of March 2024)



... and industrial production has gathered strength ...

Serbia: Industrial Production

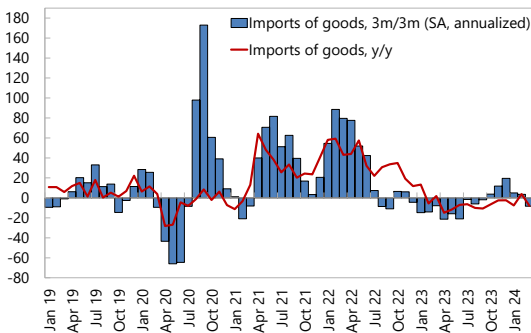
(Percent; as of March 2024)



... yet import demand has remained sluggish.

Serbia: Imports of Goods

(Percent; as of March 2024)



Export growth has begun to recover as the euro area recovers.

Serbia: Exports of Goods and Euro Area PMI

(Percent; as of March 2024)

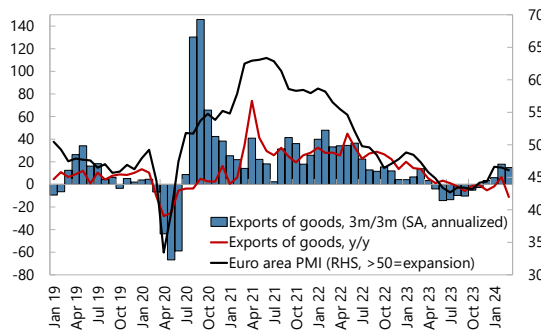
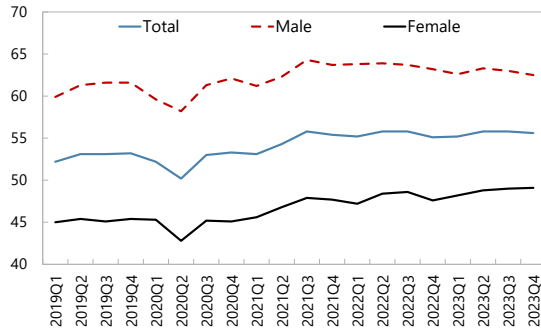


Figure 3. Serbia: Labor Market Developments

Labor force participation has improved, especially for females.

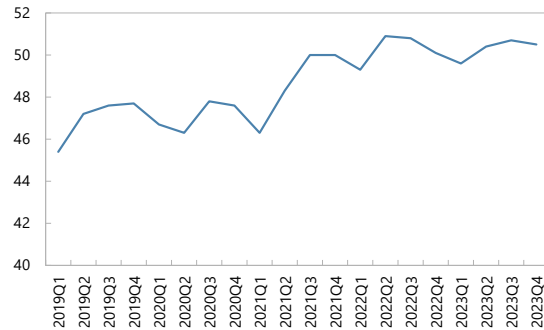
Serbia: Labor Participation Rate
(Percent; 15 year-old and more)



Source: SORS.

Employment has stabilized ...

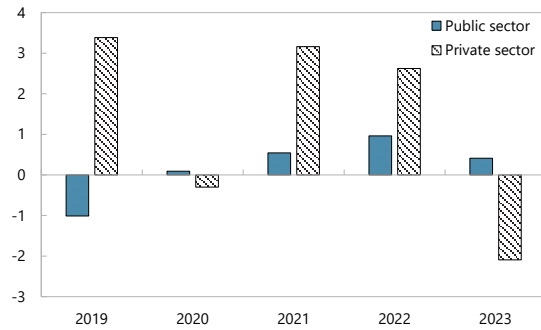
Serbia: Employment Rate
(Percent; 15 years old and more)



Source: SORS.

... as growth in private sector employment has weakened.

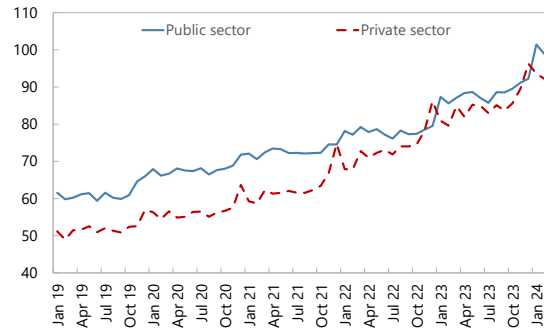
Serbia: Employment Growth
(Percent)



Sources: SORS and IMF staff calculations.

Strong recent increases in public sector wages have put them back above private sector compensation.

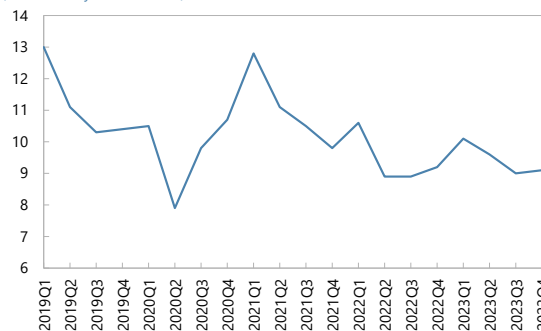
Serbia: Average Monthly Real Net Wages
(Thousands of Dinars)



Sources: SORS and IMF staff calculations.

Unemployment is near historic lows ...

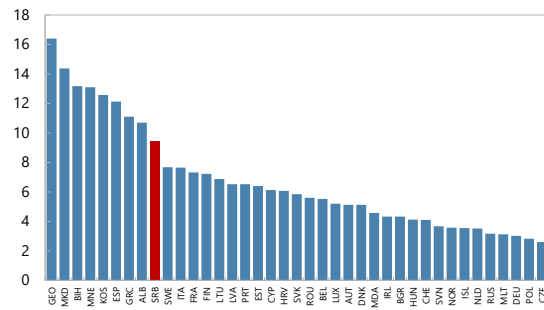
Serbia: Unemployment Rate
(Percent; 15 year and more)



Source: SORS.

... putting it below most Western Balkan peers but above the levels prevailing in the EU.

Unemployment Rate
(Percent; in 2023)



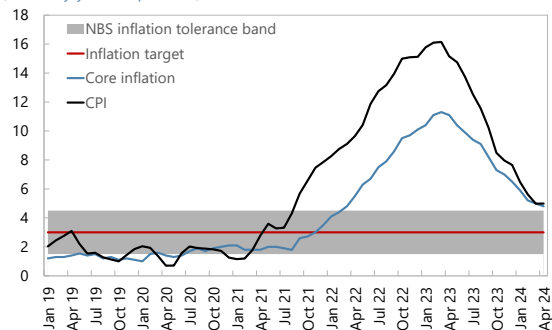
Note: KOS and MKD show 2022 data.
Source: Haver Analytics.

Figure 4. Serbia: Inflation and Monetary Policy

Headline and core inflation are falling ...

Serbia: Inflation

(Percent, y/y; as of April 2024)

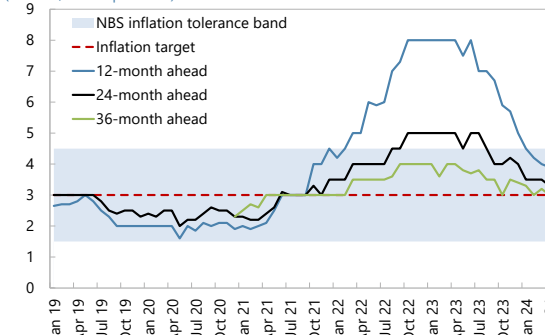


Sources: NBS and IMF staff calculations.

... and inflation expectations are declining.

Serbia: Financial Sector Inflation Expectations

(Percent; as of April 2024)

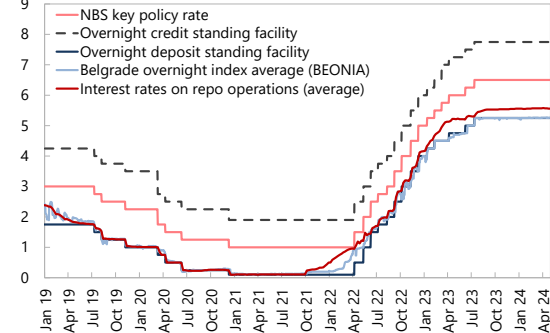


Sources: NBS and IMF staff calculations.

Monetary policy rates have been kept on hold since July 2023 ...

Serbia: Interest Rates

(Percent)

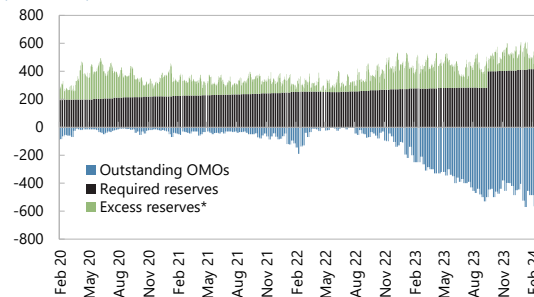


Sources: NBS and Haver Analytics.

... while excess liquidity is being absorbed by reserve requirements and open market operations.

Serbia: Central Bank Deposits and OMOs

(RSD billions)



Note: * includes "current account of banks" and "account of deposited liquid resources".

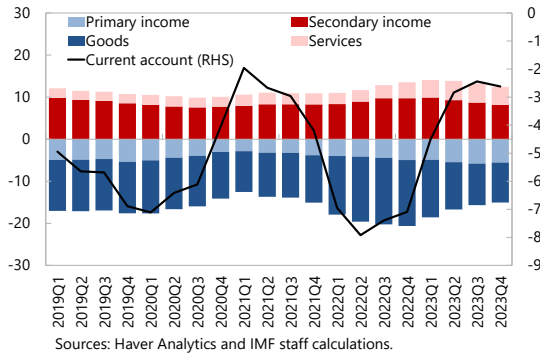
Sources: NBS and IMF staff calculations.

Figure 5. Serbia: Balance of Payments

The current account deficit has narrowed sharply ...

Serbia: Current Account Balance

(Percent of GDP; 4Q moving sum)

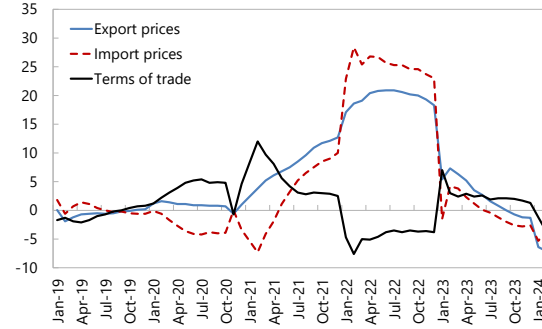


Sources: Haver Analytics and IMF staff calculations.

... reflecting improved terms of trade from lower energy prices ...

Serbia: Terms of Trade

(Percent, y/y change)

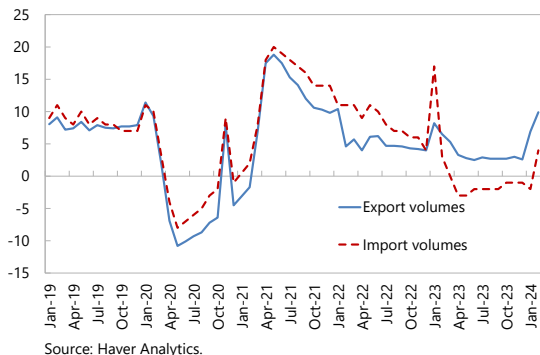


Source: Haver Analytics.

... resilient exports, and compressed imports.

Serbia: Trade Volumes

(Percent, y/y change)

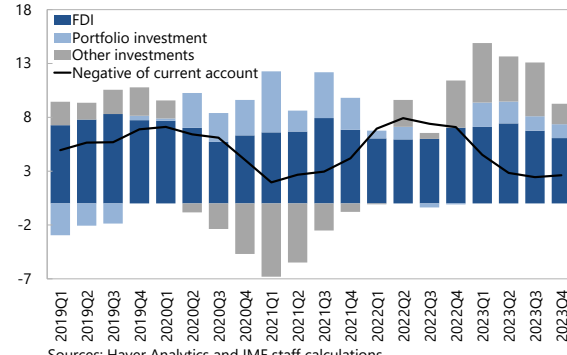


Source: Haver Analytics.

FDI remains robust, more than covering the current account deficit ...

Serbia: Financial Account Composition

(Percent of GDP; 4Q moving sum)

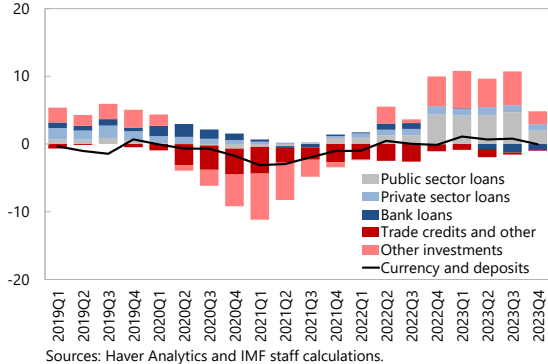


Sources: Haver Analytics and IMF staff calculations.

... while official borrowing and intracompany lending have bolstered other investment.

Serbia: Other Investments

(Percent of GDP; 4Q moving sum)

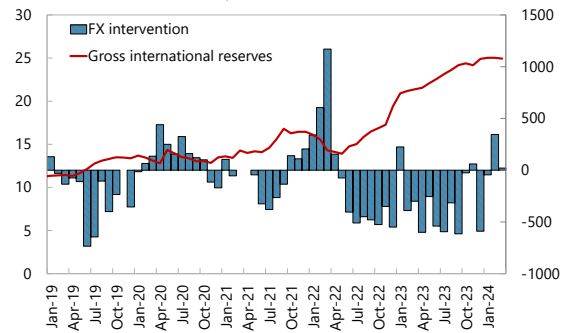


Sources: Haver Analytics and IMF staff calculations.

Foreign reserves have reached historic highs.

Serbia: Reserves and Interventions

(Euro billions, LHS; Euro millions, positive means FX sale, RHS)



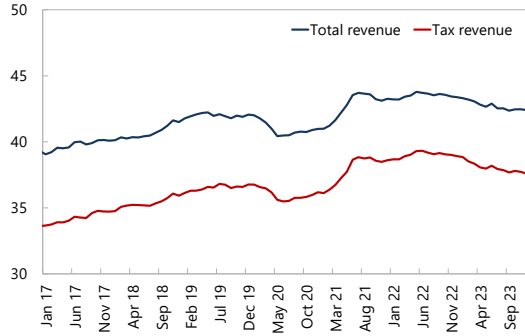
Sources: NBS and Haver Analytics.

Figure 6. Serbia: Fiscal Developments

Revenue collection remains quite strong and ahead of expectations.

Serbia: Total Revenue Composition

(Percent of GDP, 12M sum)

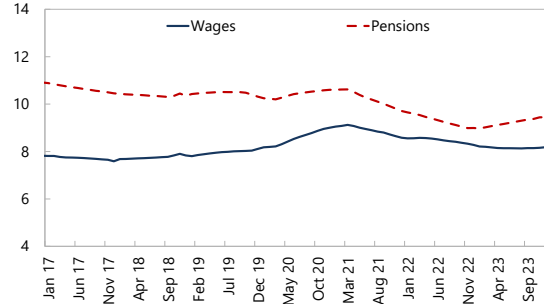


Sources: Ministry of Finance and IMF staff calculations.

As a share of GDP, public sector wages have declined while pensions have ticked up.

Serbia: Wages and Pensions 1/

(Percent of GDP, 12M sum)



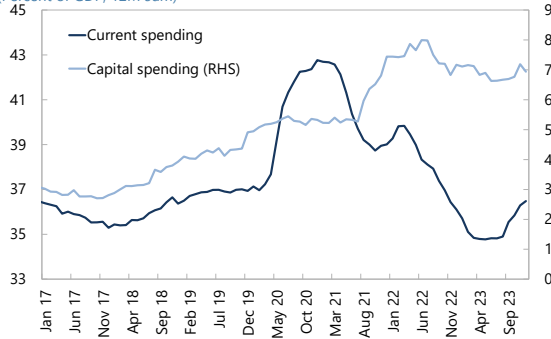
Sources: Ministry of Finance and IMF staff calculations.

1/ Excludes employers' contributions

Public capital spending remains high.

Serbia: Current and Capital Spending

(Percent of GDP, 12M sum)

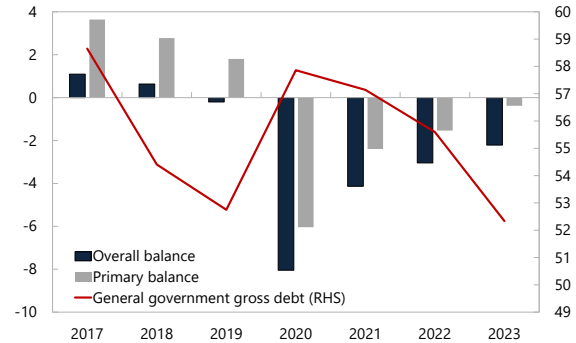


Sources: Ministry of Finance and IMF staff calculations.

The fiscal deficit and public debt have declined since the pandemic spike.

Serbia: Fiscal Balance and Debt

(Percent of GDP)



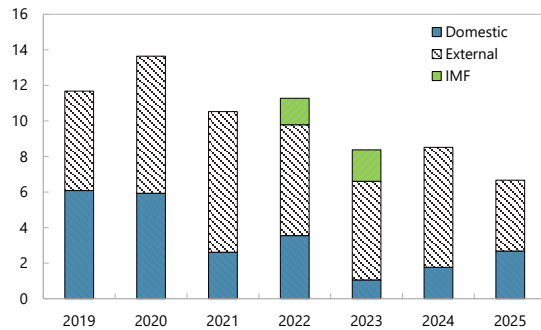
Sources: Ministry of Finance and IMF staff calculations.

Figure 7. Serbia: Fiscal Financing

The proportion of financing from domestic sources is expected to increase modestly.

Serbia: Sources of Financing

(Percent of GDP)

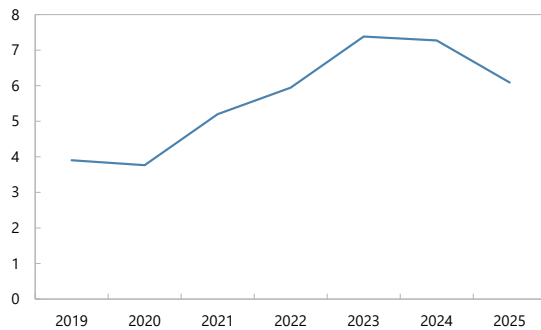


Sources: Ministry of Finance and IMF staff calculations.

Government deposits remain high and are an important buffer.

Serbia: Stock of Government Liquid Deposits

(Percent of GDP)

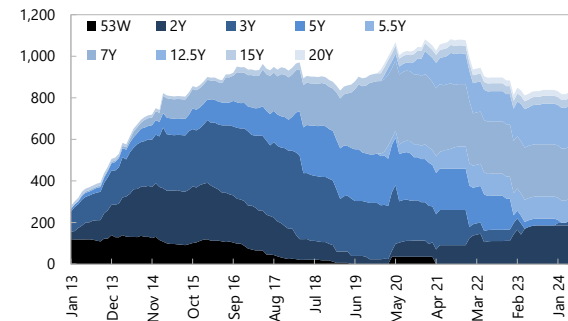


Sources: Ministry of Finance and IMF staff calculations.

Most domestic debt is issued as securities with increasing average maturity.

Serbia: Domestic Debt Stock 1/

(RSD billions)



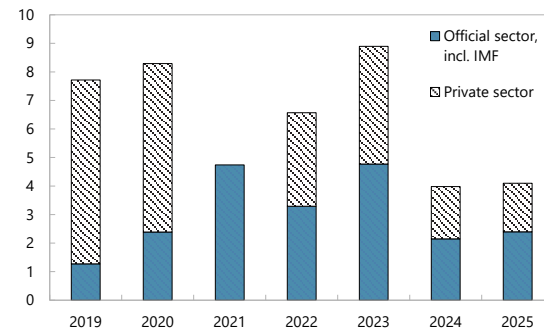
Source: NBS.

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

A significant share of external financing is expected to come from the official sector.

Serbia: External Financing

(Percent of GDP)



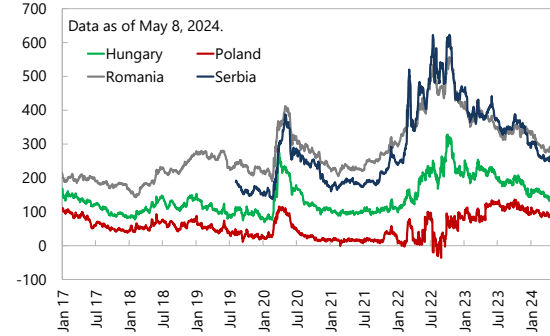
Sources: Ministry of Finance and IMF staff calculations.

Figure 8. Serbia: Financial and Exchange Rate Developments

Serbia's EMBIG spread has narrowed further ...

Sovereign Risk - Euro EMBIG Spreads

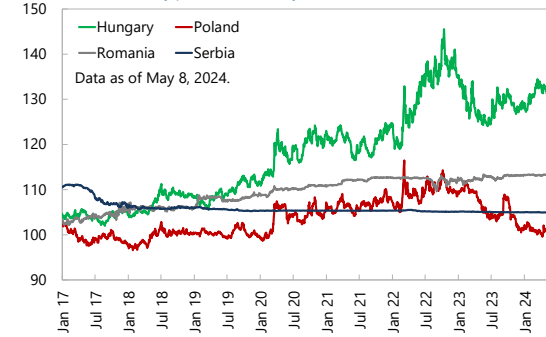
(Basis points)



The NBS maintains a de-facto stabilized exchange rate regime ...

Exchange Rates

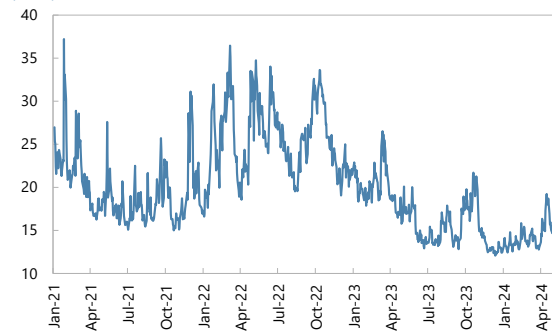
(Index, national currency per Euro, end-May 2013=100)



... while global risk aversion remains subdued.

CBOE Volatility Index (VIX)

(Index)



... with FX interventions mostly on the buying side since the large FX sales at the start of Russia's war in Ukraine.

Serbia: Reserves and Interventions

(Euro billions, LHS; Euro millions, positive means FX sale, RHS)

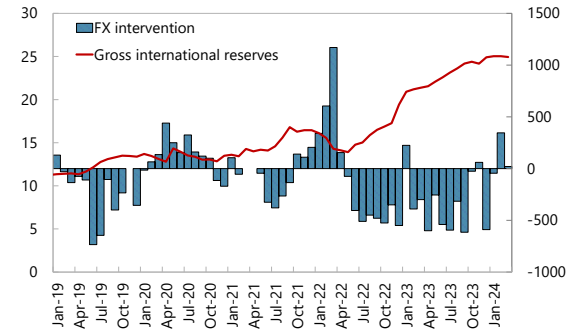
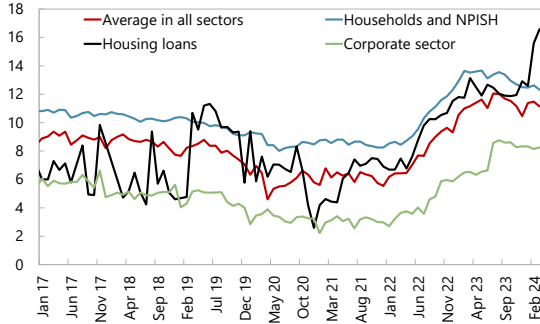


Figure 9. Serbia: Selected Interest Rates and Credit Development

Lending rates for dinar loans ...

Serbia: Bank Lending Interest Rates (RSD)

(Percent)

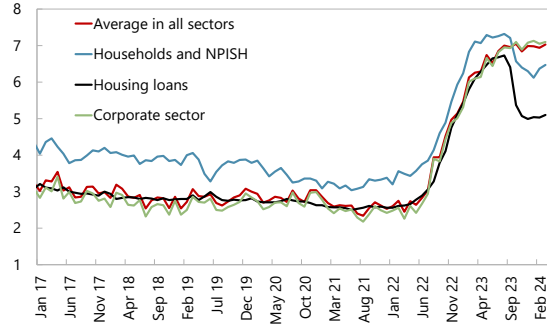


Source: NBS.

... and FX loans have started to stabilize.

Serbia: Bank Lending Interest Rates (FX and FX-linked)

(Percent)

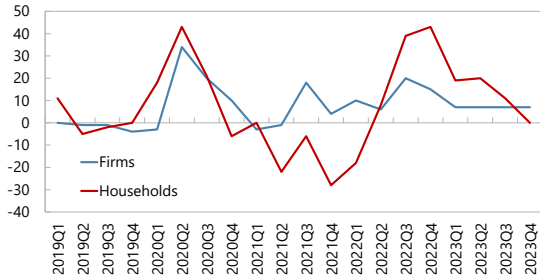


Source: NBS.

Tightening of credit standards has ebbed, especially for households, ...

Serbia: Credit Standards

(Net percentage balance 1/)



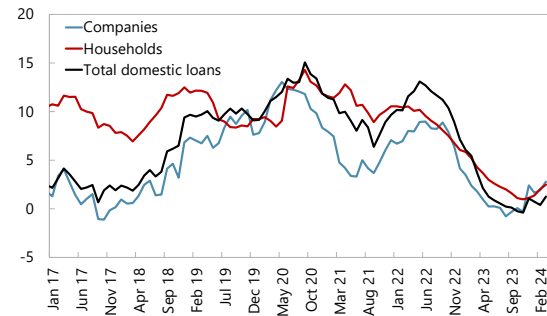
1/ Percentage of banks tightening minus percentage of banks loosening credit standards over the past 3 months. A positive balance indicates a tightening of credit standards.

Source: Haver Analytics.

... yet credit growth has remained muted.

Serbia: Private Sector Credit Growth

(Percent, y/y change at constant exchange rates)

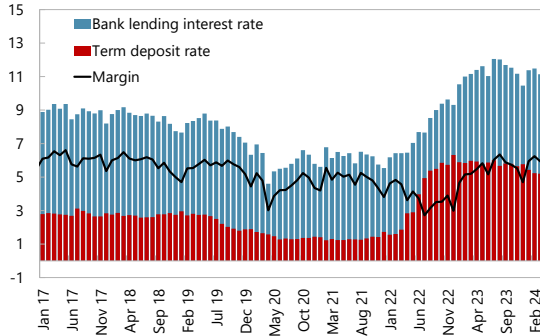


Source: NBS.

Domestic interest rate margins have increased ...

Serbia: Selected Interest Rates (RSD)

(Percent)

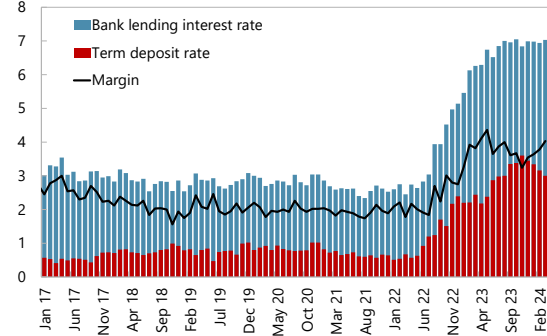


Source: NBS.

... as have foreign currency margins.

Serbia: Selected Interest Rates (FX and FX-linked)

(Percent)



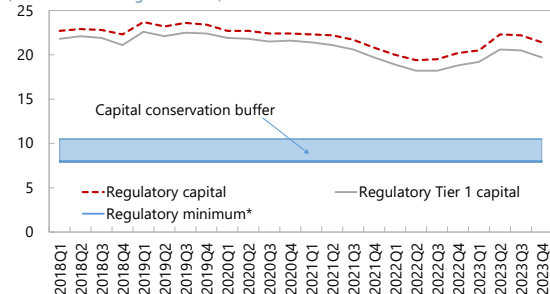
Source: NBS.

Figure 10. Serbia: Key Banking Sector Indicators

Banks have further strengthened capital buffers that are already well above regulatory thresholds ...

Serbia: Regulatory Capital

(Percent of risk-weighted assets)



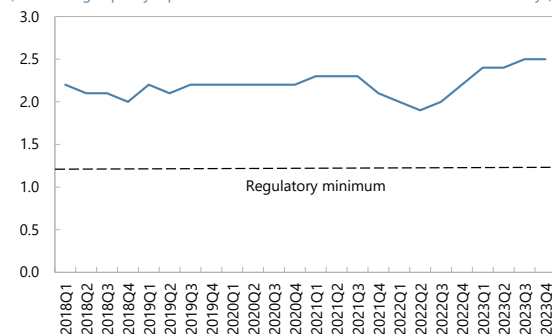
Source: Haver Analytics.

*The NBS also has a countercyclical capital buffer (currently 0%), a capital buffer for systemically important banks and a systemic risk buffer.

... and maintain strong liquidity ratios.

Serbia: Liquidity Coverage

(Ratio of high-quality liquid assets over total net cash outflow in the next 30 days)

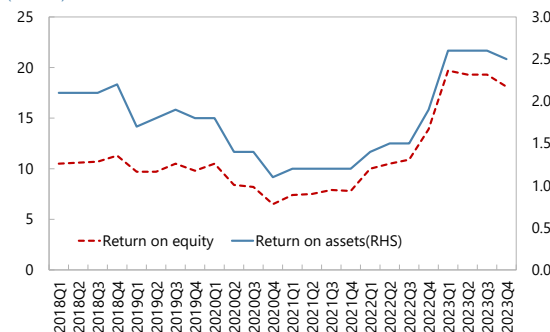


Source: Haver Analytics.

Reflecting rising net interest income, bank profitability has increased ...

Serbia: Banking Sector Profitability

(Percent)

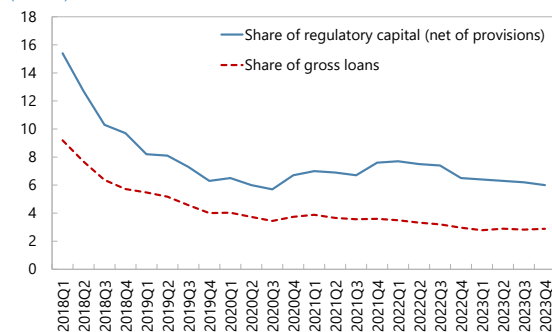


Source: Haver Analytics.

... while NPLs remain low ...

Serbia: Non-Performing Loans

(Percent)

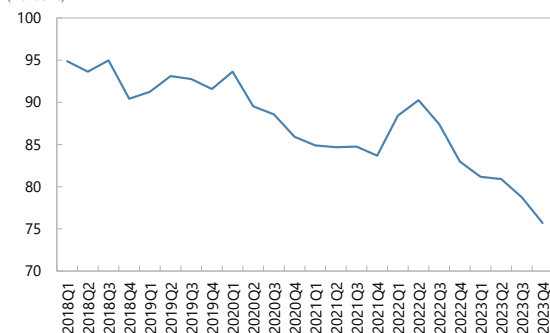


Source: Haver Analytics.

... and deposits are ample

Serbia: Loan-to-Deposit Ratio

(Percent)

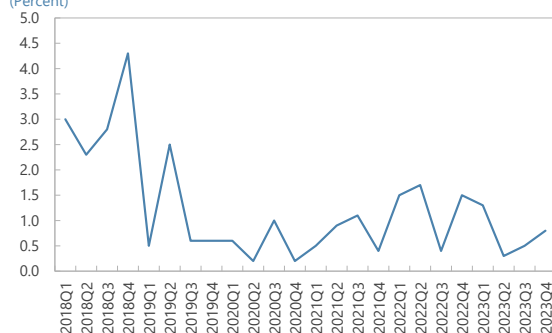


Source: Haver Analytics.

Open FX positions appear well managed by hedging.

Serbia: Net Open FX Position to Regulatory Capital

(Percent)



Sources: NBS and Haver Analytics.

Table 1. Serbia: Selected Economic and Social Indicators, 2022–29

	2022	2023		2024		2025	2026	2027	2028	2029
		CR 23/433	Est.	CR 23/433	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent change, unless otherwise indicated)										
Real sector										
Real GDP	2.5	2.4	2.5	3.3	3.8	4.2	4.0	4.0	4.0	4.0
Real domestic demand (absorption)	3.6	-0.3	0.0	3.2	5.8	4.7	4.4	4.1	4.0	4.1
Consumer prices (average)	12.0	12.3	12.4	5.3	4.5	3.1	3.0	3.0	3.0	3.0
Consumer prices (end of period)	15.1	8.0	7.6	4.0	3.6	3.0	3.0	3.0	3.0	3.0
GDP deflator	10.4	11.5	12.0	4.8	5.7	3.3	3.2	3.1	3.1	3.1
Unemployment rate (in percent) 1/	9.4	9.1	9.5	9.0	9.4	9.3	9.3	9.2	9.1	9.1
Nominal GDP (in billions of dinars)	7,098	8,104	8,150	8,774	8,947	9,629	10,334	11,088	11,887	12,748
(Percent of GDP)										
General government finances										
Revenue 2/	43.3	42.5	42.6	42.6	43.3	43.4	43.2	43.0	43.0	42.9
Expenditure 2/	46.4	45.4	44.8	44.8	45.5	45.9	45.5	45.2	45.2	45.2
Current 2/	36.1	37.0	36.7	37.1	37.0	37.4	37.0	36.7	37.0	36.9
Capital and net lending	10.1	8.0	7.9	7.3	8.1	8.3	8.2	8.3	8.0	8.1
Amortization of called guarantees	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2
Fiscal balance 3/	-3.0	-2.8	-2.2	-2.2	-2.2	-2.5	-2.3	-2.3	-2.3	-2.3
Primary fiscal balance (cash basis)	-1.5	-1.0	-0.4	-0.1	-0.2	-0.6	-0.5	-0.5	-0.4	-0.5
Gross debt 4/	55.6	53.5	52.3	52.0	52.0	50.4	48.4	47.8	47.7	46.9
(End of period 12-month change, percent)										
Monetary sector										
Broad money (M2)	6.9	8.1	13.1	5.1	6.3	4.7	5.9	6.1	5.8	5.7
Domestic credit to non-government 5/	7.4	1.1	1.2	3.9	4.9	6.5	8.5	9.0	9.3	9.8
(End of period, percent)										
Interest rates (dinar)										
NBS key policy rate	6.5	...	6.5	...	...	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	7.0	...	7.0	...	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)										
Balance of payments										
Current account balance	-6.9	-2.3	-2.6	-3.3	-4.1	-4.7	-5.0	-5.1	-5.2	-5.4
Trade of goods balance	-15.5	-8.7	-9.5	-8.9	-10.2	-10.4	-10.6	-10.4	-10.2	-10.0
Exports of goods	44.5	43.4	40.2	43.6	39.9	40.6	40.7	40.9	41.2	41.5
Imports of goods	-60.0	-52.1	-49.8	-52.6	-50.1	-51.0	-51.2	-51.3	-51.4	-51.6
Capital and financial account balance	9.4	8.4	8.6	6.1	6.9	7.3	6.8	6.1	6.9	5.8
External debt (percent of GDP)	72.0	66.3	67.2	63.9	64.5	62.9	60.4	57.7	56.7	55.0
of which: Private external debt	32.7	29.6	29.8	27.7	27.6	26.1	24.8	23.2	21.8	20.4
Gross official reserves (in billions of euro)	19.4	24.6	24.9	27.5	27.7	29.8	30.8	31.1	32.7	33.3
(in months of prospective imports)	5.2	6.6	6.7	6.7	6.8	6.7	6.4	6.0	5.9	5.5
(percent of short-term debt)	399.0	504.6	511.9	565.6	570.3	612.8	632.9	639.5	673.0	683.4
(percent of risk-weighted metric) 6/	132.9	158.5	157.6	164.9	163.5	157.1	151.5	143.5	142.7	137.1
Exchange rate (dinar/euro, period average)	117.5	...	117.4	...	...	...	...	...	...	...
REER (annual average change, in percent; + indicates appreciation)	3.3	...	6.2	...	...	...	...	...	...	...
Social indicators										
Per capita GDP (in US\$)	9,538	11,314	11,327	12,380	12,415	13,335	14,393	15,476	16,591	17,847
Population (in million)	6.7	6.6	6.6	6.6	6.6	6.6	6.6	6.5	6.5	6.5

Sources: NBS, Ministry of Finance, SORS, and IMF staff estimates and projections.

1/ Unemployment rate of the 15-64 year old labor force.

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

4/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis. Includes restitution bonds and publicly guaranteed debt.

5/ At constant exchange rates.

6/ The risk-weighted metric is the IMF's ARA metric under fixed exchange rate. Serbia was reclassified as a de facto stabilized exchange rate regime in 2018.

Table 2. Serbia: Medium-Term Framework, 2022–29

	2022	2023		2024		2025	2026	2027	2028	2029
		CR 23/433	Est.	CR 23/433	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change)									
Real sector										
GDP growth	2.5	2.4	2.5	3.3	3.8	4.2	4.0	4.0	4.0	4.0
Domestic demand (contribution)	4.0	-0.3	0.0	3.5	6.4	5.2	5.0	4.6	4.5	4.7
Net exports (contribution)	-1.5	2.7	2.5	-0.2	-2.6	-1.0	-1.0	-0.5	-0.5	-0.6
Consumer price inflation (average)	12.0	12.3	12.4	5.3	4.5	3.1	3.0	3.0	3.0	3.0
Consumer price inflation (end of period)	15.1	8.0	7.6	4.0	3.6	3.0	3.0	3.0	3.0	3.0
Output gap (in percent of potential)	0.1	-0.3	-0.8	0.0	-0.6	-0.2	0.0	0.0	0.0	0.0
Potential GDP growth	3.3	3.2	3.5	3.1	3.6	3.7	3.9	4.0	4.0	4.0
Domestic credit to non-government 1/	7.4	1.1	1.2	3.9	4.9	6.5	8.5	9.0	9.3	9.8
	(Percent of GDP, unless otherwise indicated)									
General government										
Revenue 2/	43.3	42.5	42.6	42.6	43.3	43.4	43.2	43.0	43.0	42.9
Expenditure 2/	46.4	45.4	44.8	44.8	45.5	45.9	45.5	45.2	45.2	45.2
Current 2/	36.1	37.0	36.7	37.1	37.0	37.4	37.0	36.7	37.0	36.9
<i>of which:</i> Wages and salaries 2/	9.6	9.7	9.5	10.0	10.1	10.1	10.1	10.1	10.1	10.1
<i>of which:</i> Pensions	9.0	9.6	9.5	10.3	10.4	10.7	10.4	10.0	10.1	10.1
<i>of which:</i> Goods and services	9.6	9.3	9.2	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Capital and net lending	10.1	8.0	7.9	7.3	8.1	8.3	8.2	8.3	8.0	8.1
Amortization of called guarantees	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2
Unidentified measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal balance 3/	-3.0	-2.8	-2.2	-2.2	-2.2	-2.5	-2.3	-2.3	-2.3	-2.3
Gross debt 4/	55.6	53.5	52.3	52.0	52.0	50.4	48.4	47.8	47.7	46.9
	(Percent of GDP, unless otherwise indicated)									
Effective interest rate on government borrowing (percent)	3.0	3.9	3.8	4.2	4.1	4.0	3.8	3.8	4.4	4.1
Domestic borrowing (including FX)	5.0	5.4	5.4	6.1	6.1	5.7	5.5	5.4	5.2	4.8
External borrowing	2.1	2.0	2.0	2.9	2.9	3.0	3.3	3.8	3.7	3.7
	(Percent of GDP, unless otherwise indicated)									
Balance of payments										
Current account	-6.9	-2.3	-2.6	-3.3	-4.1	-4.7	-5.0	-5.1	-5.2	-5.4
<i>of which:</i> Trade balance	-15.5	-8.7	-9.5	-8.9	-10.2	-10.4	-10.6	-10.4	-10.2	-10.0
<i>of which:</i> Current transfers, net (excl. grants)	8.9	7.1	7.6	6.7	7.2	6.8	6.5	6.2	5.9	5.6
Capital and financial account	9.4	8.4	8.6	6.1	6.9	7.3	6.8	6.1	6.9	5.8
<i>of which:</i> Foreign direct investment	7.1	5.9	6.0	5.5	5.6	5.3	5.0	5.0	4.9	4.7
External debt (end of period)	72.0	66.3	67.2	63.9	64.5	62.9	60.4	57.7	56.7	55.0
<i>of which:</i> Private external debt	32.7	29.6	29.8	27.7	27.6	26.1	24.8	23.2	21.8	20.4
Gross official reserves										
(in billions of euros)	19.4	24.6	24.9	27.5	27.7	29.8	30.8	31.1	32.7	33.3
(in percent of short-term external debt)	399.0	504.6	511.9	565.6	570.3	612.8	632.9	639.5	673.0	683.4
REER (ann. av. change; + = appreciation)	3.3	...	6.2	...	...	...	...	...	...	...

Sources: NBS, Ministry of Finance, 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/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis. Includes restitution bonds and publicly guaranteed debt.

Table 3. Serbia: Growth Composition, 2022–29

	2022	2023		2024		2025	2026	2027	2028	2029
		CR 23/433	Est.	CR 23/433	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent change, unless otherwise indicated)										
Real GDP										
Gross Domestic Product (GDP)	2.5	2.4	2.5	3.3	3.8	4.2	4.0	4.0	4.0	4.0
Domestic demand (absorption)	3.6	-0.3	0.0	3.2	5.8	4.7	4.4	4.1	4.0	4.1
Consumption	3.3	0.8	0.8	2.8	4.1	4.0	4.0	4.0	4.0	4.0
Non-government	4.0	0.5	0.8	3.5	4.0	4.2	4.0	4.0	4.0	4.0
Government	0.4	2.0	0.3	-0.3	4.4	3.3	4.3	4.2	4.1	4.0
Investment	4.6	-3.5	-2.3	4.5	11.6	6.5	5.6	4.1	3.9	4.5
Gross fixed capital formation	1.9	4.1	3.9	1.8	6.2	4.9	4.2	5.3	3.8	5.2
Non-government	3.1	2.0	3.8	3.0	3.4	5.0	5.0	5.0	5.0	5.0
Government	-2.2	12.7	4.0	-2.5	15.5	4.5	1.7	6.3	0.2	5.7
Exports of goods and services	16.6	5.1	2.4	4.7	6.1	6.8	5.7	5.6	5.4	5.6
Imports of goods and services	16.1	1.0	-1.1	4.3	8.7	7.1	6.1	5.3	5.3	5.6
(Contributions to GDP growth, percent)										
Real GDP										
Gross Domestic Product (GDP)	2.5	2.4	2.5	3.3	3.8	4.2	4.0	4.0	4.0	4.0
Domestic demand (absorption)	4.0	-0.3	0.0	3.5	6.4	5.2	5.0	4.6	4.5	4.7
Net exports of goods and services	-1.5	2.7	2.5	-0.2	-2.6	-1.0	-1.0	-0.5	-0.5	-0.6
Consumption	2.8	0.7	0.6	2.3	3.4	3.4	3.4	3.4	3.4	3.4
Non-government	2.7	0.3	0.6	2.4	2.8	2.9	2.8	2.8	2.8	2.8
Government	0.1	0.3	0.1	-0.1	0.7	0.5	0.6	0.6	0.6	0.6
Investment	1.2	-1.0	-0.6	1.2	3.0	1.8	1.6	1.2	1.1	1.3
Gross fixed capital formation	0.5	1.0	0.9	0.4	1.5	1.2	1.0	1.3	1.0	1.3
Non-government	0.6	0.4	0.7	0.6	0.6	0.9	0.9	1.0	1.0	1.0
Government	-0.1	0.6	0.2	-0.1	0.9	0.3	0.1	0.4	0.0	0.3
Change in inventories	0.8	-1.9	-1.5	0.7	1.5	0.6	0.5	-0.2	0.1	0.0
Exports of goods and services	9.9	3.5	1.6	3.3	4.1	4.7	4.1	4.0	4.0	4.2
Imports of goods and services	11.4	0.8	-0.9	3.4	6.7	5.7	5.0	4.5	4.5	4.8
(Percent change, unless otherwise indicated)										
Nominal GDP										
Gross Domestic Product (GDP)	13.2	14.2	14.8	8.3	9.8	7.6	7.3	7.3	7.2	7.2
Domestic demand (absorption), contribution to GDP growth	17.6	8.0	9.0	9.5	11.2	8.4	7.9	7.5	7.4	7.6
Net exports of goods and services, contribution to GDP growth	-4.4	6.3	5.8	-1.3	-1.4	-0.7	-0.6	-0.2	-0.2	-0.3
Consumption	15.4	10.3	13.0	8.9	9.2	7.4	7.2	7.2	7.1	7.1
Non-government	17.1	9.7	13.2	9.2	8.6	7.4	7.1	7.1	7.1	7.1
Government	8.8	12.8	12.5	7.5	11.5	7.5	7.4	7.4	7.2	7.2
Investment	19.2	-2.5	-7.4	10.2	16.6	9.8	8.6	6.9	6.7	7.3
Gross fixed capital formation	17.5	7.0	7.9	6.2	13.0	8.7	7.3	8.6	6.5	8.4
Non-government	21.5	3.5	6.3	8.1	8.1	8.2	8.2	8.1	8.2	8.1
Government	9.0	14.4	11.8	2.4	24.2	9.8	5.8	9.5	3.2	8.9
Exports of goods and services	31.6	9.5	7.7	8.3	8.6	9.1	7.9	7.7	7.6	7.8
Imports of goods and services	34.6	-0.4	-1.2	9.7	10.2	9.4	8.1	7.3	7.3	7.6
Memorandum items										
Nominal GDP (billions of dinars)	7,098	8,104	8,150	8,774	8,947	9,629	10,334	11,088	11,887	12,748
GDP deflator (percent)	10.4	11.5	12.0	4.8	5.7	3.3	3.2	3.1	3.1	3.1

Sources: SORS; and IMF staff estimates and projections.

Table 4a. Serbia: Balance of Payments (Billions of Euros), 2022–29^{1/}

	2022	2023		2024		2025	2026	2027	2028	2029
		CR 23/433	Est.	CR 23/433	Proj.					
Current account balance	-4.1	-1.6	-1.8	-2.5	-3.1	-3.9	-4.4	-4.8	-5.3	-5.8
Trade of goods balance	-9.4	-6.0	-6.6	-6.7	-7.8	-8.5	-9.3	-9.8	-10.3	-10.9
Exports of goods	26.9	30.0	27.9	32.6	30.3	33.2	35.8	38.6	41.6	45.0
Imports of goods	-36.3	-35.9	-34.5	-39.3	-38.1	-41.7	-45.1	-48.4	-51.9	-55.9
Services balance	2.3	2.7	3.0	2.5	3.2	3.3	3.6	3.8	4.1	4.3
Exports of nonfactor services	11.1	11.7	13.1	12.4	14.2	15.4	16.6	17.8	19.1	20.4
Imports of nonfactor services	-8.8	-8.9	-10.1	-9.9	-11.0	-12.1	-13.0	-14.0	-15.0	-16.2
Income balance	-3.0	-3.6	-3.9	-3.6	-4.2	-4.4	-4.6	-4.9	-5.2	-5.6
Net interest	-0.8	-0.7	-1.2	-0.8	-1.6	-1.5	-1.4	-1.3	-1.4	-1.4
Others, including reinvested earnings	-2.2	-2.9	-2.6	-2.8	-2.7	-2.9	-3.2	-3.5	-3.8	-4.2
Current transfer balance	5.9	5.3	5.6	5.3	5.7	5.8	5.9	6.1	6.2	6.4
Official grants	0.6	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Others, including private remittances	5.4	4.9	5.3	5.0	5.5	5.5	5.7	5.8	5.9	6.1
Capital and financial account balance 1/	5.7	5.8	5.9	4.5	5.2	5.9	6.0	5.7	7.0	6.3
Capital transfer balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	4.3	4.1	4.2	4.1	4.2	4.4	4.4	4.7	4.9	5.1
Portfolio investment balance	-0.1	0.8	0.9	1.3	1.6	1.4	1.6	0.6	0.9	0.1
of which: debt liabilities	-0.1	0.8	1.0	1.3	1.6	1.4	1.6	0.6	0.9	0.1
Other investment balance	1.4	0.9	0.8	-0.9	-0.6	0.2	0.0	0.4	1.2	1.1
Public sector 1/ 2/	1.6	0.4	1.2	0.0	0.2	0.7	0.4	1.3	2.1	2.2
Domestic banks	0.6	0.6	-0.7	0.0	-0.1	-0.1	-0.1	-0.3	-0.2	-0.3
Other private sector 3/	-0.8	-0.2	0.3	-0.9	-0.7	-0.3	-0.3	-0.6	-0.7	-0.8
Errors and omissions	0.4	0.4	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	4.6	5.1	2.1	2.1	2.1	1.5	0.9	1.7	0.5
Financing	-1.9	-4.6	-5.1	-2.1	-2.1	-2.1	-1.5	-0.9	-1.7	-0.5
Gross international reserves (increase, -)	-2.9	-5.1	-5.5	-3.0	-2.8	-2.1	-1.0	-0.3	-1.6	-0.5
Financing Gap	1.0	0.6	0.4	0.9	0.7	0.0	-0.6	-0.6	-0.1	0.0
Use of Fund credit, net	1.0	0.2	0.2	0.0	0.0	0.0	-0.6	-0.6	-0.1	0.0
Purchases	1.0	0.2	0.2	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	-0.6	-0.6	-0.1	0.0
Development partners	0.0	0.4	0.2	0.9	0.7	0.0	0.0	0.0	0.0	0.0
Memorandum item										
GDP (billions of euros)	60.4	69.0	69.4	74.8	76.1	81.8	88.0	94.4	101.0	108.4

Sources: NBS; and IMF staff estimates and projections.

1/ Excluding net use of IMF resources.

2/ Includes SDR allocations in 2021.

3/ Includes trade credits (net).

Table 4b. Serbia: Balance of Payments (Percent of GDP), 2022–29^{1/}

	2022	2023		2024		2025	2026	2027	2028	2029
		CR 23/433	Est.	CR 23/433	Proj.	Proj.	Proj.	Proj.	Proj.	
Current account balance	-6.9	-2.3	-2.6	-3.3	-4.1	-4.7	-5.0	-5.1	-5.2	-5.4
Trade of goods balance	-15.5	-8.7	-9.5	-8.9	-10.2	-10.4	-10.6	-10.4	-10.2	-10.0
Exports of goods	44.5	43.4	40.2	43.6	39.9	40.6	40.7	40.9	41.2	41.5
Imports of goods	-60.0	-52.1	-49.8	-52.6	-50.1	-51.0	-51.2	-51.3	-51.4	-51.6
Services balance	3.8	3.9	4.3	3.4	4.2	4.1	4.1	4.0	4.0	3.9
Income balance	-5.0	-5.2	-5.6	-4.8	-5.6	-5.4	-5.2	-5.2	-5.2	-5.1
Current transfer balance	9.8	7.7	8.1	7.1	7.5	7.1	6.7	6.4	6.1	5.9
Official grants	0.9	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Others, including private remittances	8.9	7.1	7.6	6.7	7.2	6.8	6.5	6.2	5.9	5.6
Capital and financial account balance 1/	9.4	8.4	8.6	6.1	6.9	7.3	6.8	6.1	6.9	5.8
Capital transfers balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	7.1	5.9	6.0	5.5	5.6	5.3	5.0	5.0	4.9	4.7
Portfolio investment balance	-0.1	1.2	1.3	1.8	2.1	1.7	1.8	0.7	0.9	0.1
Other investment balance	2.4	1.3	1.2	-1.2	-0.8	0.2	-0.1	0.4	1.1	1.0
Public sector 1/ 2/	2.7	0.6	1.7	0.0	0.2	0.8	0.4	1.4	2.1	2.0
Domestic banks	1.1	0.9	-1.0	-0.1	-0.1	-0.2	-0.2	-0.3	-0.2	-0.3
Other private sector 3/	-1.3	-0.3	0.5	-1.2	-0.9	-0.4	-0.3	-0.7	-0.7	-0.8
Errors and omissions	0.6	0.5	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.2	6.6	7.4	2.8	2.8	2.5	1.7	1.0	1.7	0.5
Financing	-3.2	-6.6	-7.4	-2.8	-2.8	-2.5	-1.7	-1.0	-1.7	-0.5
Gross international reserves (increase, -)	-4.8	-7.4	-7.9	-4.0	-3.7	-2.5	-1.1	-0.3	-1.6	-0.5
Financing Gap	1.7	0.8	0.5	1.2	1.0	0.0	-0.6	-0.6	-0.1	0.0
Use of Fund credit, net	1.7	0.2	0.2	0.0	0.0	0.0	-0.6	-0.6	-0.1	0.0
Purchases	1.7	0.2	0.2	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	-0.6	-0.6	-0.1	0.0
Development partners	0.0	0.6	0.3	1.2	1.0	0.0	0.0	0.0	0.0	0.0
				(Percent change, unless otherwise indicated)						
Memorandum items:										
Nominal growth of exports of goods	29.5	11.3	3.8	8.9	8.7	9.3	7.9	7.9	7.8	8.1
Nominal growth of import of goods	35.8	-0.9	-4.8	9.4	10.4	9.4	8.1	7.3	7.3	7.6
Volume growth of exports of goods	9.5	6.9	5.1	5.3	6.1	7.1	5.7	5.8	5.6	5.9
Volume growth of import of goods	10.4	0.4	-2.2	4.0	8.9	7.1	6.1	5.3	5.3	5.6
Trading partner import growth	7.3	0.7	-0.9	4.3	3.3	3.9	3.7	3.5	3.6	3.4
Export prices growth	18.3	4.2	-1.3	3.5	2.4	2.1	2.0	2.0	2.1	2.1
Import prices growth	23.0	-1.3	-2.6	5.2	1.4	2.2	1.9	1.9	2.0	2.0
Change in terms of trade	-3.8	5.6	1.3	-1.7	1.0	-0.1	0.1	0.1	0.1	0.1
Gross official reserves (in billions of euro)	19.4	24.6	24.9	27.5	27.7	29.8	30.8	31.1	32.7	33.3
(In months of prospective imports of GNFS)	5.2	6.6	6.7	6.7	6.8	6.7	6.4	6.0	5.9	5.5
(in percent of short-term debt)	399.0	504.6	511.9	565.6	570.3	612.8	632.9	639.5	673.0	683.4
(in percent of broad money, M2)	54.2	60.2	60.5	61.9	61.8	61.5	59.0	55.8	54.8	51.8
(in percent of risk-weighted metric) 4/	132.9	158.5	157.6	164.9	163.5	157.1	151.5	143.5	142.7	137.1
GDP (billions of euros)	60.4	69.0	69.4	74.8	76.1	81.8	88.0	94.4	101.0	108.4

Sources: NBS; and IMF staff estimates and projections.

1/ Excluding net use of IMF resources.

2/ Includes SDR allocations in 2021.

3/ Includes trade credits (net).

4/ The risk-weighted metric is the IMF's ARA metric for the fixed exchange rate. Serbia was reclassified as a de facto stabilized exchange rate regime in 2018.

Table 5a. Serbia: External Financing Requirements and Sources (Baseline), 2022–29
(In billions of euros)

	2022	2023	2024	2025	2026	2027	2028	2029
		Est.				Proj.		
Total financing requirement	11.7	11.6	11.0	8.7	9.2	10.8	10.8	9.6
Current account deficit	4.1	1.8	3.1	3.9	4.4	4.8	5.3	5.8
Debt amortization	4.7	4.3	5.0	2.8	3.8	5.7	3.9	3.3
Medium and long-term debt	3.8	3.1	4.6	2.8	3.8	5.7	3.9	3.3
Public sector	2.1	1.9	3.3	1.6	2.6	4.8	3.4	2.9
Of which: IMF	0.0	0.0	0.0	0.0	0.6	0.6	0.1	0.0
Of which: Eurobonds	0.0	0.0	0.2	0.2	0.0	2.1	1.8	1.6
Of which: Domestic bonds (non-residents)	1.1	0.7	0.1	0.3	0.3	0.3	0.4	0.3
Commercial banks	0.7	0.6	0.6	0.4	0.3	0.3	0.2	0.1
Corporate sector	1.0	0.5	0.7	0.9	0.9	0.6	0.3	0.2
Short-term debt	0.9	1.2	0.5	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.9	0.8	0.5	0.0	0.0	0.0	0.0	0.0
Corporate sector	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Change in gross reserves (increase=+)	2.9	5.5	2.8	2.1	1.0	0.3	1.6	0.5
Total financing sources	10.7	11.2	10.3	8.7	9.2	10.8	10.8	9.6
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	4.3	4.2	4.2	4.4	4.4	4.7	4.9	5.1
Portfolio investment (net) 1/	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing (excl. except. financing)	6.3	8.0	6.8	5.1	5.6	7.0	6.8	5.5
Medium and long-term debt	5.4	6.8	6.3	5.1	5.6	7.0	6.8	5.5
Public sector 2/	3.4	4.2	5.0	3.5	3.9	5.9	6.2	5.1
Of which: Eurobonds	0.0	1.6	1.5	1.5	1.5	2.5	2.5	1.5
Of which: Domestic bonds (non-residents)	0.8	0.3	0.3	0.3	0.3	0.4	0.5	0.4
Commercial banks	0.7	1.3	0.7	0.4	0.4	0.4	0.3	0.2
Corporate sector	1.3	1.3	0.6	1.2	1.3	0.7	0.3	0.2
Short-term debt	0.9	1.2	0.5	0.0	0.0	0.0	0.0	0.0
Other net capital inflows 3/	0.1	-0.9	-0.7	-0.7	-0.7	-0.9	-0.9	-1.0
o/w trade credit and currency and deposits	-1.0	-0.2	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1
Total financing needs	1.0	0.4	0.7	0.0	0.0	0.0	0.0	0.0
Exceptional financing (net)	1.0	0.4	0.7	0.0	-0.6	-0.6	-0.1	0.0
IMF	1.0	0.2	0.0	0.0	-0.6	-0.6	-0.1	0.0
Development partners, <i>by debtor:</i> 4/	0.0	0.2	0.7	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
SOEs (from IFIs)	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves (without except. financing)	18.4	23.5	25.6	27.7	28.7	29.0	30.6	31.1
as % of ARA Metric	125.9	148.9	151.0	146.0	141.1	133.8	133.5	128.4
Gross international reserves (with except. financing)	19.4	24.9	27.7	29.8	30.8	31.1	32.7	33.3
as % of ARA Metric	132.9	157.6	163.5	157.1	151.5	143.5	142.7	137.1
Debt service	5.5	5.6	6.6	4.3	5.1	6.8	5.0	4.3
Interest	0.8	1.4	1.6	1.5	1.2	1.1	1.1	1.0
Amortization	4.7	4.3	5.0	2.8	3.8	5.7	3.9	3.3

Sources: NBS, and IMF 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.

4/ Exceptional financing is provided by the World Bank, AFD, KfW, EBRD and Cassa Depositi e Prestiti (see MEFP). Some loans are disbursed to the budget and are public debt, others are disbursed to SOEs in the energy sector and are publicly guaranteed debt.

Table 5b. Serbia: Indicators of Capacity to Repay the Fund, 2022–29^{1/}

	2022	2023	2024	2025	2026	2027	2028	2029
		Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund repurchases and charges 2/								
In millions of SDRs	4	73	110	150	578	746	594	369
In millions of euros	5	90	135	186	720	932	745	465
In percent of exports of goods and NFS	0.0	0.2	0.3	0.4	1.4	1.7	1.2	0.7
In percent of GDP	0.0	0.1	0.2	0.2	0.8	1.0	0.7	0.4
In percent of quota	0.6	11.1	16.8	22.9	88.3	114.0	90.7	56.3
In percent of total external debt service	0.1	1.6	2.0	4.4	14.2	13.7	14.8	10.9
In percent of gross international reserves	0.0	0.4	0.5	0.6	2.3	3.0	2.3	1.4
Fund credit outstanding (end-period)								
In millions of SDRs	786	949	1,899	1,899	1,465	832	316	0
In millions of euros	986	1,162	2,347	2,360	1,827	1,042	398	0
In percent of exports of goods and NFS	2.6	2.8	5.3	4.9	3.5	1.8	0.7	-
In percent of GDP	1.6	1.7	3.1	2.9	2.1	1.1	0.4	-
In percent of quota	120.0	145.0	290.0	290.0	223.8	127.1	48.3	-
In percent of total external debt	2.3	2.5	4.8	4.6	3.4	1.9	0.7	-
In percent of gross international reserves	5.1	4.7	8.5	7.9	5.9	3.3	1.2	-
Memorandum items: (In millions of euros, unless otherwise indicated)								
Exports of goods and NFS	38,000	41,009	44,551	48,584	52,404	56,428	60,724	65,463
Quota (in millions of SDRs)	654.8	654.8	654.8	654.8	654.8	654.8	654.8	655.8
GDP	60,424	69,398	76,113	81,800	88,037	94,422	101,040	108,358
Total external debt service	5,466	5,628	6,609	4,260	5,055	6,830	5,024	4,281
Public sector external debt	23,724	25,964	28,116	30,076	31,363	32,538	35,327	37,517
Total external debt	43,489	46,636	49,104	51,429	53,179	54,477	57,335	59,572
Total external debt stock excluding IMF	42,475	45,458	47,927	50,252	52,560	54,471	57,382	59,618
Gross international reserves	19,416	24,909	27,747	29,819	30,796	31,115	32,749	33,252

Source: IMF staff estimates.

1/ Assumes purchase of the full authorized access under the SBA arrangement including precautionary tranches.

2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.

Table 6a. Serbia: General Government Fiscal Operations (Billions of RSD), 2022–29^{1/}

	2022	2023		2024		2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
		CR 23/433	Est.	CR 23/433	Proj.					
Revenue	3,076	3,445	3,473	3,738	3,872	4,177	4,466	4,765	5,106	5,470
Taxes	2,760	3,044	3,079	3,333	3,444	3,715	3,976	4,248	4,557	4,882
Personal income tax	302	340	348	378	390	419	449	481	515	551
Social security contributions 2/	952	1,054	1,061	1,188	1,217	1,311	1,405	1,500	1,609	1,729
Taxes on profits	209	275	272	256	289	316	340	364	391	419
Value-added taxes	779	824	843	907	936	1,010	1,080	1,152	1,228	1,312
Excises	338	357	367	392	404	436	470	504	546	581
Taxes on international trade	79	83	81	89	88	94	101	108	117	125
Other taxes	100	111	107	123	120	130	130	138	151	164
Non-tax revenue	285	334	343	347	392	426	454	477	506	542
Capital revenue	16	17	9	19	9	10	10	11	12	13
Grants	16	49	43	38	27	27	27	29	31	33
Expenditure	3,292	3,676	3,654	3,930	4,068	4,418	4,701	5,016	5,376	5,759
Current expenditure	2,560	3,002	2,988	3,259	3,313	3,601	3,825	4,069	4,401	4,698
Wages and salaries 3/	684	785	775	876	901	970	1,041	1,116	1,196	1,282
Goods and services	680	752	751	772	788	845	908	976	1,047	1,121
Interest	107	154	149	183	176	188	185	191	226	228
Subsidies	160	222	214	209	213	230	247	265	284	305
Transfers	929	1,090	1,099	1,219	1,235	1,368	1,444	1,521	1,647	1,761
Pensions	638	775	774	906	927	1,035	1,071	1,106	1,203	1,290
Other transfers 4/	291	315	325	313	309	333	373	415	445	472
Capital expenditure	508	582	568	596	706	775	824	902	931	1,014
Net lending	206	68	74	47	20	23	24	17	19	20
Amortization of activated guarantees	18	24	24	29	29	20	26	27	25	27
Fiscal balance	-216	-231	-180	-192	-197	-241	-234	-251	-269	-289
Financing	216	231	180	192	197	241	234	251	269	289
Privatization proceeds	0	0	0	0	0	0	0	0	0	0
Equity investment	0	0	0	0	0	0	0	0	0	0
Domestic	-148	-170	-307	-23	-31	5	84	122	-58	42
External	364	240	343	207	177	236	216	201	333	246
Program	197	0	17	0	0	9	15	9	9	9
Project	139	168	168	162	184	198	233	250	268	267
Bonds and loans	0	183	267	409	369	176	176	394	394	276
IMF resources (net)	106	0	0	0	0	0	0	0	0	0
Amortization	-78	-111	-109	-365	-376	-147	-208	-452	-338	-306
Financing gap	0	161	144	9	51	0	-66	-72	-6	0
IMF - SBA	0	144	144	0	0	0	-66	-72	-6	0
Development partners	0	17	0	9	51	0	0	0	0	0
Memorandum items:										
Gross wages and salaries	587	673	670	751	772	832	892	957	1,026	1,099
Arrears accumulation (domestic)	1	-1	-1	0	-1	0	0	0	0	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	47	9	44	5	64	64	64	64	64	64
Government deposits (stock)	422	382	602	389	651	586	518	480	553	630
Gross public debt 5/	3,946	4,334	4,266	4,564	4,648	4,857	5,001	5,303	5,672	5,979
Nominal GDP	7,098	8,104	8,150	8,774	8,947	9,629	10,334	11,088	11,887	12,748

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/ Includes severance payments. Includes employer contributions.

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

5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis. Includes restitution bonds and publicly guaranteed debt.

Table 6b. Serbia: General Government Fiscal Operation (Percent of GDP), 2022–29^{1/}

	2022	2023		2024		2025	2026	2027	2028	2029
		CR 23/433	Est.	CR 23/433	Proj.					
Revenue	43.3	42.5	42.6	42.6	43.3	43.4	43.2	43.0	43.0	42.9
Taxes	38.9	37.6	37.8	38.0	38.5	38.6	38.5	38.3	38.3	38.3
Personal income tax	4.3	4.2	4.3	4.3	4.4	4.4	4.3	4.3	4.3	4.3
Social security contributions 2/	13.4	13.0	13.0	13.5	13.6	13.6	13.5	13.5	13.5	13.6
Taxes on profits	2.9	3.4	3.3	2.9	3.2	3.3	3.3	3.3	3.3	3.3
Value-added taxes	11.0	10.2	10.3	10.3	10.5	10.5	10.4	10.4	10.3	10.3
Excises	4.8	4.4	4.5	4.5	4.5	4.5	4.6	4.5	4.6	4.6
Taxes on international trade	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other taxes	1.4	1.4	1.3	1.4	1.3	1.3	1.3	1.2	1.3	1.3
Non-tax revenue	4.0	4.1	4.2	4.0	4.4	4.4	4.3	4.3	4.3	4.3
Capital revenue	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.2	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Expenditure	46.4	45.4	44.8	44.8	45.5	45.9	45.5	45.2	45.2	45.2
Current expenditure	36.1	37.0	36.7	37.1	37.0	37.4	37.0	36.7	37.0	36.9
Wages and salaries 3/	9.6	9.7	9.5	10.0	10.1	10.1	10.1	10.1	10.1	10.1
Goods and services	9.6	9.3	9.2	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Interest	1.5	1.9	1.8	2.1	2.0	1.9	1.8	1.7	1.9	1.8
Subsidies	2.3	2.7	2.6	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Transfers	13.1	13.5	13.5	13.9	13.8	14.2	14.0	13.7	13.9	13.8
Pensions	9.0	9.6	9.5	10.3	10.4	10.7	10.4	10.0	10.1	10.1
Other transfers 4/	4.1	3.9	4.0	3.6	3.5	3.5	3.6	3.7	3.7	3.7
Capital expenditure	7.2	7.2	7.0	6.8	7.9	8.0	8.0	8.1	7.8	8.0
Net lending	2.9	0.8	0.9	0.5	0.2	0.2	0.2	0.2	0.2	0.2
Amortization of activated guarantees	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2
Fiscal balance	-3.0	-2.8	-2.2	-2.2	-2.2	-2.5	-2.3	-2.3	-2.3	-2.3
Financing	3.0	2.8	2.2	2.2	2.2	2.5	2.3	2.3	2.3	2.3
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-2.1	-2.1	-3.8	-0.3	-0.3	0.1	0.8	1.1	-0.5	0.3
External	5.1	3.0	4.2	2.4	2.0	2.5	2.1	1.8	2.8	1.9
Program	2.8	0.0	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Project	2.0	2.1	2.1	1.8	2.1	2.1	2.3	2.3	2.3	2.1
Bonds and loans	0.0	2.3	3.3	4.7	4.1	1.8	1.7	3.6	3.3	2.2
IMF resources (net)	1.5	0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-1.4	-1.3	-4.2	-4.2	-1.5	-2.0	-4.1	-2.8	-2.4
Financing gap	0.0	2.0	1.8	0.1	0.6	0.0	-0.6	-0.6	-0.1	0.0
IMF - SBA	0.0	1.8	1.8	0.0	0.0	0.0	-0.6	-0.6	-0.1	0.0
Development partners	0.0	0.2	0.0	0.1	0.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross wages and salaries	8.3	8.3	8.2	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Arrears accumulation (domestic)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal support to SOEs (gross new issuance guarantees)	0.7	0.1	0.5	0.1	0.7	0.7	0.6	0.6	0.5	0.5
Government deposits (stock)	5.9	4.7	7.4	4.4	7.3	6.1	5.0	4.3	4.7	4.9
Gross public debt 5/	55.6	53.5	52.3	52.0	52.0	50.4	48.4	47.8	47.7	46.9
Nominal GDP (billions of RSD)	7,098	8,104	8,150	8,774	8,947	9,629	10,334	11,088	11,887	12,748

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/ Includes severance payments. Includes employer contributions.

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

5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis.

Includes restitution bonds and publicly guaranteed debt.

Table 7. Serbia: Decomposition of Public Debt and Debt Service by Creditor, 2023–25^{1/}
(Central government, in billions of euros)

	Debt Stock			Debt Service					
	2023 (end of period)			2023	2024	2025	2023	2024	2025
	(In Euro bln)	(Percent of total debt)	(Percent of GDP)	(In Euro bln)			(Percent of GDP)		
Total	36.2	100.0	52.1	4.5	5.0	3.6	6.5	6.5	4.4
External	25.4	70.2	36.5	1.1	3.4	1.5	1.6	4.4	1.8
Multilateral creditors 2/	7.8	21.6	11.3	0.5	0.6	0.5	0.8	0.7	0.7
IMF	2.4	6.6	3.4						
World Bank	0.0	0.0	0.0						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	5.4	15.1	7.8						
o/w: IBRD	2.2	6.0	3.1						
EIB	1.9	5.2	2.7						
Others (IDA, EU, CEB, EBRD, EUROFIMA, KfW)	1.4	3.9	2.0						
Bilateral Creditors	6.2	17.3	9.0	0.3	2.3	0.3	0.5	3.1	0.4
Paris Club	0.4	1.1	0.6	0.2	0.1	0.0	0.3	0.1	0.0
o/w: PC Germany KfW	0.0	0.0	0.0						
PC United Kingdom	0.0	0.0	0.0						
Non-Paris Club	5.8	16.1	8.4	0.2	2.2	0.3	0.2	2.9	0.4
o/w: UAE	2.3	6.3	3.3						
China	2.6	7.2	3.8						
Russia	0.7	1.9	1.0						
Others	0.2	0.6	0.3						
Bonds	8.9	24.7	12.9	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	1.7	4.7	2.4	0.2	0.3	0.4	0.3	0.4	0.5
Other international creditors	0.7	1.9	1.0	0.0	0.2	0.2	0.1	0.3	0.3
o/w: JICA	0.1	0.3	0.2	0.0	0.0	0.0	0.1	0.1	0.1
Domestic	10.8	29.8	15.5	3.4	1.6	2.1	4.9	2.1	2.6
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	9.1	25.2	13.1	3.2	1.4	1.9	4.6	1.8	2.4
Loans and other domestic debt	1.7	4.7	2.4	0.2	0.2	0.2	0.3	0.3	0.2
Memo items:									
Collateralized debt 3/	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities	1.8	5.0	2.6						
o/w: Public guarantees	1.8	5.0	2.6						
o/w: Other explicit contingent liabilities 4/	0.0	0.0	0.0						
Nominal GDP	69.4			69.4	76.1	81.8			

1/ As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage corresponds to central government.

2/ Multilateral creditors* are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/ Includes other one-off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Source: Serbia Public Debt Management Agency.

Table 8. Serbia: Monetary Survey, 2022–29^{1/}

	2022	2023		2024		2025	2026	2027	2028	2029
		CR 23/433	Est.	CR 23/433	Proj.	Proj.	Proj.	Proj.	Proj.	
(Billions of RSD, unless otherwise indicated; end of period) 1/										
Net foreign assets 2/	1,853	2,566	2,700	2,911	3,056	3,309	3,435	3,518	3,740	3,836
<i>In billions of euro</i>	15.8	21.8	23.0	24.9	25.9	28.2	29.3	29.9	31.8	32.6
Foreign assets	2,692	3,326	3,381	3,674	3,751	4,006	4,135	4,220	4,446	4,544
NBS	2,291	2,897	2,933	3,229	3,282	3,515	3,621	3,670	3,863	3,921
Commercial banks	401	429	448	445	470	492	514	550	583	622
Foreign liabilities (-)	-838	-760	-681	-763	-695	-697	-700	-703	-706	-707
NBS	-116	-3	0	-3	-3	-3	-3	0	0	0
Commercial banks	-722	-757	-680	-760	-692	-694	-697	-703	-706	-707
Net domestic assets	2,117	1,728	1,789	1,603	1,719	1,690	1,858	2,097	2,199	2,443
Domestic credit	3,348	3,316	3,162	3,560	3,476	3,712	4,042	4,526	4,993	5,492
Government, net	172	97	-56	226	85	105	132	251	316	357
NBS	-476	-457	-675	-385	-643	-584	-606	-579	-537	-623
Claims on government	101	80	87	56	56	59	62	65	68	72
Liabilities (deposits)	577	538	762	442	700	643	668	644	606	695
Banks	648	554	619	611	728	689	737	831	853	980
Claims on government	729	636	703	706	823	781	819	915	948	1,072
Liabilities (deposits)	81	81	84	95	95	92	81	84	95	92
Non-government sector	3,218	3,260	3,254	3,375	3,427	3,643	3,946	4,310	4,712	5,171
Households	1,458	1,473	1,474	1,523	1,550	1,646	1,780	1,942	2,120	2,323
Enterprises	1,715	1,741	1,733	1,805	1,827	1,945	2,109	2,306	2,524	2,773
Other assets, net	-1,231	-1,587	-1,373	-1,956	-1,757	-2,022	-2,185	-2,429	-2,793	-3,049
Capital accounts (-)	-1,094	-1,437	-1,220	-1,735	-1,491	-1,704	-1,806	-1,978	-2,255	-2,458
Broad money (M2)	3,971	4,294	4,490	4,514	4,774	4,999	5,293	5,614	5,940	6,279
Currency in circulation	311	355	369	375	395	414	444	476	511	548
Demand deposits	1,080	1,233	1,340	1,302	1,432	1,501	1,611	1,729	1,853	1,987
Time and saving deposits	423	484	516	511	552	578	621	666	714	766
Foreign currency deposits	2,158	2,221	2,264	2,326	2,396	2,506	2,617	2,743	2,862	2,979
<i>In billions of euro</i>	18.4	18.9	19.3	19.9	20.3	21.3	22.3	23.3	24.3	25.3
(Year-on-year percent change, unless otherwise indicated)										
Memorandum items										
M2	6.9	8.1	13.1	5.1	6.3	4.7	5.9	6.1	5.8	5.7
Velocity (M2)	1.8	1.9	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0
Deposits at constant exchange rate	7.2	7.4	12.6	5.4	5.9	4.9	5.9	5.8	5.6	5.6
Credit to non-gov. (current exchange rate)	10.0	1.7	4.3	2.6	4.1	4.5	6.1	6.3	6.3	6.7
Credit to non-gov. (constant exchange rates) 3/	10.2	1.6	4.4	3.0	3.6	4.8	6.3	6.0	6.3	6.8
Domestic	7.4	1.1	1.2	3.9	4.9	6.5	8.5	9.0	9.3	9.8
Households	6.2	1.0	1.2	3.6	4.9	6.3	8.3	8.9	9.2	9.6
Enterprises and other sectors	8.4	1.2	1.3	4.1	4.9	6.7	8.6	9.1	9.4	9.9
External	15.6	2.3	10.0	1.4	1.5	1.9	2.4	0.5	0.3	0.2
Credit to non-gov. (real terms) 4/	-4.4	-5.8	-3.1	-1.4	0.5	1.5	3.0	3.2	3.2	3.6
Domestic credit to non-gov. (real terms)	-6.9	-6.2	-6.1	-0.5	1.6	3.2	5.2	6.0	6.1	6.5
Households	-7.9	-6.4	-6.1	-0.6	1.5	3.1	5.0	5.9	6.0	6.4
Enterprises and other sectors	-6.0	-6.1	-6.1	-0.3	1.8	3.3	5.3	6.2	6.3	6.7
External	0.2	-5.0	2.1	-3.0	-1.4	-1.4	-0.8	-2.1	-2.6	-2.8
Deposit euroization (percent of total) 5/	59.0	56.4	54.9	56.2	54.7	54.6	54.0	53.4	52.7	52.0
Credit euroization (percent of total) 5/	64.2	64.2	64.8	63.2	63.8	62.8	61.8	61.3	60.8	60.3

Sources: NBS; 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 RSD/euro exchange rates for converting FX and FX-indexed loans to RSD.

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 9. Serbia: NBS Balance Sheet, 2022–29^{1/}

	2022	2023		2024		2025	2026	2027	2028	2029
		CR 23/433	Est.	CR 23/433	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
		(Billions of RSD, unless otherwise indicated; end of period) 1/								
Net foreign assets	2,175	2,894	2,933	3,226	3,279	3,511	3,617	3,667	3,860	3,918
<i>In billions of euro</i>	18.5	24.6	25.0	27.6	27.8	29.9	30.9	31.2	32.8	33.3
Gross foreign reserves	2,291	2,897	2,933	3,229	3,282	3,515	3,621	3,670	3,863	3,921
Net domestic assets	-964	-1,709	-1,523	-1,941	-1,904	-2,113	-2,083	-2,031	-2,119	-2,066
Net domestic credit	-562	-1,359	-1,065	-1,836	-1,799	-2,113	-2,083	-2,031	-2,119	-2,066
Net credit to government	-476	-457	-675	-385	-643	-584	-606	-579	-537	-623
Claims on government	101	80	87	56	56	59	62	65	68	72
Liabilities to government (-)	-577	-538	-762	-442	-700	-643	-668	-644	-606	-695
Reserve money	1,211	1,185	1,410	1,284	1,375	1,399	1,534	1,636	1,741	1,852
Currency in circulation	311	355	369	375	395	414	444	476	511	548
Commercial bank reserves	548	474	696	537	596	584	671	720	772	828
Required reserves	273	274	410	287	295	309	322	338	353	367
Excess reserves	276	200	287	250	301	275	348	382	419	461

Sources: NBS; and IMF staff estimates and projections.

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

Table 10. Serbia: Banking Sector Financial Soundness Indicators, 2020–24

	2020	2021	2022				2023				2024
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Feb
Capital adequacy											
Regulatory capital to risk-weighted assets	22.4	20.8	20.0	19.4	19.5	20.2	20.5	22.3	22.2	21.4	21.4
Regulatory Tier 1 capital to risk-weighted assets	21.6	19.7	18.9	18.2	18.2	18.8	19.2	20.6	20.5	19.7	19.7
Nonperforming loans net of provisions to regulatory capital	6.7	7.6	7.7	7.5	7.4	6.5	6.4	6.3	6.2	6.0	6.0
Regulatory Tier 1 capital to assets	13.1	11.8	11.6	11.4	11.0	11.0	10.9	11.7	11.5	11.0	10.9
Large exposures to capital	73.8	86.0	98.9	104.7	109.3	86.7	87.0	70.0	71.2	85.6	85.8
Regulatory capital to assets	13.6	12.4	12.2	12.2	11.8	11.7	11.7	12.7	12.4	11.9	11.9
Asset quality											
Nonperforming loans to total gross loans	3.7	3.6	3.4	3.3	3.2	3.0	3.0	3.2	3.2	3.2	3.2
Sectoral distribution of loans (percent of total loans)											
Deposit takers	0.3	0.0	0.2	0.8	0.8	0.7	0.8	0.4	0.3	0.2	0.3
Central bank	1.1	1.5	0.4	0.2	1.4	3.3	8.4	10.1	11.7	11.0	11.8
General government	1.6	1.7	1.7	1.9	1.8	2.2	2.2	2.2	2.3	2.7	2.7
Other financial corporations	0.8	0.6	0.6	1.0	0.9	1.1	1.0	1.0	0.9	1.0	1.0
Nonfinancial corporations	49.6	49.3	50.2	49.8	48.8	47.6	44.4	43.4	42.5	43.4	41.0
Agriculture	3.3	3.0	2.8	2.6	2.8	2.8	2.5	2.4	2.3	2.4	2.2
Industry	15.0	15.5	19.5	19.3	19.1	18.4	17.2	16.6	16.2	16.4	15.9
Construction	5.1	4.9	4.9	4.6	4.2	4.1	3.8	4.0	3.8	4.0	3.7
Trade	13.3	12.5	10.9	11.1	11.0	10.7	10.1	9.9	9.5	9.4	8.9
Other loans to nonfinancial corporations	13.0	13.4	12.3	12.1	11.6	11.7	10.7	10.6	10.6	11.2	10.4
Households and NPISH	45.0	45.0	44.7	44.2	43.2	43.2	40.5	40.1	38.9	39.4	38.5
Households and NPISH of which: mortgage loans to total loans	16.4	17.4	17.5	17.3	17.1	17.4	16.3	16.1	15.5	15.5	15.1
Foreign sector	1.6	1.9	2.0	2.1	3.1	2.0	2.8	2.7	3.4	2.3	4.8
IFRS provision for NPLs to gross NPLs	59.0	56.3	56.3	57.0	57.1	58.1	58.4	57.9	58.7	60.5	60.9
IFRS provision of total loans to total gross loans	3.5	3.2	3.1	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.2
Earnings and Profitability											
Return on assets	1.1	1.2	1.4	1.5	1.5	1.9	2.6	2.6	2.6	2.5	2.9
Return on equity	6.5	7.8	10.0	10.5	10.9	13.9	19.7	19.3	19.3	18.1	21.0
Liquidity											
Customer deposits to total (noninterbank) loans	116.4	119.5	113.1	110.8	114.4	120.5	123.2	123.6	127.0	132.1	133.6
Foreign-currency-denominated loans to total loans	64.7	63.2	64.5	65.7	66.6	65.5	62.6	61.4	60.5	59.7	59.4
Average monthly liquidity ratio	2.2	2.1	2.0	1.9	2.0	2.2	2.4	2.4	2.5	2.5	2.7
Average monthly narrow liquidity ratio	1.9	1.7	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.8	1.8
Sensitivity to Market Risk											
Net open position in foreign exchange to regulatory capital		0.4	1.5	1.7	0.4	1.5	1.3	0.3	0.5	0.8	1.0
Foreign-currency-denominated liabilities to total liabilities	62.3	61.4	62.7	64.5	63.7	62.1	61.3	60.4	59.5	57.9	59.3
Classified off-balance sheet items to classified balance sheet assets	36.3	39.1	37.9	37.7	37.7	39.6	39.8	40.9	43.2	45.2	45.2

Source: NBS.

Table 11. Serbia: Schedule of Reviews and Available Credit Under the 2-Year SBA Arrangement, 2022–24

Availability Date	Condition	Original Purchase Intention	Access (Additional)			Credit Available (Cumulative)			Status
			SDRs (Mill)	Quota 1/ (Percent)	EURs 2/ (Mill)	SDRs (Mill)	Quota 1/ (Percent)	EURs 2/ (Mill)	
December 19, 2022	Approval of the SBA Arrangement	Purchase	785.76	120.00	992.6	785.76	120.00	992.6	Purchased
June 1, 2023	Observance of end-Dec 2022 PCs, continuous PCs, and completion of First Review	Purchase	163.70	25.00	206.8	949.46	145.00	1,199.4	Purchased
December 19, 2023	Observance of end-June 2023 PCs, continuous PCs, and completion of Second Review	Purchase	316.53	48.34	399.9	1,265.99	193.34	1,599.3	Precautionary
June 3, 2024	Observance of end-Dec 2023 PCs, continuous PCs, and completion of Third Review	Precautionary	316.46	48.33	399.8	1,582.45	241.67	1,999.1	Precautionary
December 2, 2024	Observance of end-June 2024 PCs, continuous PCs, and completion of Fourth Review	Precautionary	316.47	48.33	399.8	1,898.92	290.00	2,398.9	

Source: IMF staff
1/ Quota is SDR 654.8 million
2/ Indicative, at SDR/ EUR exchange rate of 11/16/2022: 0.791589

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Global Conjunctural Risks				
Intensification of regional conflict(s).	<p>High</p> <p>Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and increase refugee flows.</p>	Short to medium term	<p>High</p> <p>Adverse spillovers and commodity price shocks would reduce trade, lower investor confidence and stall FDI. Inflation may rise, raising demands for fiscal support programs and a weaker fiscal position.</p> <p>Serbia's current preferential economic relations with the EU (Serbia is a candidate country) could be downgraded which would reduce trade, lower investor confidence and stall FDI.</p> <p>Medium</p> <p>Supply of contracted gas volumes to Serbia could be curtailed in transit implying energy security risks. Higher costs of gas imports because of additional transit fees on Russian gas could increase costs and create fiscal risks.</p>	<ul style="list-style-type: none"> • Further monetary tightening if there are strong signs of second-round inflation effects. • Intensify efforts to secure alternative energy sources and, in extremis, allocate supplies in accordance with a national rationing plan. • Allow automatic stabilizers to operate. • Targeted support to vulnerable households. • Adjust energy tariffs further to help offset changes in costs.
Commodity price volatility.	<p>High</p> <p>A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility (...)</p>	Short to medium term	<p>High</p> <p>Cost push inflation resumes, leading to declines in real income. Sharp increases in energy prices could make some businesses unviable.</p>	<ul style="list-style-type: none"> • Adjust energy tariffs further to help offset changes in costs. • Further monetary tightening if there are strong signs of second-round inflation effects.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
			<p>Inflation expectations could worsen and lead to a wage-price spiral.</p> <p>Medium (positive)</p> <p>Near-shoring to Serbia could intensify.</p>	<ul style="list-style-type: none"> Targeted support to vulnerable households. Accelerate efforts to secure energy diversification.
<p>Abrupt global slowdown or recession.</p>	<p>Medium</p> <p>Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation triggering sudden stops in EMDEs.</p> <ul style="list-style-type: none"> China: (...) disinflationary pressures and adverse macro-financial feedback loops. Medium Europe: Intensifying fallout from Russia's war in Ukraine, supply disruptions, [and] tight financial conditions, (...) exacerbate economic downturn. Medium U.S.: (...) inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in (...) a "hard landing". Medium 	<p>Short to medium term</p>	<p>High</p> <p>Sharp growth slowdown, and weaker fiscal and external position.</p>	<ul style="list-style-type: none"> In the event of an aggregate supply shock, tightening, if there are signs of second-round inflation effects. In the event of a negative demand shock accompanied by lower inflation, and recognizing recently strengthened buffers, appropriate loosening. Allow automatic stabilizers to operate. Targeted support to vulnerable households. Access the precautionary tranches of the SBA.
<p>Monetary policy miscalibration.</p>	<p>Medium</p> <p>Amid high economic uncertainty, major central banks loosen monetary</p>	<p>Short to medium term</p>	<p>High</p> <p>Global inflation stays higher for longer, increasing imported inflation in Serbia.</p>	<ul style="list-style-type: none"> Further monetary tightening if there are strong signs of second-round inflation effects.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.		<p>Inflation expectations worsen. Risk premia for Serbia could increase along with premia for other EMDEs.</p> <p>Medium (positive)</p> <p>Search for yield could incentivize investment in Serbia, but the rather limited integration into global capital markets makes it a less attractive destination for hot money flows.</p>	<ul style="list-style-type: none"> • Modest loosening if clear evidence emerges of major central banks keeping monetary policy tight for longer than warranted.
Systemic financial instability.	<p>Medium</p> <p>High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.</p>	Short to medium term	<p>Medium</p> <p>Parent banks may become more risk averse about their Serbian operations.</p>	<ul style="list-style-type: none"> • Further strengthen already robust and vigilant banking supervision. • Intensify surveillance of developments in home economies of parent banks. • Tighten policies if financial conditions for EMs worsen, leading to higher risk premia and depreciation pressures. • Maintain a stable and predictable regulatory regime to retain confidence in the Serbian economy.
Sovereign debt distress.	<p>Medium</p> <p>Domino effects of higher global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs</p>		<p>Medium</p> <p>Serbia's access to the Eurobond market would likely be curtailed, similar to other EMDEs, but with rather limited integration into global capital</p>	<ul style="list-style-type: none"> • Obtain financing from bilateral creditors, as in the past. • Access the precautionary tranches of the SBA.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.		markets and a high share of FDI, the risk for capital outflows from non-residents appears manageable in the near term.	
Global Structural Risks				
Deepening geo-economic fragmentation.	High Broader conflicts, inward oriented policies, and weakened international cooperation result in a less efficient reconfiguration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary systems, and lower growth.	Short to medium term	High Similar impact as described in conjunctural risks, but deeper and longer-lasting. Medium (positive) Serbia may benefit from near-shoring, and inward migration or relocation of businesses.	<ul style="list-style-type: none"> Take measures to ensure globally diversified imports, exports and financing. Enhance efforts to ensure a business-friendly environment while continuing to combat the grey economy. Prioritize reforms that ensure evenhandedness within the framework of a market and rules-based economy.
Cyberthreats.	Medium Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	Short to medium term	Medium While digitalization of the economy and government operations is progressing, it is not yet at the stage where the impact of cyberattacks would appear to have a generalized macro-critical impact.	<ul style="list-style-type: none"> Implement high standards of IT security for government and public IT infrastructure, taking advantage of expertise in the local IT sector. Strengthen a cyberattack emergency response capacity.
Extreme climate events.	Medium Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure,	Medium term	Medium Serbia is exposed to some climate risks including droughts (adversely impacting food supply and electricity generation), landslides, waterlogging	<ul style="list-style-type: none"> Strengthen disaster preparedness, including contingency reserves in the budget.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	supply disruptions, lower growth, and financial instability.		(adversely affecting coal production and electricity generation), and earthquakes.	<ul style="list-style-type: none"> Build further capacity for fiscal risk management, and link the insights into government planning and budgeting.
Disorderly energy transition.	<p>Medium</p> <p>A disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.</p>	Medium term	<p>Medium</p> <p>Domestic coal production and hydroelectric capacity, combined with current reforms (see below) provides some resilience in the energy sector.</p>	<ul style="list-style-type: none"> Adhere to a well-specified national energy and climate strategy and communicate any changes transparently and with appropriate lead times.
Domestic Risks				
Domestic policy errors or loss of fiscal discipline.	<p>Medium</p> <p>Structural reform delays, looser fiscal policies, lower than expected benefits from investment projects and/or escalating constructions costs.</p> <p>Medium</p> <p>Selective price and interest rate controls that impede contractual freedoms and create planning uncertainty.</p>	Short to medium term	<p>High</p> <p>Loss of fiscal discipline and perceived regulatory instability would undermine market confidence. Structural reform delays would undercut growth prospects. if not managed well, stepped-up investment could raise imports, weaken reserve buffers, and create inflation pressure.</p>	<ul style="list-style-type: none"> Take corrective action to restore fiscal discipline and adhere to fiscal deficit objectives. Re-prioritize structural reforms with well-defined action plans and front-loading of corrective actions. Carefully prioritize and phase in the investment projects. Evaluate their performance and leverage results to strengthen public investment management. More rapidly phase out all price and interest rate controls.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
<p>Energy sector reform delays.</p>	<p>Medium</p> <p>Electricity production remains unreliable, and coal and electricity imports remain elevated. Political pressure and continued weak governance of SOEs delay efficiency enhancements, and diversification of energy sources and energy providers, and the green transformation.</p>	<p>Short to medium term</p>	<p>High</p> <p>Despite efforts, financial viability of the energy companies is not yet ascertained, and fiscal costs and risks persist. Energy security, availability of green energy, and environmental sustainability remain at risk over the medium term, eventually increasing costs and deterring FDI.</p>	<ul style="list-style-type: none"> • Take corrective actions in the spirit of currently ongoing and planned reforms. • Further adjust energy tariffs to ensure full cost recovery and enable sufficient investment spending for energy infrastructure upgrades. • Further strengthen management of key energy SOEs, inter alia, by insulating companies from political interference. • Reach consensus on and implement an energy sector strategy with well-defined roles for the government, SOEs and the private sector.

Annex II. Sovereign Risk and Debt Sustainability Assessment

Table 1. Serbia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting record high international reserves, declining public debt, a steady base of external official and domestic creditors, and manageable fiscal deficits and financing needs despite ambitious medium-term investment plans. Rising pension liabilities will, absent further pension reforms, weigh on public finances in the long term.
Near term 1/	...	...
Medium term	Moderate	Moderate	Medium term risks are moderate. Ambitious capital spending plans require higher deficits than under the fiscal rule, whose full implementation has been postponed, but appear consistent with macroeconomic stability. The projected public debt path is higher than in the 2nd Review, also reflecting a further accumulation of contingent liabilities, but continues to decline. Fiscal financing risks appear manageable, helped by long average debt maturities, a large share of official financing, liquid domestic banks, ample fiscal buffers, and effective debt management.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Moderate	Long term risks are moderate. The pension system is helped by rising female retirement ages, retirement of smaller age cohorts, stagnating life expectancy, and scope for further employment gains. But absent mitigating measures, a shrinking and aging population will put pressures on pension spending and on public finances over time.
Sustainability assessment 2/	...	Sustainable	Debt is sustainable. Debt is projected to continue to fall and GFNs appear manageable, conditional on continued prudent fiscal policy and sustained reforms.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Serbia is at a moderate overall risk of sovereign stress and debt is sustainable. Fiscal and external buffers have strengthened, supported by strong program ownership and successful debt management. Some fiscal loosening and further accumulation of contingent liabilities as a result of new and ambitious capital spending plans appear consistent with macroeconomic stability but also implies a somewhat higher public debt path. Further reforms, including of public investment management, and continued prudent public debt management are, however, key to maintaining confidence. In the long term, debt sustainability risks from an ageing population are calling for mitigating measures.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

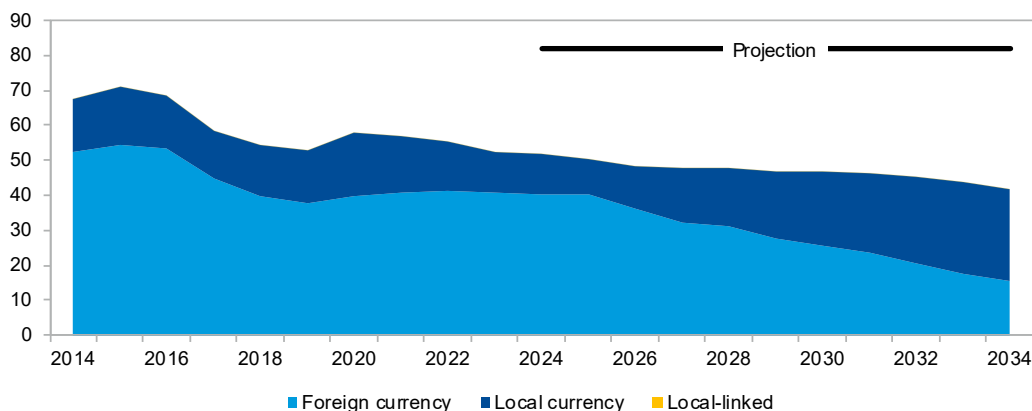
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Serbia: Debt Coverage and Disclosures

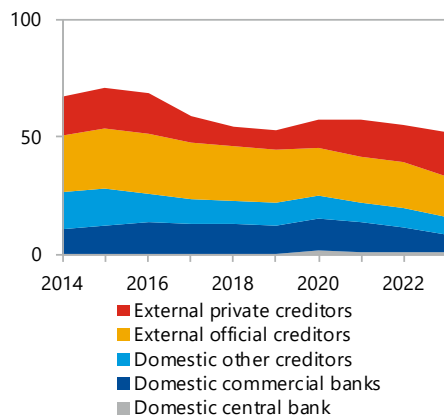
										Comments												
1. Debt coverage in the DSA: 1/										CG	GG	NFPS	CPS	Other								
1a. If central government, are non-central government entities insignificant?															n.a.							
2. Subsectors included in the chosen coverage in (1) above:																						
Subsectors captured in the baseline															Inclusion							
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes											
				2	Extra budgetary funds (EBFs)						Yes											
				3	Social security funds (SSFs)						Yes											
				5	Local governments						Yes											
				6	Public nonfinancial corporations						No											
				7	Central bank						No											
				8	Other public financial corporations						No											
				3. Instrument coverage:										Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGs 3/				
4. Accounting principles:										Basis of recording		Valuation of debt stock										
										Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/								
5. Debt consolidation across sectors:										Consolidated		Non-consolidated										
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable																						
Reporting on Intra-Government Debt Holdings																						
Issuer										Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total			
CPS	NFPS	GG: expected	CG	1	Budget. central govt													0				
				2	Extra-budget. funds															0		
				3	Social security funds																0	
				4	State govt.																0	
				5	Local govt.																0	
				6	Nonfin pub. corp.																	0
				7	Central bank																	0
				8	Oth. pub. fin. corp																	0
Total											0	0	0	0	0	0	0	0	0			
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.																						
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.																						
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.																						
4/ Includes accrual recording, commitment basis, due for payment, etc.																						
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).																						
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.																						
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.																						
Commentary: Serbia's debt coverage and disclosure is consistent with the standard recommendations. Publicly-guaranteed debt is included in total public debt.																						

Table 3. Serbia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)

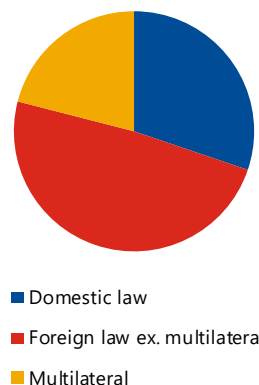


Public Debt by Holder (Percent of GDP)



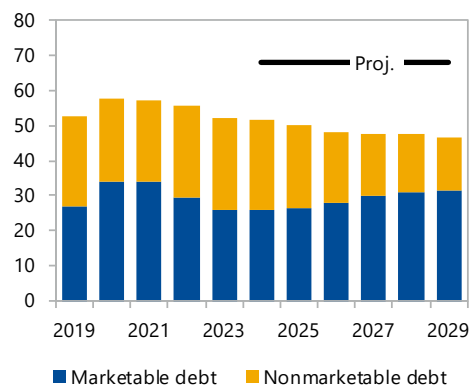
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



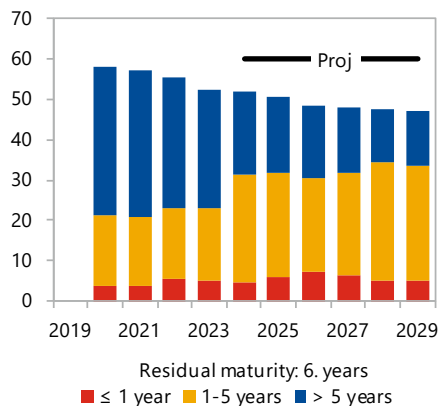
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



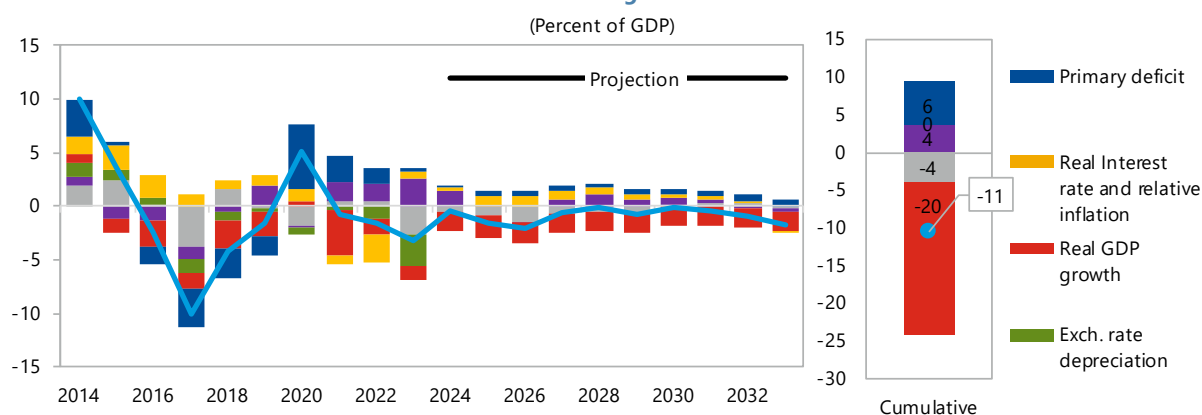
Note: The perimeter shown is general government.

Commentary: Public debt remains on a declining path with domestic and multilateral creditors accounting for more than half of the stock. Medium- to long-term maturities and fixed rates are governing debt issuance.

Table 4. Serbia: Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	52.3	52.0	50.4	48.4	47.8	47.7	46.9	46.8	46.4	45.4	43.8
Change in public debt	-3.3	-0.4	-1.5	-2.1	-0.6	-0.1	-0.8	-0.1	-0.4	-0.9	-1.7
Contribution of identified flows	-0.6	0.1	-0.7	-0.6	0.1	0.3	-0.2	-0.3	-0.6	-1.2	-1.6
Primary deficit	0.4	0.2	0.5	0.5	0.6	0.4	0.5	0.5	0.5	0.5	0.6
Noninterest revenues	42.6	42.7	42.9	42.8	42.6	42.6	42.6	42.7	42.6	42.5	42.4
Noninterest expenditures	43.0	42.9	43.4	43.3	43.2	43.0	43.1	43.2	43.1	43.1	43.1
Automatic debt dynamics	-3.6	-1.5	-1.2	-1.1	-1.1	-1.3	-1.3	-1.4	-1.5	-1.6	-1.8
Real interest rate and relative inflation	0.7	0.4	0.8	0.9	0.7	0.6	0.5	0.4	0.3	0.2	-0.1
Real interest rate	-2.2	-0.8	0.3	0.4	0.3	0.2	0.2	0.2	0.1	0.0	-0.3
Relative inflation	2.9	1.2	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.2	0.3
Real growth rate	-1.4	-1.9	-2.1	-1.9	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.7
Real exchange rate	-2.9	...	...	...	...	...	...	...	...	...	...
Other identified flows	2.6	1.4	0.0	0.0	0.6	1.2	0.6	0.6	0.4	-0.2	-0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	2.6	1.4	0.0	0.0	0.6	1.2	0.6	0.6	0.4	-0.2	-0.4
Contribution of residual	-2.6	-0.5	-0.8	-1.5	-0.7	-0.4	-0.6	0.2	0.2	0.3	-0.1
Gross financing needs	10.2	8.5	6.8	9.6	10.2	9.7	10.0	10.3	10.5	11.5	11.3
of which: debt service	9.8	8.3	6.3	9.1	9.6	9.3	9.5	9.8	10.0	10.9	10.7
Local currency	4.6	1.5	2.6	2.3	1.0	2.9	2.2	2.7	3.7	4.2	4.5
Foreign currency	3.4	6.8	3.6	6.8	8.6	6.4	7.2	7.1	6.3	6.7	6.2
Memo:											
Real GDP growth (percent)	2.5	3.8	4.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Inflation (GDP deflator; percent)	12.0	5.7	3.3	3.2	3.1	3.1	3.1	3.0	3.0	3.0	3.4
Nominal GDP growth (percent)	14.8	9.8	7.6	7.3	7.3	7.2	7.2	7.1	7.1	7.1	7.5
Effective interest rate (percent)	3.8	4.0	4.1	4.1	3.8	3.5	3.5	3.3	3.1	2.9	2.6

Contribution to Change in Public Debt



Commentary: Public debt is projected to continue declining, chiefly facilitated by the expected return of real GDP growth to potential following recent successive shocks, but the primary deficit is anticipated to widen somewhat compared to the 2nd Review, reflecting new and ambitious public investment plans.

Table 5. Serbia: Medium-Term Risk Assessment

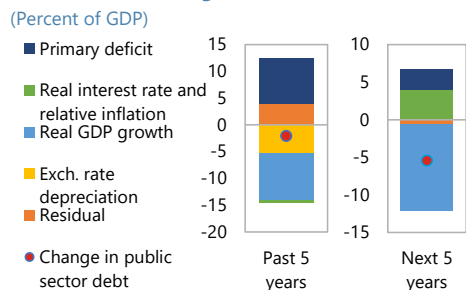
	Value	Contrib 1/	Percentile in peer group 2/	
Final Fanchart (Percent of GDP)				
Debt fanchart module				
Fanchart width (percent of GDP)	55.7	0.8		
Probability of debt non-stabilization (percent)	19.6	0.2		
Terminal debt-to-GDP x institutions index	27.3	0.6		
Debt fanchart index (DFI)				
		1.6		
Risk signal: 3/ Moderate				
Gross Financing Needs (Percent of GDP)				
Gross financing needs (GFN) module				
Average baseline GFN (percent of GDP)	9.1	3.1		
Initial Banks' claims on the gen. govt (pct bank assets)	13.3	4.3		
Chg. In banks' claims in stress (pct banks' assets)	14.2	4.7		
GFN financeability index (GFI)				
		12.2		
Risk signal: 4/ Moderate				
Triggerred stress tests (stress tests not activated in gray)				
Banking crisis	Exchange rate	Commodity prices	Contingent liab.	
Medium-Term Index (Index Number)				
Medium-term risk analysis				
	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.6	0.3	0.5	0.2
GFN financeability index	12.2	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		
Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.				
Prob. of false alarms, 2024-2029, if stress predicted: 31.8 pct.				
<p>Commentary: The Debt Fanchart Module and the GFN Financeability Module suggest moderate debt sustainability risks while the medium-term index is moderate. Domestic financing risks are mitigated by the liquid banking sector, low government debt compared to many peers, and with a large share of near- to medium-term financing needs expected to be met by official creditors.</p>				
Source: IMF staff estimates and projections.				
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.				
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.				
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.				
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.				
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.				

Table 6. Serbia: Realism of Baseline Assumptions

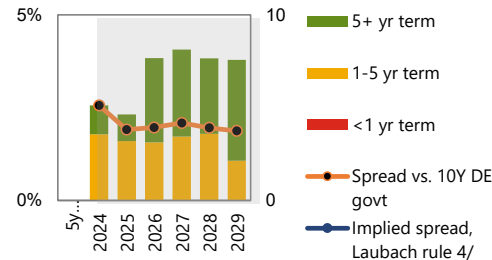
Forecast Track Record 1/	t+1	t+3	t+5	Comparator Group:
Public debt to GDP	Green	Green	Red	Emerging Markets, Non-Commodity Exporter, Program
Primary deficit	Green	Green	Light Green	
r - g	Light Green	Light Green	Red	Color Code:
Exchange rate depreciatoin	Orange	Orange	Orange	Optimistic > 75th percentile
SFA	Light Green			50-75th percentile
	real-time	t+3	t+5	Pessimistic < 25th percentile

Historical Output Gap Revisions 2/

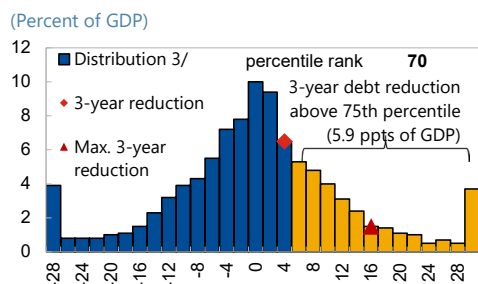
Public Debt Creating Flows



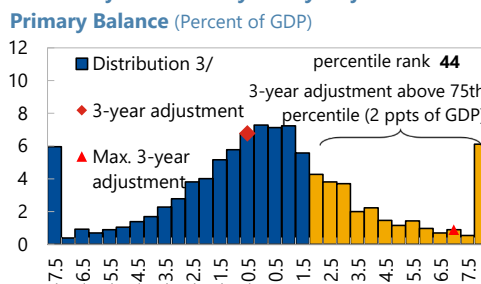
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



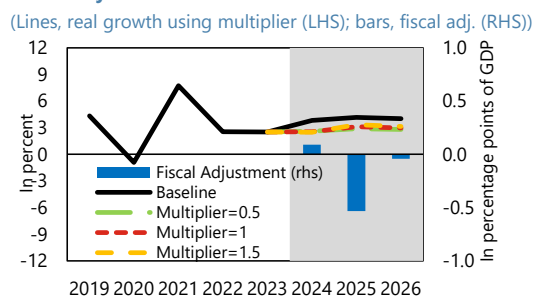
3-Year Debt Reduction



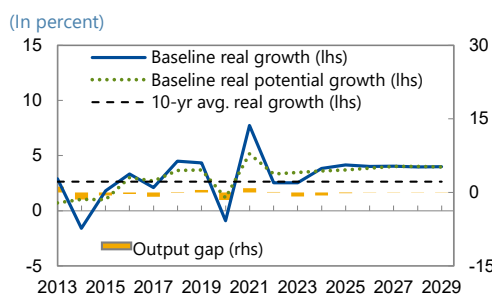
3-Year Adjustment in Cyclically-Adjusted



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



Commentary: Serbia has shown strong growth and policy performance in recent years. Realism analysis suggests projections without systemic biases, broadly in line with history and peers. Projected adjustments are more conservative than past episodes of fiscal consolidation and debt reduction. Robust medium-term growth projections are driven by catch-up in productivity and ongoing capital accumulation, yielding potential growth of around 4 percent.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates).

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Table 7. Serbia: Long-Term Risk Assessment

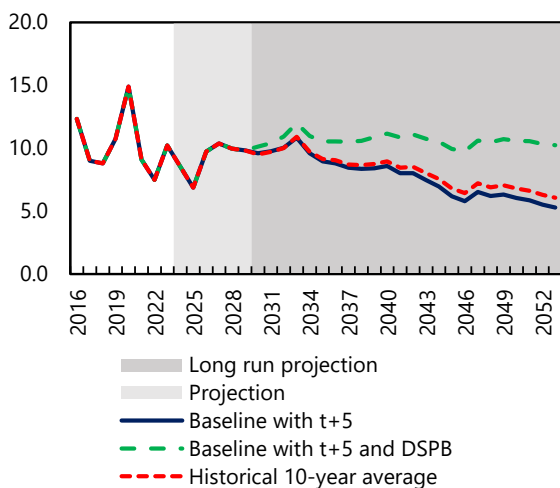
Serbia: Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

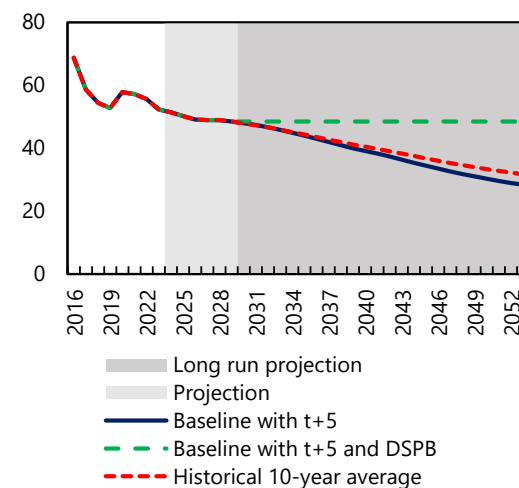
Serbia: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green bar
	Amortization-to-GDP ratio	Green bar
	Amortization	Red bar
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green bar
	Amortization-to-GDP ratio	Green bar
	Amortization	Red bar
Historical average assumptions	GFN-to-GDP ratio	Green bar
	Amortization-to-GDP ratio	Green bar
	Amortization	Red bar
Overall Risk Indication		Green bar

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



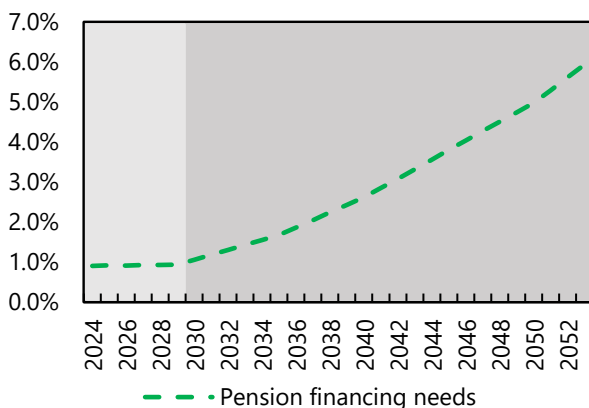
Commentary: In the long term, public debt and gross financing needs remain on a downward trajectory under scenarios where nominal GDP growth, the primary balance and REER changes are kept in line with 2029 baseline projections or historical 10-year averages, suggesting a low risk for debt sustainability and gross financing needs.

Table 8. Serbia: Long-Term Risk Assessment (continued)

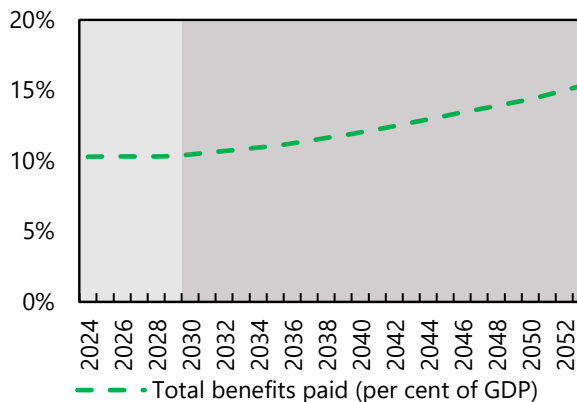
Serbia: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	2.6%	4.6%	6.3%

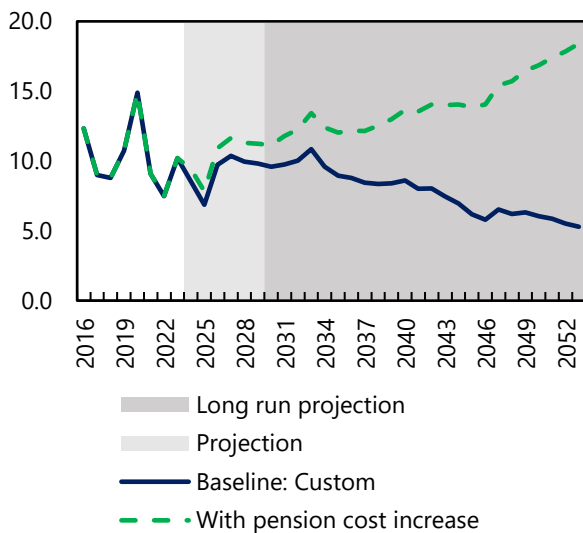
Pension Financing Needs



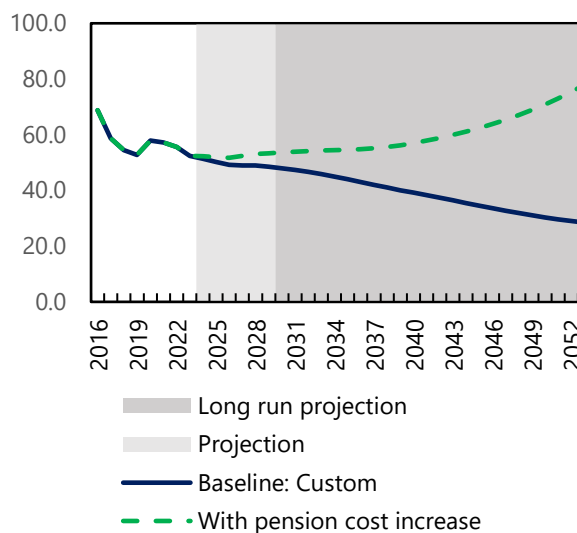
Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The costs of population ageing on the pension system would, absent any policy reforms, put the public debt to GDP ratio on a rising trajectory from the late 2030s, pointing to the merits of adopting mitigating fiscal measures or further pension reforms.

Annex III. External Sector Assessment

Overall Assessment: Serbia's external position in 2023 was stronger than the level implied by fundamentals and desirable policies. The terms of trade shock that resulted from Russia's invasion of Ukraine has largely abated and, with deep-rooted energy sector reforms under the SBA, helped address Serbia's fiscal and external imbalances. As a result, Serbia's current account narrowed from -6.9 percent of GDP in 2022 to an estimated -2.6 percent in 2023. The current account deficit is expected to widen towards its norm over the medium term, and reserve accumulation to slow. In addition, Serbia's FDI inflows remain robust, leading to a positive basic balance.

Potential Policy Responses: Monetary and fiscal policies should remain oriented to maintaining macroeconomic stability and reducing public debt, to provide a stable foundation for sustainable private investment and consumption. Public investment increases should be consistent with these objectives and be managed carefully. Continued implementation of the authorities' structural reform agenda would support external competitiveness and robust growth. Gradually allowing more exchange rate flexibility would strengthen shock absorption capacity.

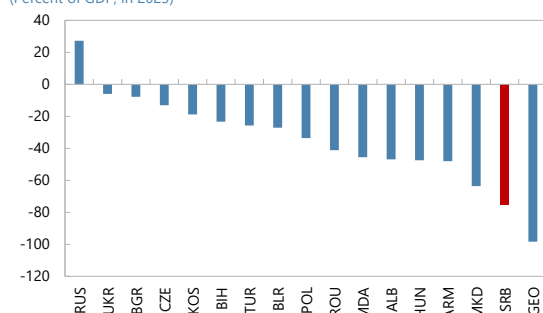
Foreign Assets and Liabilities: Position and Trajectory

Background. Serbia's net international investment position (NIIP) is negative, mostly because of large and sustained FDI inflows. After peaking in 2020 at 90 percent of GDP, the negative NIIP position has moderated, falling to a negative 72 percent of GDP at end-Q3, 2023. Non-resident holdings of local currency debt have dropped to below 3 percent of GDP, and short-term external debt is about 12 percent of GDP.

Assessment. Under the current baseline scenario, the current account gradually widens and returns towards the current account norm. The negative NIIP is expected to narrow and stabilize over time, reflecting lower government debt and increasing reserve assets. To mitigate risks, the authorities should continue to make progress on EU integration and maintain efforts to improve external competitiveness.

Net International Investment Position

(Percent of GDP; in 2023)

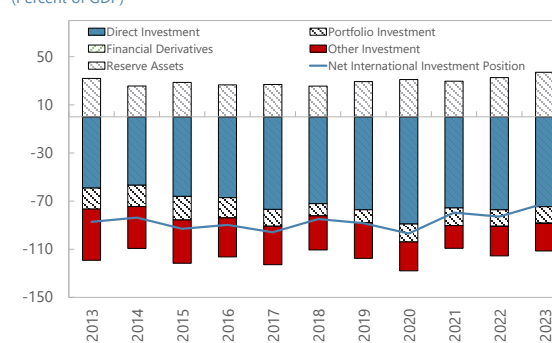


Note: MDA and RUS show 2022 data.

Sources: Haver Analytics, IMF WEO Database, and IMF staff calculations.

Serbia: Net International Investment Position

(Percent of GDP)



Sources: Haver Analytics, IMF WEO Database, and IMF staff calculations.

2023 (% GDP)	NIIP: -73%	Gross Assets: 64%	Debt Assets: -10%	Gross Liab.: -137%	Debt Liab.: -52%
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Current Account

Background. Serbia's current account deficit widened substantially in 2022, mainly because of higher energy prices, and reserves fell temporarily. In 2023, the current account deficit narrowed, reflecting a rebound in the terms of trade, continued robust remittances, and strengthening net exports on the back of weaker domestic demand and resilient exports, better performing services (especially ICT) exports, and a resumption of electricity exports. Serbia's external position also benefited from temporary effects of financial inflows from Russian and Ukrainian emigres fleeing Russia's war in Ukraine. The CA deficit continues to be financed by strong, diversified FDI inflows (equivalent to around 5.5 percent of GDP) as Serbia becomes increasingly integrated into global supply chains. Serbia's current account deficit is

expected to deteriorate in 2024 and gradually converge to its norm of -4.5 to -5.5 percent of GDP over the medium term, with a projected front-loaded adjustment in 2024 as domestic demand picks up.

Assessment. The CA model suggests an external position stronger than suggested by fundamentals, based mainly on accelerated reserve accumulation and relatively lower social expenditure. That said, the CA model does not capture the lagged impact of recent dinar appreciation, nor expected expansion of the fiscal envelope. Under the baseline, the estimated moderate imbalance is expected to resolve itself, as noted above, as domestic demand increases and one-off effects fade.

Serbia: EBA-lite Model Results, 2023

	CA model 1/ (in percent of GDP)	REER model 1/
CA-Actual	-2.6	
Cyclical contributions (from model) (-)	-0.2	
Additional temporary/statistical factors (-)		
Natural disasters and conflicts (-)		
Adjusted CA	-2.4	
CA Norm (from model) 2/	-5.0	
Adjustments to the norm (+)		
Adjusted CA Norm	-5.0	
CA Gap	2.6	-10.1
o/w Relative policy gap	6.2	
Elasticity	-0.4	
REER Gap (in percent)	-6.6	25.5

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

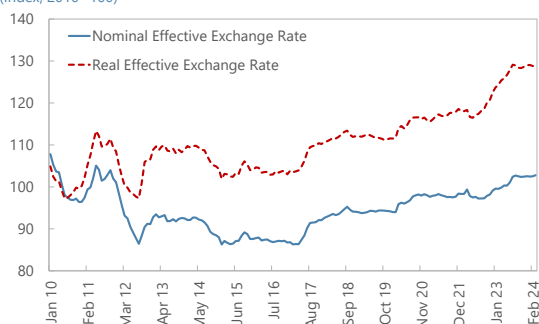
Real Exchange Rate

Background. The Serbian dinar has appreciated by about 11 percent in real effective terms since April 2022.

Assessment. Despite the narrowing CA deficit and appreciation pressures, the REER model suggests a real exchange rate overvaluation of over 25 percent. But estimation uncertainty is high and model fit is historically poor. Given income convergence, some more accelerated real appreciation is expected, but this is not expected to undermine external competitiveness under the baseline, which assumes implementation of the authorities’ structural reform agenda. The authorities’ de facto stabilized exchange rate regime remains appropriate, but once conditions allow, the authorities should pursue a policy of gradual exchange rate flexibility over the medium term, supported by ongoing policy reforms.

Serbia: Nominal and Real Effective Exchange Rate

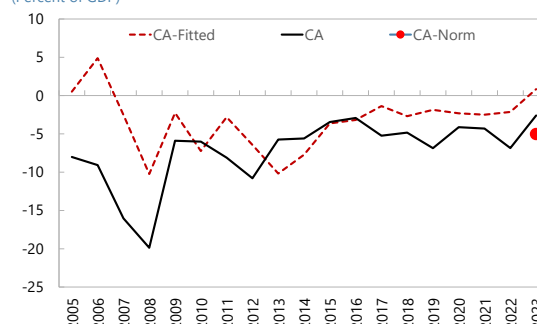
(Index; 2010=100)



Source: IMF INS database

Serbia: Current Account, Actual, Fitted, and Norm

(Percent of GDP)



Source: IMF staff calculations.

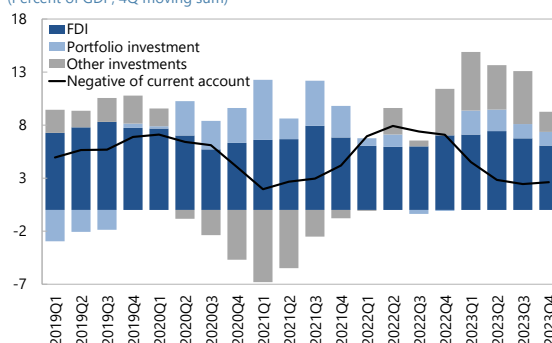
Capital and Financial Accounts: Flows and Policy Measures

Background. Net FDI has dominated Serbia’s financial account flows, averaging 6.5 percent of GDP since 2020. The smaller portfolio and other financial flows are mainly comprised of government Eurobond transactions and trade credits respectively. The private financial market’s role in external capital flows is small.

Assessment. FDI dynamics are expected to remain strong but to mature over the medium term with net inflows declining gradually. Risks associated with destabilizing changes in capital flows are low in Serbia.

Serbia: Financial Account Composition

(Percent of GDP; 4Q moving sum)



Sources: Haver Analytics and IMF staff calculations.

FX Intervention and Reserves Level

Background. Since 2017, Serbia’s reserves have increased substantially, from about 106 percent of the ARA metric for fixed exchange rate regimes to nearly 160 percent by end-2023. Reserves are primarily composed of liquid investment-grade securities and foreign exchange deposits.

Assessment. Reserve levels are assessed to be adequate over the five-year projection horizon. Even given Serbia’s high level of euroization, reserves at about 60 percent of M2 provide ample buffers. In addition, the Serbian financial sector’s liabilities to non-residents are relatively small, as are private capital flows. Under the baseline, the pace of reserve accumulation is projected to moderate over the medium-term, with the level of reserves in terms of the ARA expected to settle at around 135–145 percent.

Annex IV. Tax Administration Staffing Challenges

The Serbian Tax Administration (STA) is facing a retirement wave, which, coming on top of earlier staffing reductions, risks undermining tax collections. A comprehensive approach is needed to address this challenge, including ongoing modernization and organizational reforms, a revamped HR strategy, and appropriate wages for skilled staff. As the STA's challenges in attracting high-skilled staff are not unique, consideration could also be given to using the STA as a pilot case for addressing the needs of specialized functions and public sector entities with high-skilled labor forces in the lead-up to a wider public wage reform.

1. **The STA has seen large declines in staffing over the past decade and faces a retirement wave over 2024–27.** Under the retirement wave, STA is projected to lose a further 1,400—or about 40 percent—of its current permanent staff. Many of these retirees are high skilled, address the most complex tax cases, and train and mentor more junior staff.
2. **The STA's modernization program has allowed it to preserve and even increase revenue raising capacity with lower staffing levels** (Table 1). Over the past decade, the STA has helped reap major efficiency gains by modernizing its operations. Filing of tax returns and revenue collection are now mostly digital, and tax assessments have been shifted to self-assessment. Most revenue is collected through regular procedures (including reminders, notifications, and reprogramming), rather than enforcement proceedings. A Large Taxpayer Office collects about 40 percent of the STA's revenue. And E-fiscalization provides the STA with big data, and a new "Determining Sources of Wealth" unit further enhances enforcement activities.
3. **The staffing levels of advanced functions are now particularly low, however, even as these functions are becoming increasingly important for revenue collections** (Table 2). Staffing in many advanced functions is below 50 percent of authorized posts, including in areas such as enhanced and HQ audits; the large taxpayer unit; analysis, research, and specialized units; strategic risk, control, internal audit, and corporate and data security; and the transformation unit. These functions increasingly rely on data analytics techniques, risk assessment methodologies and digital skills, requiring highly skilled staff. In contrast, staffing levels in support functions as well as in non-core activities are higher, but still below 100 percent of authorized posts. These functions also continue to have a high share of manual tasks.
4. **Recruitment of new high-skilled STA staff has been slow.** The HR department has issued several job notices for blocks of about 30 candidates but hiring success rates have been low. Formalistic requirements, lengthy official procedures, low wages for junior staff, and stiff competition for talent from the private sector have been contributing factors.
5. **Without further reforms, ongoing STA staffing challenges could start to undermine revenue collection.** The automation of tax filing and revenue collection eliminated many manual tasks and reduced the facetime between taxpayers and tax officials. Hence, permanently lower staffing levels below currently authorized posts are anticipated. However, robust audits and analytical work exercised by well-qualified staff are essential for maintaining and enhancing high

voluntary compliance levels and strong revenue performance. This requires the hiring of high-skilled staff.

6. A comprehensive approach to STA staffing challenges is, therefore, urgently needed.

The transformation unit is now involved in strategic HR planning.

- Ongoing modernization should continue apace. The planned procurement of an off-the shelf tax administration IT system (COTS) will further eliminate manual tasks, enhance automation, and support modern business processes and data analytics. Consistent with the new business processes, the organizational structure of STA (HQ vs. branches), the number of staff, and the deployment of staff across functions will need to be realigned.
- The STA's HR Strategy needs to be further strengthened. The STA has already successfully redeployed staff, and further redeployments are anticipated. In addition, retraining and upskilling of existing staff could not only benefit the STA but also provide opportunities for career advancement. But new hiring is critical, and new staff should bring skills relevant for the future vision of the STA.
- The STA recognizes that immediate actions are needed to improve cooperation with the government-wide agencies in charge of hiring procedures. In addition, the STA is planning an advertisement and information campaign, which will be critical in helping to mark the STA as an attractive employer to prospective employees.
- To permit hiring and deployment of suitably qualified staff, the STA's position rule book needs to be modified and made more flexible. Initially the rule book should be simplified and streamlined to provide flexibility during the transition phase. Once the COTS has been implemented, a further review of roles and responsibilities would support the full implementation of the new business processes.
- The wages of high skilled STA staff also need to be reviewed and increased as needed. The STA's average wage has been broadly flat relative to the minimum wage, even though the tax reforms and modern tax administration practices demand more of each staff.
- The STA's budget should be increased, as a larger share of high-skilled staff will increase the average wage paid by STA. A budget increase would restore previous budget levels because the STA's budget as a share of GDP has decreased over the years in line with lower staff levels (Table 1).

7. The government could also consider using the STA as a pilot case for trialing new approaches for hiring of high-skilled staff in specialized functions or entities ahead of a wider public wage reform. While increasing the wage level for skilled staff is likely needed for maintaining sufficient staffing levels in STA, this decision is outside of the remit of the STA. A time-limited derogation from standard government employment rules could be considered, but would need to be handled carefully, because consistency of hiring and compensation conditions

across government entities is important for a well-functioning administration. That said, challenges in hiring and retaining high-skilled and specialized staff have become apparent throughout the government. As the STA's revenue collection function is macro critical, the government could use the organizational and staffing transformation of the STA as a pilot project for developing new approaches to employment terms and conditions for similarly situated specialized entities and functions.

Table 1. Serbia: Tax Administration Key Data, 2015–2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total tax revenue (trillion RSD)	1.5	1.6	1.7	1.8	2.0	2.0	2.4	2.8	3.1
<i>Share of GDP (percent)</i>	<i>33.9</i>	<i>35.0</i>	<i>36.1</i>	<i>35.9</i>	<i>36.8</i>	<i>36.2</i>	<i>38.6</i>	<i>38.9</i>	<i>37.8</i>
Tax revenue collected by STA (gross)	1.2	1.3	1.4	1.5	1.6	1.6	1.6	2.2	2.6
<i>Share of GDP (percent)</i>	<i>27.5</i>	<i>28.3</i>	<i>28.5</i>	<i>28.7</i>	<i>29.1</i>	<i>29.1</i>	<i>31.3</i>	<i>31.7</i>	<i>31.8</i>
o/w Social security contributions	0.5	0.5	0.6	0.6	0.7	0.7	0.9	1.0	1.1
o/w Domestic VAT (gross)	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.6
VAT refunds	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
Import VAT	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.7
Other taxes collected by customs and local governments	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Staff in STA									
Positions authorized	6,470	6,470	5,850	5,850	6,375	6,409	6,409	6,403	6,403
<i>Share of positions filled (percent)</i>	<i>89.6</i>	<i>86.2</i>	<i>90.9</i>	<i>88.2</i>	<i>76.6</i>	<i>73.9</i>	<i>73.5</i>	<i>70.4</i>	<i>67.7</i>
Staff in post	5,798	5,574	5,316	5,160	4,883	4,739	4,713	4,505	4,338
Permanent staff	5,338	5,102	4,830	4,685	4,368	4,137	3,951	3,716	3,554
Fixed term, trainees and contractuels	460	472	486	475	515	602	762	789	784
STA finances (bn RSD)									
STA budget	9.1	8.4	8.8	9.8	10.0	10.4	13.0	12.8	14.4
STA expenditure actuals	8.1	8.0	7.9	8.5	9.4	10.1	12.0	12.1	13.3
o/w STA wages and salaries	5.6	5.5	5.3	5.7	6.1	6.6	6.8	7.3	8.2
<i>STA wages relative of tax revenue collected by STA (percent)</i>	<i>0.48</i>	<i>0.43</i>	<i>0.39</i>	<i>0.39</i>	<i>0.39</i>	<i>0.41</i>	<i>0.35</i>	<i>0.32</i>	<i>0.31</i>
<i>STA wages as a share of GDP (percent)</i>	<i>0.13</i>	<i>0.12</i>	<i>0.11</i>	<i>0.11</i>	<i>0.11</i>	<i>0.12</i>	<i>0.11</i>	<i>0.10</i>	<i>0.10</i>
Average wage in STA, gross (RSD)	81,019	81,943	83,051	91,812	104,051	115,847	121,084	134,573	156,562
Average wage in STA, net (RSD)	45,469	46,011	46,625	51,735	58,819	65,663	68,778	76,540	89,851
Minimum wage, net (RSD)	21,054	21,054	22,533	24,760	27,022	30,137	32,004	34,878	39,867
<i>Average wage of a STA staff relative to minimum wage, net (multiple)</i>	<i>2.2</i>	<i>2.2</i>	<i>2.1</i>	<i>2.1</i>	<i>2.2</i>	<i>2.2</i>	<i>2.1</i>	<i>2.2</i>	<i>2.3</i>

Table 2. Serbia Tax Administration: Staffing Levels and Composition, 2023

	Authorized posts	Staff in post			Staff in post by function	
		Total	Permanent	Other 1/	Share staff in post over authorized positions	Share staff in post over total staff in post
	Number	Number	Number	Number	Percent	Percent
Total	6,403	4,338	3,554	784		100
Bringing in the revenue: Tax assessments, collections, enforcement, tax accounting						
Control/ assessments	2,212	1,420	1,143	277	64	33
Support roles	174	216	125	91	124	5
Verifications	460	223	223		48	5
Auditors – Desk audits	719	591	442	149	82	14
Auditors – Enhanced audits including site audits	559	237	212	25	42	5
Managers in branches	150	72	72		48	2
Audit department in HQ	150	81	69	12	54	2
Large taxpayer office	138	68	65	3	49	2
Collections and tax debt department	914	677	518	159	74	16
Analysis, research and specialized tax collections units	199	88	84	4	44	2
Tax police	248	167	164	3	67	4
Accounting department	439	288	257	31	66	7
Creating an enabling environment for robust taxation: Support functions						
IT	156	120	100	20	77	3
Taxpayer services and education	198	130	110	20	66	3
Human resources	558	423	311	112	76	10
Other support staff	319	267	217	50	84	6
Leadership, strategy, and central functions						
Director and central HQ staff	11	5	4	1	45	0
Strategic risk, internal control, internal audit, corporate and data security	79	37	36	1	47	1
International cooperation and exchange of information	14	10	8	2	71	0
Transformation unit	38	17	14	3	45	0
Non-core activities: Collection of local government and other revenue						
Sector for separate activities	619	452	370	82	73	10
Branches	261	169	153	16	65	4

Source: Serbia Tax Administration (STA).

1/ Includes fixed term, trainee, and contractual staff

Appendix I. Letter of Intent

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

Belgrade, June 7, 2024

Dear Ms. Georgieva:

The Serbian economy has been performing well despite the challenging global and regional environment. Macroeconomic outcomes in 2023 exceeded expectations. Growth has been picking up and the labor market remains resilient. Inflation is declining and is expected to fall within the inflation tolerance band by mid-2024. Supported by lower energy prices and increased exports, the current account deficit has narrowed significantly, and, with strong FDI inflows, foreign exchange reserves are at a record high. With strong revenue growth and falling energy subsidies, the fiscal deficit has narrowed. Financial stability has been maintained and close monitoring of the financial sector continues.

Our economic program, supported by the Stand-By Arrangement (SBA) that was approved by the IMF Executive Board on December 19, 2022, aims at preserving macroeconomic and financial stability, boosting the economy's resilience to energy shocks, and fostering higher, greener, and inclusive sustainable growth over the medium term. Performance under the program remains strong. All end-December 2023 QPCs were met. The standard continuous performance criteria and other indicative targets were also met. The structural reform agenda has been progressing, although there were delays in implementing the end-January 2024 structural benchmark (SB) on approving a new gas pricing system for the nonregulated sector and May 1, 2024 SB on EPS restructuring plan.

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) of December 1, 2022, we reiterate our commitment to the policies and objectives of the SBA-supported economic program and update the reform agenda that we intend to implement in 2024.

Considering our strong performance under the program, we request completion of the Third Review under the SBA, which would allow us to purchase the equivalent of SDR 316.46 million (48.33 percent of quota) in addition to the amounts available after the completion of the 2nd Review under the SBA (SDR 316.53 million, 48.34 percent of quota). Given our success with reducing macroeconomic imbalances, accumulating significant reserve and fiscal buffers, and strong balance of payments financing, we will continue treating the SBA as precautionary. We will only consider making purchases if the balance of payments deteriorates materially.

Our program will continue to be monitored through quantitative performance criteria, standard continuous conditionality, structural benchmarks, and an inflation consultation clause, as described in

the MEFP and the Technical Memorandum of Understanding (TMU). We also request modifications to our program. We request for modification of: (1) the net international reserves (NIR) floor be raised to 100 percent of the ARA metric on gross international reserves; and (2) the inflation consultation band in accordance with latest inflation projections. We also propose two new structural benchmarks in the area of public investment management and gas prices be set as outlined in the attached MEFP.

Reviews by the IMF will continue to be conducted on a semi-annual basis to assess program implementation and to reach understandings on any further program reforms needed. While we believe that the policies set forth in the MEFP are adequate to achieve the economic objectives under the program, we will promptly take any additional measures that may become necessary for this purpose. We will also consult with the IMF in advance of any revisions to the policies contained in our MEFP or any new policies that may affect program objectives, in accordance with the IMF's policies on such consultations; and we will provide IMF staff with all the data and information necessary for the purpose of monitoring the program.

In line with our commitment to transparency, we intend to make this letter available to the public, along with the MEFP, TMU, and the IMF staff report for the Third Review Under the SBA. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official website of the Serbian government.

Sincerely,

/s/

Miloš Vučević
Prime Minister

/s/

Jorgovanka Tabaković
Governor of the National Bank of Serbia

/s/

Siniša Mali
First Deputy Prime Minister
Minister of Finance

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

Attachment I. Memorandum of Economic and Financial Policies

1. This memorandum supplements our memorandum of December 1, 2022, provides information on recent developments, and presents our economic program for the remainder of 2024. The program aims to: (i) preserve macroeconomic and financial stability by tailoring our policy response to ongoing economic shocks; (ii) boost the economy's resilience to energy shocks by pursuing appropriate energy policies and reforms to tackle domestic energy sector challenges, while protecting the most vulnerable; and (iii) foster higher, greener, and inclusive sustainable growth over the medium term by implementing comprehensive structural reforms. The goals of the program are compatible with our aspirations to join the EU.

Recent Economic Developments and Outlook

2. Serbia's macroeconomic performance in 2023 exceeded expectations and is expected to remain strong.

- **Growth.** Real GDP increased by 2.5 percent in 2023. While in 1H2023 growth was driven by net exports on account of rising goods and services exports and falling imports, in 2H2023 the main growth drivers were investment and private consumption. On the production side, growth was driven by construction, agriculture, and industry. We expect growth to increase to 3.5 percent in 2024 and to be driven by domestic demand. Private consumption will be supported by continued employment and wage growth, while investment growth will be supported by the implementation of projects in transport, energy, and utility infrastructure. We expect economic growth to increase further in the years to come to about 4 to 5 percent, including because of large public investment outlays in the lead-up to hosting Specialised Expo 2027 under the theme "Play for Humanity: Sport and Music for All."
- **Inflation.** Headline inflation has been falling since April 2023, dropping to 5 percent in April 2024. This disinflation reflects subsiding cost-push pressures, the base effect for food prices, and the effects of past monetary tightening, which also brought core inflation down to 4.8 percent y-o-y in April 2024. We project inflation to fall to within the target band in the next few months and approach its midpoint of 3 percent by the end of the year. The effects of past monetary tightening, subsiding global cost-push pressures, the deceleration of imported inflation, and falling inflation expectations are also expected to contribute to falling inflation. This said, we will continue to monitor inflation developments closely adjusting policies as needed.
- **Balance of payments.** The current account deficit fell to 2.6 percent of GDP in 2023, reflecting an improved energy balance, a buoyant trade balance due to robust manufacturing exports and lower imports on account of lower import of energy and subdued domestic demand early in the year, and continued rapid growth in service exports. As in previous years, the current account deficit was more than fully covered by net FDI, supporting the sustainability of Serbia's external position and contributing to significant foreign reserve accumulation. For 2024, the current account deficit is projected to widen to nearly 4 percent of GDP as private consumption and

public investment pick up. We expect this wider current account deficit to continue to be more than fully covered by net FDI inflows.

- **Fiscal outcome.** The fiscal deficit in 2023 was 2.2 percent of GDP, better than the 2.8 percent deficit planned under the supplementary budget. This reflects primarily revenue overperformance, especially in VAT, and lower-than-planned current expenditure, mostly on outlays for wages and subsidies. As a result, general government public debt declined to 52.3 percent of GDP in 2023. For 2024, the National Assembly approved the budget in line with the program consolidation path and consistent with a 2.2 percent of GDP fiscal deficit, which would reduce public debt further to about 52.1 percent of GDP.

3. Risks to the outlook appear to be broadly balanced. Key risks from the international environment include the global growth outlook, the persistence of core inflation globally and, by extension, the duration of monetary policy tightening by major central banks. Geopolitical tensions, and global energy and primary commodity prices also represent risks. When it comes to domestic factors, the risks to the projections are associated with the pace of rebound in domestic demand, FDI inflows, the pace and growth impact of investments in the energy sector and infrastructure, as well as the outcome of the agricultural season.

4. Serbia has built up considerable buffers against uncertainties. These buffers include substantial foreign exchange reserves and public sector deposits, relatively low public debt, sustainable external and public debt dynamics, and a well-capitalized and liquid banking system. Another important anchor is Serbia's attractiveness as a destination for diversified FDI, reflecting its strong macroeconomic track record and its agile policy responses to shocks. The Stand-By Arrangement provides an additional buffer, while we adjust policies and implement reforms to move beyond the crisis and strengthen the economy's performance and its resilience. Serbia's medium-term outlook remains favorable, supported by our commitment to continued responsible macroeconomic policies and an ambitious structural reform agenda.

Economic Policies

5. We continue to monitor domestic and external developments closely and stand ready to tailor our policy responses as needed. In the context of earlier sharp increases in food and global energy prices, we introduced a set of administrative measures to cushion the impact of price shocks on Serbia's households and firms. Currently, we have in place price regulations on gasoline and diesel, as well as on one type of bread and wheat flour. In 1H2024, we also introduced import quotas on margarine and sunflower oil, for the duration of 9 months, and a temporary ban on the import of wood pellets (90 days). These administrative measures are temporary and of limited scope with the goal of moderating social and economic strains.

A. Energy Sector Policies

6. We are committed to addressing the deep-rooted weaknesses in Serbia's energy sector by continuing to implement a comprehensive set of much-needed reforms. Our policy

decisions under the IMF-supported program have been critical for ensuring energy security and for maintaining fiscal and external sustainability.

7. The series of electricity tariff increases in 2022–23 helped achieve cost recovery of the state-owned electricity company EPS. In a rebound, due to the policies implemented during the crisis period and favorable conditions for hydroelectric generation and exports, EPS achieved high profits in 2023. These profits were partly used to repay liquidity and investment project loans, thereby improving future cash flow. We are working now on ensuring the ongoing sustainability of the electricity supply pricing system.

- Starting from May 1, 2024, we removed the fixed electricity price for the non-regulated sector that was introduced during the energy crisis. This removal had to be brought forward as regional electricity prices fell well below the fixed price and revived competition in Serbia’s electricity sector. While these price decreases reduce EPS’ revenues, expected margins under current pricing methodologies remain sufficient to cover all operational costs and other cash flow requirements.
- In the meantime, EPS has been working on developing a new electricity supply pricing system for the non-regulated sector, which will become effective with the consent of the General Assembly of the EPS (i.e., the Minister of Mining and Energy) as of November 1, 2024 (**end-August 2024 SB**). The price system may include elements that help shield consumers from excessive short-term volatility in electricity markets to maintain Serbia’s strong international attractiveness as an investment destination.
- In parallel, we have been conducting a holistic analysis of the electricity supply pricing system (for the regulated and non-regulated sectors, as well as for the prices paid by the electricity distribution company EDS for technical losses). The aim of the analysis is to determine how to revise the system to contain the risks associated with major cross subsidization between the non-regulated and regulated sectors and ensure that the average electricity supply tariff across all consumer groups continues to cover the total cost of electricity supply (operational expenditure, maintenance capital expenditure and capital investment in new capacity).

8. The gas tariff increases in 2022–23 helped improve the financial situation of Srbijagas. We are working now on ensuring the full sustainability of the gas pricing system.

- We are committed to establishing a new gas pricing system for the non-regulated sector that will ensure financial health of Srbijagas and its ability to finance much-needed investment projects.
 - While we yet to fully deliver on **end-January 2024 SB** to approve by the government a new gas pricing system for the non-regulated sector, we already removed gas price controls for the non-regulated sector starting from May 1, 2024. As a result, as of May 1, the pre-energy crisis Srbijagas methodology for the gas price calculation for the non-regulated sector using a market-based formula is back in effect.

- We also adopted a Government Conclusion on April 11 that remedies the financial impact on Srbijagas of the extraordinary high costs of gas procured for the Hungarian storage during the energy crisis. It involved revaluing the gas in storage in Hungary using May 1, 2024 market prices and compensating Srbijagas by reducing its outstanding liabilities towards the Republic of Serbia by 275 mln EUR. We will also repay two Srbijagas loans with state guarantee in 2024 (EUR 110,5 mln) and 2025 (EUR 106,3 mln) that were contracted during the energy crisis to address urgent liquidity needs associated with large differences between imported and domestic gas prices. This transaction will be recorded as an expenditure in the fiscal accounts of the Republic of Serbia.
- Considering the substantial decrease in gas prices for the corporate sector after May 1, we will conduct an analysis to review the adequacy of the margin (currently set at 5 percent on average) that is featured in Srbijagas' pricing methodology and assess whether any increase is warranted to accommodate much-needed investment over the coming years. The Srbijagas methodology for gas price calculation for the non-regulated sector will be updated to reflect the results of the analysis and will come into effect on August 1, 2024 **(new end-July 2024 SB)**.
- Separately, we plan to develop a system that would help shield consumer prices from excessive short-term volatility in gas markets to maintain Serbia's strong international attractiveness as an investment destination.
- The SBA includes a consultation clause in case market prices for gas exceed EUR 250/MWh, on average, during a two-week period, to initiate a discussion on an appropriate policy response, if relevant, and help contain risks to the budget. Current market prices fall well short of this price.

9. We continue to strive to ensure energy affordability for Serbia's population. We will continue to rely on a system of block tariffs, with a lower electricity price for households up to a certain electricity consumption threshold. We have succeeded in significantly expanding the uptake of the energy-vulnerable consumer protection program that features increased eligibility criteria by expanding the program to pensioners with minimum pension and to the recipients of mean-tested social assistance program. By end-December 2023, the number of households with the status of an energy vulnerable customer increased by about 100,000 to around 170,000 in total.

10. We are committed to implementing reforms to address remaining deep-rooted structural weaknesses in the energy sector. We have involved consultants to help with these reforms. We are also set to benefit from access to loans from official creditors including the EBRD, the KfW, and Cassa Depositi e Prestiti (CDP) for liquidity support to the energy companies as we transform the energy sector.

- We have prioritized the restructuring of the large state-owned energy companies to enhance efficiency and contain fiscal costs and risks. In April 2023, we changed the legal status of the EPS to a joint stock company aiming to professionalize its management and strengthen the company in the long term. Subsequently, we appointed the new EPS Supervisory Board, which

includes international and domestic experts. The selection process for a new CEO by the EPS Supervisory Board through a transparent recruitment procedure has been delayed, however. The appointment will take place once a suitable candidate is found. For Srbijagas, we will ensure completion of its unbundling by end-2024. In this regard, following the amendments to the Energy Law that call for the establishment of an independent commission that would oversee the transmission system operator for gas (Transportgas), the company submitted a request to the Energy Agency of the Republic of Serbia for the decision on certification, expected by July 2024. The decision on certification by the Energy Agency of the Republic of Serbia will be followed by the approval of the certification from the relevant EU authorities expected by end-2024.

- We have delivered a strategic restructuring plan for EPS (**May 1, 2024 SB**) with a minor delay due to interruptions from a cyber-attack on EPS IT systems. The plan, which is needed to address EPS's many problems, specifies reform priorities in EPS governance and organizational structure, including managerial and sectorial layouts, audit processes, internal controls, and compliance procedures. To ensure ownership and accountability, the Supervisory Board and the Executive Board have been closely involved in the development of all operational elements of the EPS restructuring plan (organizational and financial restructuring, human resources, procurement, investment project development, reporting, risk management and environment) with the consent of the General Assembly (i.e., the Minister of Mining and Energy), in line with the EPS Statute.
- In line with our commitment to transparency, we will publish all strategic and financial plans for EPS and Srbijagas. We will also continue with the publication of monthly reporting of overdue receivables to Srbijagas and EPS from their top-20 debtors including changes in overdue receivables since January 2022.
- We will implement governance reforms in the state-owned electricity distribution company EDS in line with the new Law on SOE governance (142). In the meantime, we will continue monitoring the adequacy of grid fees paid to EDS.
- We plan to adopt the Integrated National Energy and Climate Plan (INECP) before the adoption of the new Energy Development Strategy of the Republic of Serbia. The draft INECP defines the goals of the Republic of Serbia for reducing greenhouse gas emissions, increasing the share of renewable energy sources (RES) in gross final energy consumption, and setting goals for greater energy efficiency in line with the new Energy Development Strategy of the Republic of Serbia. We have already received comments from the Energy Community Secretariat and integrated into the draft INECP the explanations for the deviation of the proposed RES goal from the energy and climate goals of the Energy Community for 2030.
- The new government will adopt a new Energy Development Strategy of the Republic of Serbia. The draft strategy has already been prepared; public consultations will take place as an early action by the new government.

- We will continue facilitating higher private investment in renewables through auctions and other measures, and the next wind and solar auctions are planned for 2H2024 and 2H2025.
- We will send for approval the amendments to the Law on Energy to introduce a new concept of active consumers for those who want to install more own generation capacity while delivering some electricity to the grid.

B. Fiscal Policies

11. We commit to delivering a 2024 fiscal deficit in line with program understandings and the approved budget of no more than 2.2 percent of GDP. A program to provide birth grants of RSD 5 bln to new mothers (0.05 percent of GDP) will be accommodated within the approved expenditure envelope. Revenue overperformance and underutilized contingency reserves in the budget may be used to further increase capital spending above the budgeted envelope of about 7 percent of GDP to address Serbia's sizeable infrastructure needs, including those related to the Specialised Expo 2027. A supplementary budget is expected to be presented in September 2024 which inter alia will regularize the alignment of the budget with the organization of ministries following the formation of the new government.

12. Our fiscal financing strategy for 2024–25 relies on domestic and external sources. It relies on borrowing domestically and internationally, drawing on the government's cash deposits, and borrowing from our international and bilateral partners, including for project financing. High government cash deposits provide a robust buffer. Since the external environment remains relatively supportive, we will continue treating the SBA as precautionary. Financing for the 2024 budget has already been secured. Further issuances of debt securities in 2024 aim to pre-fund the 2025 budget, and to maintain presence in domestic and international markets. We aim to increase the share of dinar-denominated debt (securities and loans) above 30 percent over time, and recently issued another 8-year benchmark bond, which was well-received. On international markets, we plan to issue more after preparations are completed and when market conditions are favorable. Reflecting ongoing strong fiscal performance, public debt is expected to fall to about 52.1 percent of GDP by end-2024.

13. We will continue to contain fiscal risks and prepare contingency measures as needed. We will continue to closely monitor revenue and expenditure risks related to ongoing external and domestic challenges. We will maintain strong liquidity buffers and will not accumulate public sector external debt payment arrears (**continuous performance criterion**). We will also refrain from accumulating domestic payment arrears (**indicative target**). Our efforts to contain public spending will continue to be monitored through a program ceiling on current primary spending of the Republican budget, excluding capital spending and interest payments (**quantitative performance criterion**). Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law and we will refrain from ad hoc pension increases and cash payments to pensioners (**Structural Benchmark, continuous**). Any financial support to public enterprises will be delivered in a transparent and timely manner and channeled through the government budget. The

liquidity of the state-owned enterprises in the energy sector has improved significantly, and these SOEs will not require any additional liquidity support in 2024 and beyond. In case these SOEs will have to rely on budget support for liquidity, we will reassess our energy sector policies accordingly.

14. We are committed to strictly limiting the issuance of state guarantees. Apart from providing state guarantee for an EPS liquidity loan from Cassa Depositi e Prestiti for EUR 100 million, we will not issue any new state guarantees in 2024 for liquidity support to the SOEs, or state guarantees for any company in the portfolio of the former Privatization Agency. The Government will also refrain from issuing any implicit state guarantees. We will continue to issue guarantees for project loans provided by multilateral financial organizations in support of our investment and reform agenda.

15. We are committed to maintaining fiscal discipline over the medium term. We plan to maintain low fiscal deficits in the coming years and keep public debt on a declining path, an important goal that further builds fiscal buffers and allows for room to deal with future shocks. For 2025, we will increase the fiscal deficit to 2.5 percent of GDP to accommodate the important investment projects under the “*Leap into the Future—Serbia 2027*” development plan as well as the newly agreed national security expenses. For 2026 and beyond, we now target a fiscal deficit of no more than 2¼ percent of GDP. We will delay the implementation of the fiscal deficit component of the fiscal rule until 2029, when we complete the new investment cycle and fully pay for certain new national security equipment. To help support growth, we will continue to prioritize essential capital spending, focusing on high-priority and productive investments, while containing current spending. To support a high quality of our investment spending, we will accelerate our public investment management reforms (see below).

C. Structural Fiscal Policies

16. We will continue working on upgrading fiscal data and government finance statistics (GFS). Upcoming upgrades to fiscal data and government finance statistics (GFS) will require a review of the numerical parameters of the fiscal rule. With Fund technical assistance (TA) support, we are working on automating the preparation of monthly GFSM 2014-compliant fiscal data, expanding the coverage of indirect budget users and extrabudgetary units to all materially relevant general government units, and developing data for the compilation of financial accounts. We have formed coordination committees between SORS, the MoF and the NBS to ensure smooth coordination between all participating government bodies. Moreover, comprehensive improvements to the GFS are expected with the next 5-yearly revision of national account statistics in 2024. We will accordingly update fiscal rule definitions and parameters in the Budget System Law to align them with statistical definitions, revisions to the national accounts and other improvements to fiscal data (**end-November 2024 SB**). A bylaw to the Budget System Law prescribes the timeline and methodology for inclusion of entities into the General Government. We have prepared a first draft of a conceptual note on our fiscal data and will further refine this note, so it provides a good overview of our upgraded fiscal data and the calculation of the fiscal deficit and public debt. We also plan to

align our debt reporting with the revised fiscal data coverage. As a first step, we have developed new debt reporting templates supported by IMF TA.

17. We will continue to enhance public financial management (PFM). We have been working on strengthening the medium-term budgetary framework, so that we could complement our focus on annual budgets with a medium-term perspective. In September 2023, we adopted an Action Plan for Improving Medium Term Budget Framework in line with IMF recommendations (**end-July 2023 SB**) to make medium-term budgeting more effective and binding beginning from 2025, and to increase transparency of information for improved accountability. Recently, we have been analyzing the baseline estimation methodology, its rationale and general principles, as well as international experience with baseline estimates, and aim to apply improved baseline estimation practices already in preparing the 2025 budget. We will continue to ensure strict adherence to the budget calendar and to the transparency of the budget process by, among other things, expanding the content of our within-year budget reports. In December 2023, we also adopted the methodology and the roadmap for introducing green budgeting.

18. Strengthening the role and capacity of the Fiscal Risks Monitoring Department (FRMD) at the MOF remains an important objective.

- We have been working on operationalizing the use of the methodologies to monitor fiscal risks stemming from SOEs, local governments, litigation, and natural disasters. We have also been working to improve and standardize our reporting in line with the methodologies.
- We have further strengthened fiscal risk reporting in the Fiscal Strategy for 2025–27 released in June 2024 and will further improve reporting in future strategy documents.
- We will continue using the methodology that was developed with IMF TA support for managing fiscal risks associated with the state-guarantee schemes.

19. We are further strengthening our public investment management (PIM) practices to support strong project preparation, selection, and implementation.

- We prepared all the necessary secondary legislation, rule books and forms to make operational the new Decree on Capital Projects that was adopted in September 2023. The goal of this new decree is to establish a single project pipeline to cover all ongoing and future capital projects and to comprehensively regulate procedures for selecting and monitoring capital projects to deliver more efficient spending of budget funds, as well as ensuring their strategic relevance. The Decree introduced various changes, including (1) the competences of the Republic Commission for Capital Investment were reinforced in terms of project selection and prioritization, and the Sub-commission was introduced as an auxiliary body which considers project ideas/projects that are financed or co-financed from EU funds, funds of some other countries or international institutions; (2) indicators for environmental impact assessments were integrated into the PIM process; (3) the project cycle was aligned with Serbia's budget calendar;

(4) requirements for project documentation were strengthened; (5) a requirement for ex-post evaluations of the realized capital projects was introduced.

- The new Public Investment Management Information System (PIMIS), that became operational on June 1, 2023 for projects under implementation, is being upgraded to make it consistent with the new regulation and to incorporate projects in the pre-implementation phase starting from the project idea stage. In April 2024, we sent a circular to all line ministries regarding the upgraded version of PIMIS and their obligations thereon. We will expand PIMIS's usage to the national level by mid-2024 and aim to include local and provincial capital projects in PIMIS in 2025.
- We will continue strengthening the capacity of the PIM unit by hiring new employees and training existing employees.

20. In light of the scaling up of the investment budget, and acceleration of the implementation of some existing projects, we are committing to enhancing transparency around our public investment projects.

- We will include in the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027 a table that incorporates the following information for budgeted public investment projects with estimated costs exceeding EUR 20 million apart from those related to defense and security: project expenditure to date; spending estimate for current year, budgeted amount for the budget year; expenditure projections for two outer years; and estimated total project cost (**new end-November 2024 SB**). We will incorporate the requirement for the publication of this data into the Budget System Law during its next revision, expected not later than November 2024. This is broadly in line with our commitment to increase transparency of capital investment projects, as outlined in the action plan for improving medium term budget framework that was adopted in 2023.
- We will ensure that each Ministry and public entity in charge of budgeted investment projects publishes on their websites project appraisal studies for the signed investment projects that have a total value of over EUR 20 million unless this is precluded by the confidentiality clauses in government-to-government contracts or commercial contracts.
- We will upgrade the website *Srbija 2027* to provide additional information on the scope, phasing, benefits and estimated costs of the projects under the "Leap into the Future—Serbia 2027."
- Public Procurement Office will continue regular public reporting – annually at a minimum - on all procurements, including those that were exempted from the regular procurement regime, and disclosing the basis for the exemptions.

21. For the next phase of projects that have not yet been signed or budgeted, we are committing to applying fully our existing and recently strengthened PIM regulations to support robust project preparation, prioritization, and selection:

- We will ensure full implementation of the strategic relevance assessments of projects in line with the Decree on Capital Projects.
- We will adhere to the single pipeline of investment projects, from the project idea stage, and project monitoring by the PIM unit of the Ministry of Finance in line with the project-size thresholds defined by the new Decree on Capital Projects and other regulations.
- The selection of projects will be supported by assessments provided by the Public Debt Administration, Ministry of Finance (Macro-financial analysis and Budget departments), and Ministry of European Integration related to affordability and alternative financing options.
- We will continue informing the Commission on Capital Investments of public private partnership (PPP) projects. Provincial Commission and Local Commission will submit biannual reports on their work to the Ministry of Finance, which contain basic information about capital projects within their competence.
- We will continue including all project loans of the general government in the budget.

22. We remain committed to further modernizing our tax administration in line with our 2021–25 Transformation Program. This program provides strategic guidance in modernizing the tax administration by increasing our use of electronic business processes, improving taxpayer services and fostering a risk-based approach to compliance. Our reforms will reflect the updated Tax Administration Diagnostic Assessment Tool (TADAT) review and will continue to be supported by IMF TA and the World Bank Tax Administration Modernization Project.

- We successfully introduced a new e-fiscalization model in May 2022 and an electronic invoice exchange system in early 2023. We see that general taxpayer compliance has increased and audit selection of non-compliant taxpayers is significantly improved.
- Despite diligent efforts, the tender for procuring a new commercial-off-the shelf-system (COTS) system was unsuccessful. We are now assessing our options for next steps. With FAD TA we will review the proposed “To Be” business processes. Under the World Bank Tax Administration Modernization Project we will proceed with procuring some IT systems that are independent of the COTS procurement and that will deliver urgent efficiency improvements. This includes an HR Management Information System (HRMIS), and some IT systems for document management and/ or records management.
- We continue to work on addressing data gaps and adjusting analytical tools to improve VAT gap estimations to better identify sources of non-compliance.

- Our dedicated unit to analyze the level of noncompliance of high-net-worth individuals has launched the first audits and issued an assessment for the first case. This assessment is currently under appeal, with the taxpayer mostly contesting the size of the assessment and penalties rather than the underlying taxable events. We expect to issue further assessments soon, which will have a positive impact on general taxpayer compliance of high-net-worth individuals. Our legal framework envisages that taxes on previously non-reported assets arising from legal activities will be assessed according to the standard tax regime plus interest, while taxes on non-reported assets where the origin cannot be documented will be taxed at a rate of 75 percent.
- Developing a new HR strategy for the tax administration and accelerating hiring procedures is a top priority given increasingly precarious staffing levels at the STA in recent years. With an impending retirement wave and the ongoing shift to higher skilled work, it is imperative to hire new skilled staff urgently. We have finalized a thorough analysis of the drivers of the hiring bottlenecks, which include complex hiring procedures and low salary levels. To increase awareness and position the STA as an employer of choice, we are developing a public marketing campaign. Moreover, we will develop a comprehensive capacity building program aimed at enhancing the skills and capabilities of STA staff. Additionally, we will draft proposals and improvements for the Rulebook on salaries to ensure fair and competitive compensation structures. Within the four-year workforce engagement plan, we will create a draft framework for the Annual employment plan.

23. The phased establishment of a central electronic public wage and employment registry is at the final stages. This central registry *Iskra* will allow for better planning, executing, and controlling of wage spending. The system already covers: (i) direct budget users; (ii) the judicial sector; (iii) the cultural sector; (iv) the labor employment and social affairs sector; (v) the education sector apart from higher education institutions; and (vi) the health sector (the last of which was an **end-January 2024 SB**). Implementing the final phase for local self-government units with indirect beneficiaries (preschool institutions, cultural institutions, social welfare institutions) is expected in the last quarter of 2024. Coverage of the remaining public employees (Ministry of Defense, Ministry of Internal Affairs, Security Information Agency BIA and higher education institutions) will be completed by 2027. The *Iskra* system will play an essential role in designing and implementing a comprehensive reform of the public wage system, which is becoming increasingly important, as wage compression and competition from the private sector make it increasingly difficult to attract essential high skilled employees such as engineers, IT specialists and managers to the public sector.

D. Monetary and Exchange Rate Policies

24. The primary objective of the NBS's monetary policy is to achieve and maintain price stability. This plays a crucial role in contributing to economic and financial stability and in fostering sustainable economic growth. An important pillar of this objective is the relative exchange rate stability of the domestic currency vis-à-vis the euro. The National Bank of Serbia (NBS) stands ready to use all available policy instruments to deliver on its objectives.

- Our existing policies are consistent with the objective of keeping inflation on a declining path and bringing it within the NBS's tolerance band (3 percent \pm 1½ percentage points) in the next few months and to the target midpoint by end-2024. We tightened monetary conditions since 4Q2021 in a gradual and continuous fashion, at first by tightening liquidity conditions, and afterwards by raising the key policy rate by 550 bps cumulatively from April 2022 to reach 6.50 percent in July 2023. We also raised the interest rates on deposit and lending facilities to 5.25 and 7.75 percent, respectively. During subsequent monetary policy committee meetings, we kept the key policy rate unchanged given the continued easing of global inflationary pressures and the downward path of domestic inflation and its expected return within the target tolerance band in mid-2024. We also took into account the past increases in the key policy and required reserve rates.
- The NBS will continue to monitor and analyze the movement of key inflation factors in the domestic and international environment and make decisions depending on projected inflation movements.
- We will continue to sterilize the dinar liquidity that has been injected mainly through foreign exchange purchases.
- In the context of the SBA, inflation developments will continue to be monitored through a consultation clause with consultation bands set around the program's central inflation projections (Table 1a). As envisaged by the TMU (¶21), in case of deviations we will discuss with the IMF staff the reasons for the deviation and the appropriate policy response.

25. We are committed to sustaining relative exchange rate stability through this period of heightened uncertainty. With this in mind, we have been accumulating gross international reserves, which stood at EUR 25.1 billion at end-April 2024. We are committed to maintaining gross international reserves well above the revised NIR floor under the program, equivalent to 100 percent of the ARA metric on gross international reserves, as improved macroeconomic and external conditions have contributed to a comfortable reserve buffer that supports our commitment to sustaining relative exchange rate stability.

26. Promoting dinarization remains an important objective. Our dinarization strategy has three pillars: (i) maintaining overall macroeconomic stability; (ii) creating favorable conditions for developing the dinar bond market; and (iii) promoting hedging instruments.

- In March 2024, deposit dinarization reached 43.4 percent, while dinarization of receivables rose to 35.2 percent. Dinar savings of households reached a new record high level of RSD 152 bn. This reflects confidence in the domestic currency and the banking system. Higher interest rates on dinar savings compared to foreign currency savings and a more favorable tax treatment also contribute to the greater attractiveness of dinar savings.
- Beyond pursuing policies that support macroeconomic stability, several specific measures to foster dinarization have been put in place, such as lower reserve requirements rate on dinar

sources while paying remuneration on reserve requirement allocation in dinars, mandatory down-payment ratios for FX loans, and systemic risk buffers. As planned, in June 2023, we adopted higher capital requirements on banks' new FX-indexed lending to corporates disbursed from July 2023, with deduction of capital starting from January 2025.

- In an important move, we have finalized the legal framework for auctioning dinar-denominated securities through Euroclear. We plan to launch the first auction through this system in 2024, subject to market conditions and investor interest.

27. During the Fund-supported program period we will not impose or intensify restrictions inconsistent with the IMF's Articles of Agreement. Specifically, 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 (Table 1b).

E. Financial Sector Policies

28. Maintaining financial stability is a key priority and we will therefore continue to monitor risks in the banking sector closely. The banking system remains stable owing to adequate capitalization, ample liquidity, and strong profitability. Banks' average capital adequacy ratio stood at more than 21 percent in March 2024, well above the regulatory prescribed minimum of 8 percent. Liquidity and profits were similarly strong.

29. In 2022–23 the NBS introduced regulations to address the impact of shocks and to preserve financial stability and support the economy and its citizens. The measure that allowed the rescheduling of principal payments on agricultural loans by six to twelve months and a temporary measure to ease repayment conditions of housing loans expired.

- In June 2022, the NBS adopted a regulation enabling banks to mitigate the negative effects of the change in government bond prices on bank capital by excluding 70 percent of the net unrealized losses and gains from the valuation of the bonds from the calculation of CET 1 capital until the end of 2022, which was then extended. The measure is set to expire at end-2024. In the meantime, we amended the measure so that the amounts banks may exclude from the calculation of CET 1 capital will gradually decline (from 70 percent to 50 percent on the reporting dates of March 31 and June 30, 2024, and further to 25 percent on September 30 and December 31, 2024).
- In September 2023, the NBS adopted a temporary measure capping the interest rate for first-time users of variable rate housing loans of up to EUR 200,000 to preserve the stability of the financial system, to prevent an increase of NPLs in the mortgage portfolio, and to protect citizens in the uncertain environment of fluctuating interest rates. This temporary measure is operational until end-2024. The cap is set at 4.08 percent for loans approved by end-July 2022

and at the initial interest rate for loans approved since July 2022 if the interest rate is above 4.08 percent. For newly-issued loans, banks' margins are capped at 1.1 percent until end-2024, while fixed interest rates are capped at 5.03 percent. The same decision temporarily abolishes early repayment fees for housing loans. The measure is set to expire at end-2024.

- In December 2022, through the Decision Amending the Decision on Capital Adequacy of Banks, we adopted a permanent measure enabling banks to restructure their receivables from financially-distressed natural persons in respect of consumer, cash, or similar loans by extending the maturity of these loans by up to three years relative to the current regulatory arrangement. Restructured loans under the Decision will be accorded stage 2 treatment under IFRS9.

30. 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 the EU acquis, considering the specificities of the Serbian financial market. With this in mind, we finalized a gap analysis of the domestic legal framework for banks with those in the EU and established a comprehensive and modern legal framework for liquidity risk management in banks, which encompasses the introduction of the Net Stable Funding Ratio (NSFR) indicator and the adoption of the new Decision on Liquidity Risk Management by Banks. As a next step, we will work on introducing the regulatory limit for the leverage ratio for banks and thereafter prudential reserves.

31. NPL ratios remain low, but we continue to monitor asset quality closely. Despite the challenging economic environment, NPLs remain low at 3 percent as of March 2024. Yet, the higher interest rate environment warrants continued close monitoring. To resolve the residual assets of the DIA portfolio of bad assets, we have been making progress with selling receivables from the portfolio as individual packages of receivables.

32. We will continue to implement reforms of state-owned financial institutions and will ensure strong oversight.

- We will continue to implement the government strategy for Banka Poštanska Štedionica (BPS) for the period 2021–25. We will continue to closely monitor risks related to new lending to medium-size companies, SOEs and local governments.
- The Development Fund and AOFI will continue 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. In addition, in line with the Action Plan as defined in the adopted Concept of Development Financing Policy, both DF and AOFI have started raising awareness among SMEs, introducing external audit, improving performance management, internal audit risk management and business compliance functions.

33. We continue to enhance Serbia’s capital markets and to diversify sources of long-term financing in line with the Capital Market Development Strategy (CMDS). We are currently working on operationalizing the Corporate Bond Issuer Program which aims to educate, promote, and support issuers in their preparation for issuance of corporate bonds. Specifically, we are now hiring professional services providers that will support interested corporates in all phases of the bond issuance process. The first corporate issuances are expected in 2H2024.

F. Structural and Governance Policies

34. We have been working on information systems that cover social protection programs in general, which also cover the needs of vulnerable groups, reducing inequality, and fighting poverty. We are working on integrating the Social Card register with the information system SOZIS that envisages adding the module for social benefits and services at the local level, the module for the payment of rights at the republic level, the modules for reporting by the users as per management levels of social protection and by other beneficiaries entitled to use the data. Also, the Republic and Provincial Institute for Social Protection are foreseen as the beneficiaries of the SOZIS, including the Chamber of Social Protection.

35. We have been developing a comprehensive agenda for green growth to ensure a more sustainable and environmentally friendly economic development. This is also important to prepare for the EU Carbon Border Adjustment Mechanism (CBAM) and to continue to attract FDI to Serbia. We have been guided by the Low-Carbon Development Strategy for 2023–30 with projections until 2050, adopted in 2023. The strategy is harmonized with Serbia’s INECP and the Energy Development Strategy (№10). We have been prioritizing green investments, including in renewable energy and energy efficiency, and making progress on green budgeting. We will consider carbon pricing mechanisms once the overarching goals and principles have been designed.

36. We will continue to support reforms to strengthen the rule of law and fight corruption.

- The new government is expected to approve the draft amendments to the Law on Anti-Corruption Agency that will broaden the definition of persons with top executive functions (PTEFs) to include Ministerial chief of cabinets and advisors to strengthen our asset declaration regime. In addition, these amendments will address legal gaps regarding SOE management and would clearly define them as PTEFs.
- We have made progress in the fight against corruption, successfully fulfilling 10 of the 13 GRECO recommendations from the 4th evaluation report, while the remaining three recommendations have been partially fulfilled. We will continue to address outstanding GRECO recommendations outlined in the 5th evaluation report.
- We will continue to strengthen the capacity of the Agency for the Prevention of Corruption and commit to providing it with sufficient budgetary resources to fulfill its mandate.

37. We remain committed to resolving enterprises in the portfolio of the former Privatization Agency in accordance with the Privatization Law.

- We will not reopen MSK.
- We remain committed to a plan for Resavica mines that foresees the closure of several 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.

38. We will continue strengthening the AML/CFT framework.

- The most recent FATF peer assessment (the MONEYVAL 5th Enhanced Follow-up Report) noted Serbia's progress on FATF recommendation 15 and assessed Serbia to be fully or largely compliant with all 40 FATF recommendations. As a result of its compliance level with the FATF recommendations, Serbia is no longer required to report to MONEYVAL under the 5th evaluation round. This is clear evidence of our dedicated and continuous efforts in this field.
- The most recent AML/CFT-related legislative amendment took place in October 2023 when the Law on the Prevention of Money Laundering and the Financing of Terrorism (AML/CFT Law) was amended to include the Central Securities Depository and Clearing House on the list of obliged entities.
- We will continue our regular reporting under the EU agenda. We will ensure the adequate and timely implementation of the requirements of all AML/CFT related EU Directives and Regulations, in line with the FATF Standards and with EU implementation deadlines. In that vein, we reiterate that our system is aligned with the requirements of the Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.
- The competent AML/CFT authorities, including the Administration for Prevention of Money Laundering and Law Enforcement Authorities (LEA), will continue with all their regulatory, supervisory, and other activities, as well as continuous strengthening of their capacities through adequate external and internal trainings, especially concerning the emerging AML/CFT trends and risks. The NBS will continue enforcing AML/CFT regulations via on- and off-site inspections of financial institutions, including assessing the impact of non-residents from high-risk foreign countries on the risk level of each individual banks as well as the impact of cross-border threats in financial flows, and for providers of services related to virtual currencies.
- For 2024, we plan to (1) update the national AML/CFT/WMD Proliferation risk assessments (NRA); (2) update the national AML/CFT strategy and action plan considering the NRA findings; and (3) prepare and finalize the mutual evaluation process under MONEYVAL's 6th evaluation round. We also will enact a new Law on Central Records which will strengthen Serbia's capacities

in ensuring adequate, accurate and up-to-date information on beneficial owners in the already existing Central Records of Beneficial Owners. It will be done by several new mechanisms: (i) documents as regards beneficial owner must be uploaded simultaneously with the application; (ii) mandatory annual checks of the recorded data; (iii) public list of entities that did not record beneficial owner; (iv) clearer rules on when beneficial owners of trusts and legal arrangements should be recorded; (v) clearer rules on supervision and sanctions.

- We will also continue closely monitoring the implementation of targeted financial sanctions by regulated entities to prevent potential spillovers related to the Ukraine conflict.

39. We will continue to strengthen 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. NBS and SORS are coordinating on the compilation of financial and non-financial accounts for general government consistent with GFSM 2014, targeting transmission to the IMF and Eurostat from 2026. The 5-yearly benchmark revision of national accounts estimates is scheduled for October 2024, and will feature methodological improvements and new data sources, drawing among others on the 2022 census, the 2023 agriculture census and upgraded government finance statistics. Following the improvements to the national accounts and fiscal statistics we will review subscribing to the IMF's Special Data Dissemination Standard (SDDS).

G. SOE Reforms

40. We are fully committed to changing the operation of SOEs in Serbia, spearheaded by the recent landmark SOE governance law. The new SOE governance law, which is aligned with the OECD Guidelines on Corporate Governance of SOEs, was adopted by the National Assembly in September 2023 and will take effect from September 16, 2024. In April 2024, we adopted an Action Plan for the implementation of the SOE Ownership Strategy for 2024–2025. We have been working with experts provided by EBRD and SECO on drafting the secondary legislation to operationalize the law. We have also been working with IMF technical assistance team to help us with a draft bylaw on costing of public service obligations by end-September 2024 (**end-September 2024 SB**). In addition, the Coordination Body consisting of members of all relevant stakeholders, has been assessing the compliance of the provisions of this new SOE governance law with the existing special laws. We are committed to strengthening the relevant SOE unit in the Ministry of Economy by providing adequate financing to accelerate hiring of additional staff. We will also explore options with donors to provide training to existing staff.

Program Monitoring

41. Progress in the implementation of the policies under this program will continue to be monitored through quantitative performance criteria (QPCs), indicative targets (ITs), including an inflation consultation clause and natural gas prices consultation clause, continuous performance criteria (CPCs) and structural benchmarks (SBs). These are detailed in Tables 1a, 1b, and 2, with definitions provided in the attached Technical Memorandum of Understanding (TMU). Reviews by

the IMF are conducted on a semi-annual basis to assess program implementation and reach understandings on any further reforms needed. The fourth and final review is scheduled to be completed soon after December 2, 2024.

42. The NBS will continue maintaining a strong safeguards framework and internal controls environment. As required by the IMF's safeguards policy, we will continue to engage independent external audit firms to conduct the audit of the NBS in accordance with international standards. We will also provide Fund staff with the necessary NBS's audit reports and authorize representatives of the external audit firm of the central bank to hold discussions related to their reports with Fund staff.

Table 1a. Serbia: Quantitative Performance Criteria and Indicative Targets Under the SBA 2023–24^{1/}

	2023			2024			2024		2024	
	End-Dec.			End-Mar.			End-Jun.		End-Sept.	
	QPC	Adj. Prog.	Act.	IT 5/	Adj. Prog.	Act.	QPC	Revised QPC	IT 5/	Revised IT 5/
	CR 23/433			CR 23/433			CR 23/433		CR 23/433	
I. Quantitative Performance Criteria (QPCs, semi-annually)										
1 Ceiling on the general government fiscal deficit (in billions of dinars) 2/ 3/	245.0	231.3	181.1	82.0	89.3	18.0	102.4	102.4	136.5	136.5
2 Ceiling on current primary expenditure of the Serbian Republican Budget including net lending, excluding capital expenditure and interest payments (in billions of dinars) 2/	1,497.5	1,489.3	1,482.7	378.2	380.7	369.1	767.7	767.7	1,132.1	1,132.1
3 Floor on Net International Reserves (in billions of euros) 4/	8.0		19.6	8.2		19.7	8.4	10.5	8.6	10.6
II. Indicative Target (IT) 5/										
4 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 6/	1.0		0.1	1.0		-0.7	1.0	1.0	1.0	1.0
III. Continuous Performance Criterion										
5 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
IV. Inflation consultation band (quarterly) 7/										
Upper band limit (1.5 percent above center point)	9.7			7.7			6.8	6.0	6.0	5.4
End of period inflation, center point 8/	8.2		7.6	6.2		5.0	5.3	4.5	4.5	3.9
Lower band limit (1.5 percent below center point)	6.7			4.7			3.8	3.0	3.0	2.4

1/ As defined in the Memorandum of Economic and Financial Policies, 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. A surplus is reported with a negative sign.

4/ Calculated consistent with Gross International Reserves at 90 percent of the ARA metric for floors set with CR 23/433, and consistent with 100 percent of the ARA metric for the revised QPC and revised IT (see TMU).

5/ Indicative targets include (i) the items under I. Quantitative Performance Criteria at end-March and end-September, and (ii) the targets under II Indicative Target (IT). ITs are not monitored as part of program conditionality.

6/ Net cumulative change since the start of the year, measured as the change in the stock at the test date and at the start of that year.

7/ Staff level consultation is required upon breach of the band limits at the specific test date.

8/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Serbian Statistics Office.

Table 1b. Serbia: Standard Continuous Performance Criteria

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: Structural Benchmarks Under the SBA

Description	Target Date	Status	Objective
Structural Benchmarks			
Fiscal			
1 Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law, and there will be no ad hoc pension increases and cash payments to pensioners.	Continuous from January 1, 2024	Met	Supports achieving fiscal objectives and the credibility of the fiscal rule.
2 Expand and fully operationalize the central electronic public wage and employment registry for the health sector.	End-January 2024	Met	This reform would help rationalize pay and improve incentives across public sector.
3 Finalize a review of the quantitative indicators of the fiscal rule to reflect, as needed, revisions to the national account/ GFS methodology and other improvements to fiscal data.	End-November 2024		Continued strengthening of public financial management practices in support of achieving fiscal objectives, and improved fiscal data.
4 Include in the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027 a table that incorporates the following information for all budgeted public investment projects apart from those related to defense and security: project expenditure to date; spending estimate for current year, budgeted amount for the budget year; expenditure projections for two outer years; and estimated total project cost.	End-November 2024	New	Enhance transparency around public investment and improve medium-term budgeting framework.
Energy			
5 Adopt by the General Assembly of EPS a restructuring plan for EPS.	May 1, 2024	Not met. Implemented with delay.	Address the medium- to long-term viability of the company and the security of electricity production.
6 EPS to approve a new electricity supply pricing system for the non-regulated sector, which will become effective with the consent of the General Assembly of the EPS as of November 1, 2024.	End-August 2024		Move energy tariffs toward cost recovery and a sustainable structure, create financial space for investments and control fiscal risks.
7 Approve by the government a new gas pricing system for the non-regulated sector, which will become effective as of May 1, 2024.	End-January 2024	Not met. Price controls for the non-regulated sector removed from May 1, 2024. New SB 8 is introduced.	Move energy tariffs toward cost recovery and a sustainable structure, create financial space for investments and control fiscal risks.
8 Srbijagas to revise methodology for gas price calculation for the non-regulated sector to reflect the results of the analysis of margin adequacy to accommodate planned investment in gas sector infrastructure (effective August 1, 2024).	End-July 2024	New	Move energy tariffs toward cost recovery and a sustainable structure, create financial space for investments and control fiscal risks.
Other			
9 Prepare a draft bylaw that has been sent to ministries and stakeholders with appropriate expertise for comments, with the draft bylaw prescribing the procedure and method of determining public sector obligations incurred by SOEs when implementing the goals of the public sector.	End-September 2024		Make effective the provisions and intent of the new SOE governance law, and strengthen SOE management.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program. To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on October 31, 2022, except as noted below. The quantitative performance criteria and structural benchmarks for assessing program performance are shown in Tables 1a, 1b and 2 of the Memorandum of Economic and Financial Policies (MEFP). Definitions and adjustments of these targets are outlined below.

2. For program purposes, the consolidated general government comprises the Serbian Republican government (without indirect budget beneficiaries that are not included in the budgetary execution system), local governments (including the Province of Vojvodina), 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. Reflecting the ongoing work program to expand the coverage of the general government sector in within-year reporting, consolidated general government data for 2023 and beyond include service institutions like dormitories in the education sector now included in the budgetary execution system, and health sector institutions reported by the Health Fund. Any new extra budgetary fund or subsidiary established over the duration of the program would be consolidated into the general government. Consolidated general government data for 2024 will include also science institutes, agencies and high schools.

A. Fiscal Conditionality

3. The general government fiscal deficit is defined as the difference between total general government expenditure (irrespective of the source of financing) and total general government revenue (including grants). General government expenditure includes expenditure financed from foreign and domestic project loans and grants; payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed, all budget loans provided to public sector enterprises in the energy sector, and any other budget loans if they have not been repaid by the end of the calendar year; repayments of called guarantees, debt takeovers, budget loans previously recorded "above the line"; and payment of arrears (irrespective of the way they are recorded in the budget law). 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.

4. Current primary expenditure of the Republican budget (without indirect budget beneficiaries that are not included in the budgetary execution system) includes wages, subsidies, goods and services, transfers to local governments and social security funds, social benefits from the budget, other current expenditure, net lending (i.e., budget loans recorded "above

the line”), payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed; repayments of called guarantees, debt takeovers and budget loans; and payment of arrears (irrespective of the way they are recorded in the budget law). It does not include capital spending and interest payments.

5. For program purposes, any financial support (other than loan guarantees) from the Republican or local government budgets for public enterprises in the energy sector will be recorded “above the line” at the time it is given. Financial support includes, but is not limited to, subsidies, budget loans for liquidity support, capital expenditure or capital grants for financing or co-financing energy sector projects. This is irrespective of the way these transactions are recorded in the budget law. The energy sector covers electricity production and supply, transmission and distribution including associated activities like coal mining; natural gas supply, transportation and storage; district heating; and transport of crude oil and oil products pipelines. Public enterprises in the energy sector include but are not limited to EPS, EMS and EDS and their subsidiaries; Srbijagas and its subsidiaries; and district heating companies; and any public enterprise that may be created by unbundling or be newly founded.

6. Quantitative fiscal targets (MEFP Table 1b) are specified cumulatively from the beginning of each calendar year except where defined otherwise. This includes in particular the quantitative performance criteria and indicative targets on the general government fiscal deficit and the current primary expenditure of the Republican budget, and the reference values for adjustors.

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 ^{1/}								
<i>(In billions of dinars)</i>								
	End-Dec. 2022	End-Mar. 2023	End-Jun. 2023	End-Sept. 2023	End-Dec. 2023	End-Mar. 2024	End-Jun. 2024	End-Sept. 2024
Programmed cumulative dividends	18.5	13.5	13.5	13.5	13.5	14.5	14.5	14.5
Programmed cumulative debt recovery receipts	4	4	4	4	4	4	4	4
Programmed cumulative debt issuance at a premium	4	0	0	0	0	0	0	0
Programmed concession and PPP receipts recorded above the line	0	0	0	0	0	0	0	0

1/ Cumulative from the beginning of each calendar year.

- 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.

Cumulative Receipts from Earmarked Grants and Small-scale Asset Disposal ^{1/}								
<i>(In billions of dinars)</i>								
	End-Dec. 2022	End-Mar. 2023	End-Jun. 2023	End-Sept. 2023	End-Dec. 2023	End-Mar. 2024	End-Jun. 2024	End-Sept. 2024
Programmed cumulative ear-marked grants receipts	19.2	19.2	23.2	31.2	50.5	1.8	6.2	14.7
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0	0	0	0

1/ Cumulative from the beginning of each calendar year.

7. Domestic arrears. For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include an indicative target on the change in total domestic arrears of (i) all consolidated general

government entities as defined in ¶2 above, except local governments; (ii) the Development Fund, and (iii) the Export Credit and Insurance Agency (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 indicative target will be measured as the change in the stock of domestic arrears at the test date relative to the stock at the end of the previous calendar year. Within 45 days of the end of the calendar year, the authorities will report the stock of domestic arrears on December 31, 2022.

8. 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.

9. The continuous structural benchmark on pension payments is in effect as of January 1, 2024. Pensions will only be adjusted through the adjustment mechanism specified in the Pension Insurance Law. The authorities will refrain from increasing pension payments by (i) making any other general adjustment to pensions, and (ii) making ad hoc pension payments such as bonuses.

10. For the purposes of the continuous structural benchmark, pension payments are defined as cash expenditures (including lump-sum payments) paid to pensioners. Pensioners include all persons whose benefits are considered a pension (including old-age, disability or survivors' pensions), as identified by the Republic Fund for Pension and Disability Insurance. Pension payments include regular monthly pension payments and one-off and adjustment payments arising in the course of pension administration paid by the Republic Fund for Pension and Disability Insurance, as well as any ad hoc pension payments or bonuses paid to pensioners (which may be classified as social transfers in the fiscal accounts).

B. Public Debt

11. Public debt is defined as debt and guaranteed debt incurred by the general government.

12. The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt will include SDRs used for financing of the Republican budget, and restitution bonds. Debts can take a number of forms, the primary ones being as follows:

- i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that

are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
 - iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
- 13. Guaranteed public debt** is debt guaranteed by the general government, i.e., a contingent liability.

C. Floor on Net International Reserves

14. For purposes of the program, all foreign currency-related assets and liabilities will be valued in euros at **program exchange rates** as specified below. The program exchange rates are those that prevailed on October 31, 2022. Monetary gold will be valued at the average London fixing market price that prevailed on October 31, 2022.

Cross Exchange Rates and Gold Price for Program Purposes, October 31, 2022						
Valued in:						
Currency:	RSD	Euro	USD	SDR	GBP	Yuan
RSD	1.0000	0.0085	0.0085	0.0066	0.0073	0.0617
Euro	117.3088	1.0000	0.9953	0.7756	0.8581	7.2379
USD	117.8628	1.0047	1.0000	0.7792	0.8622	7.272
SDR	151.2522	1.2894	1.2833	1.0000	1.1064	9.3322
GBP	136.7076	1.1654	1.1599	0.9038	1.0000	8.4348
Yuan	16.2076	0.1382	0.1375	0.1072	0.1186	1.0000
Gold	193,177.13	1,646.74	1,639.00	1,277.19	1,413.07	11,918.92

Sources: International Monetary Fund and NBS.

15. Net international reserves (NIR) of the NBS are defined as the difference between reserve assets and reserve-related, short-term liabilities, measured at the end-of-business day.

16. Reserve assets are readily available claims on nonresidents denominated in convertible foreign currencies (see Balance of Payment Manual, 6.64). They include the NBS holdings of

monetary gold,¹ foreign exchange balances (foreign currency cash, foreign currency securities, deposits abroad), holdings of SDRs, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contracts, guarantees and letters of credit), claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than monetary gold, domestically acquired gold without international certificates, assets in nonconvertible currencies, and illiquid assets.

17. Reserve-related liabilities are defined as all foreign exchange denominated liabilities to nonresidents and residents, excluding deposits from the general government, with a maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options, including any portion of the NBS gold that is collateralized), and the stock of all IMF credit outstanding to the Republic of Serbia. If the NBS conducts swaps as an intermediate between two banks, commitments to sell foreign exchange arising from swaps in foreign currencies vis-à-vis domestic currency are included in foreign exchange denominated liabilities after netting with claims in foreign exchange arising from these swaps.

18. Monitoring. NIR data will be reported to the Fund on a monthly, end-of-month basis, within 14 days after the end of each month.

D. Gas Price Consultation Mechanism

19. Gas prices are defined as the spot prices for natural gas at the Dutch TTF market (closing price "Close*") as reported on <https://finance.yahoo.com/quote/TTF%3DF/history/>. The 14-day average is the equally weighted average of those prices actually reported during the 14 calendar days ending one day before the reporting day.

20. Exceeding the gas prices means, the 14-day average of natural gas prices exceeds the reference values specified in the table below. The reference gas price applies continuously during the entire quarter. Exceeding the gas price would trigger consultation with staff on the proposed policy response, including any potential additional liquidity support from the budget to Srbijagas and potential tariff increases, as needed. The consultation would take place at least once a month until one month has elapsed after gas prices drop below the reference price.

¹ See BPM6, 6.78: monetary gold is gold (i) to which the NBS has title, (ii) is held as a reserve asset by the NBS, and (iii) is certified to be at least 995/1000 pure.

Reference Values for Natural Gas Price						
	2023			2024		
	Apr. - Jun.	Jul. - Sept.	Oct. - Dec.	Jan. - Mar.	Apr. - Jun.	Jul. - Sept.
Natural gas price upper bound (EUR/ MWh)¹	250	250	250	250	250	250
1/ Consultation is required if the 14-day average Dutch TTF spot natural gas price (Eur/ MWh) exceeds the upper bound specified. The upper bound price applies continuously during the entire quarter.						

E. Ceiling on External Debt Service Arrears

- 21. 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.
- 22. 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.

F. Inflation Consultation Mechanism

- 23. 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.
- 24. Breaching the inflation consultation** band limits (specified in the MEFP, Table 1b) at the end of a quarter would trigger discussions with IMF staff on the reasons for the deviation and the proposed policy response.

G. Reporting

- 25. General government revenue data and the Treasury cash position** table will be submitted weekly; and the stock of spending arrears as defined in ¶16 will be reported 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.
- 26. The stock of spending arrears** (> 60 days past due) as reported in the MOF Invoice central registry system (CRF) and Registry for Settlement of Monetary Obligations (RINO) will be submitted within 14 calendar days after the end of each month.

- 27. 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.
- 28. Pension spending** will be submitted within 35 days of the end of each month. Details will include total spending, and the breakdown of payments financed by each entity (e.g., the Republic Fund for Pension and Disability Insurance, the Republican budget, etc.)
- 29. Cumulative below-the-line lending by the Republican budget** will be submitted within 35 days of the end of each month.
- 30. Borrowing by the Development Fund and AOFI** will be submitted within 35 days of the end of each month.
- 31. 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 35 days of the end of each month.
- 32. 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.
- 33. Detailed balance of payments data** on a value basis provided on a monthly basis, 45 days after the end of the month or after publication, which is traditionally available on the NBS website and downloaded by the IMF team.
- 34. Gross international reserve data** will be submitted within one business day after the respective period end as defined in the data reporting table below.
- 35. Volumes and prices of trade in goods data**, on a monthly basis, 8 weeks after the end of the month, which is traditionally available on the SORS website and downloaded by the IMF team
- 36. Production and consumption data, and cash flow data (actuals and revised projections to the end of the year) for EPS and Srbijagas** will be submitted at the end of each quarter, within 20 calendar days, in the agreed templates, until end-September 2023. Starting end-October 2023, this data will be provided at the end of each month, within 20 calendar days. In the interim, until end-September 2023, readily available data for EPS and Srbijagas (profit and loss statements) will be provided at the end of each month, within 20 calendar days.
- 37. Any support provided from the Republican budget or local government budgets to public enterprises in the energy sector** will be reported monthly within 35 calendar days after the end of each month in the template agreed. This will also include any guarantees extended.
- 38. Data on public debt and publicly guaranteed debt** will be submitted monthly within 35 calendar days after the end of each month; except that data on suppliers' credit, leases and obligations arising from the receipt of advance payments will be provided to the extent available on

a quarterly basis, and data on guaranteed debt will cover guarantees issued by the Republic of Serbia.

39. Data relevant for staff monitoring of standard continuous performance criteria. Data on exchange rates will be submitted in accordance with the Fund's Multiple Currency Practices Policy that became effective on February 1, 2024, and the agreed monitoring tool. NBS determined exchange rates required include the official exchange rate for RSD/EUR (official mid-rate, and buy rate and sell rate for foreign exchange), and the six cash rates for RSD/EUR, RSD/USD, and RSD/CHF (buy rates and sell rates, respectively). Exchange rates will normally be submitted weekly at the end of the first business day in the following week. Exchange rates will be submitted daily by close of business of the following business day during the five business days prior to a Board meeting, and if a multiple currency practice has been observed, as requested by Fund staff. Other data relevant for monitoring other standard continuous performance criteria will be expeditiously provided if any official actions are taken in these areas (see MEFP Table 1b).

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
Statistical Office and NBS	Trade in goods data, volumes and prices 1/	Monthly, within 8 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	Cumulative net lending from the Republican Budget to Srbijagas	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
NBS	Detailed balance of payments data, value basis 2/	Monthly, within 45 days of the end of the month
NBS	Gross international reserves	Weekly, at the end of the first business day in the following week 3/
NBS	Gross international reserves, composition details	Every two weeks, at the end of the first business day in the following week
NBS	GIR and reserve-related liabilities (FX liabilities with a maturity of 1 year or less). Reserve-related liabilities projections for 4 quarters forward	End of quarter, within 14 days after the end of the quarter.
NBS	Exchange rate data required for monitoring under the Fund's Multiple Currency Practices Policy.	Normally weekly, at the end of the first business day in the following week, if needed daily at close of business of the following day. 2/
<p>1/ Sufficient to notify IMF that data is available on SORS website.</p> <p>2/ Sufficient to notify IMF that data is available on NBS website.</p> <p>3/ If gross reserves decline by more than 5 percent in one day or by more than 10 percent on a cumulative basis for any two-week period, reporting frequency shall be increased to daily, by the end of the subsequent business day, until the NBS and IMF staff mutually agree to return to weekly reporting.</p>		

**Statement by Mr. Marcel Peter, Executive Director for Serbia and
Mr. Vuk Djokovic, Advisor to the Executive Director
June 26, 2024**

Supported by the Stand-By Arrangement (SBA), macroeconomic performance has improved markedly over the past two years. The regional energy crisis was skillfully managed and supply disruptions were averted, with a minimal impact on output. This year, growth is accelerating, driven by domestic consumption and investment, and inflation has returned to the National Bank of Serbia's inflation tolerance band. On the fiscal front, the fiscal balance has steadily improved, and public debt has continued on a downward path, despite large budgetary outlays to support energy imports and generation in 2022. The principal objectives under the SBA related to the energy sector have been achieved: the financial solidity of the energy sector SOEs is being restored, supported by bold energy tariff adjustments, which are critical to minimize fiscal risks, create space for future investments, and support the green transition.

Over the past decade, Serbia has benefited from continuous engagement with the Fund, first through the 2015 precautionary SBA, followed by two consecutive Policy Coordination Instruments and the current SBA. Over nearly a decade, a wide range of difficult reforms have been implemented to stabilize the economy and spur growth, including restoring the health of the banking sector, resolving remaining loss-making socially-owned companies, and achieving a substantial fiscal adjustment that lowered the public debt-to-GDP ratio by more than 20 percentage points to slightly above 52 percent in 2023. A strong track record of reform implementation testifies to the authorities' resolve, ownership of reforms, and prudent approach to macroeconomic management. The authorities concur that the policies implemented under successive Fund-supported programs are yielding dividends in terms of stability, growth, and capacity to deal with shocks. The continuity of sound macroeconomic policies is underpinned by the decisive win of the incumbent SNS-led coalition in the recent parliamentary elections.

The Serbian economy weathered the energy shock well, supported by an early and decisive policy response, sizable buffers, and Fund support. At its inception in 2022, in the midst of the regional energy crisis, the SBA was instrumental in bridging energy-related transitory balance of payments (BOP) and budget financing needs. The sharp rise in energy prices, global inflationary pressures, regional and global uncertainty, and tightening global credit conditions, compounded by unexpected shortfalls in domestic electricity production, resulted in rising BOP and fiscal financing pressures. The policies implemented under the SBA-supported program helped stabilize and address structural deficiencies in Serbia's energy sector, facilitated the resolution of external and internal imbalances and restored macroeconomic stability. The authorities continue to treat the SBA as precautionary.

Monetary and financial sector policies

Inflation is on a firm downward path. In May, inflation returned to the National Bank of Serbia's (NBS) inflation tolerance band, earlier than indicated in the NBS's February projections. The NBS expects a gradual decline of headline inflation in the second half of the year and a return to the 3 percent target in 2025. Disinflation has been driven by the tight monetary stance, declining inflation expectations, easing global cost-push factors, lower imported inflation, and subdued external demand in 2023.

On June 13, the NBS Executive Board reduced the policy rate by 25 basis points to 6.25 percent. The decision to ease monetary policy was driven by steady disinflation—headline inflation has been declining continuously since its peak in March 2023 to 4.5 percent year-on-year in May—, the return of inflation to the inflation tolerance band, and the easing of global inflationary pressures. In addition, the decision to lower the policy rate was motivated by a firmly declining trend of short-term inflation expectations to within the NBS inflation corridor. Furthermore, the restrictive monetary policy stance led to a sluggish credit growth, which improved only slightly in the first quarter, driven by higher household credit demand and the gradual easing of credit conditions. The authorities underscore that anchored expectations remain key to disinflation, reflecting the credibility of the NBS and its monetary policy.

International reserves are high at around 160 percent of the Fund's ARA metric. As in 2023, the current account deficit in the first quarter of 2024 was more than covered by FDI inflows, leading to prevailing appreciation pressures on the dinar. Over the first four months of 2024, the NBS purchased EUR 530 million in the FX market, further strengthening FX reserves, which stood at EUR 25.2 billion at the end of May.

Serbia's bank-dominated financial sector remains resilient and profitable, with healthy balance sheets, ample liquidity, and low non-performing loans. The capital adequacy ratio stood at 21.2 percent at the end of March. Non-performing loans remained close to the historical minimum of about 3 percent, supported by robust regulatory and macroprudential frameworks. Regular NBS stress tests of the banking sector indicate resilience to a variety of macroeconomic shocks. The NBS is well aware that global headwinds and potential adverse spillovers require heightened vigilance. It is closely monitoring the developments related to banks' liquidity, deposits, and asset quality, while further strengthening the already robust prudential framework to bring it in line with international standards and EU requirements. More specifically, the NBS has completed a gap analysis of the domestic legal framework for banks with that of the EU and has introduced a modern legal framework for the management of liquidity risk in banks.

Fiscal policy

Fiscal outcomes in 2023 were strong, surpassing the program targets. Driven by notable revenue overperformance and lower-than-expected expenditure, the 2023 fiscal deficit outturn of

2.2 percent of GDP was notably better than the planned 2.8 percent. Good fiscal results continue in the first quarter of 2024, as the general government recorded a deficit of 0.9 percent, while the primary balance recorded a surplus of 2.2 percent. Compared to the first quarter of 2023, tax revenue show double-digit growth, driven by higher VAT and social contributions on the back of growth in wages and private consumption.

The authorities consider that at the current juncture, an additional infrastructure investment push would be critical to further modernize the country, address the infrastructure gap, buttress potential output, and lay the foundation for stronger income convergence. The new development plan “Leap into the Future—Expo 2027” is critical in this regard, and while it would require a slightly higher fiscal deficit path from 2025 onwards, it would not jeopardize fiscal consolidation and sustainability. It is worth noting that the bold fiscal consolidation implemented since 2015 has been crucial in creating the fiscal space for the current higher public investments. Since 2018, Serbia has increased public investment spending to about 7 percent of GDP, with a tangible impact on the quantity and quality of infrastructure. The authorities have been well aware that the shortage of core public infrastructure was a headwind to higher economic growth and faster convergence, exacerbated by the poor quality of existing infrastructure. Since 2018, the authorities have stepped up public investment spending and related policies to modernize transport networks, improve road and rail connectivity to foreign markets, and increase the economy’s attractiveness as an investment destination, all while keeping public debt on a downward path.

A renewed public investment effort is key to close the infrastructure gap. As noted by the Serbian Fiscal Council, Serbia needs to increase density of its highway network (1.1 km per 100 km²), to reach the Central, Eastern and Southeastern European (CESEE) average (1.25 km per 100 km²). Furthermore, Serbia’s total road network of 52 km per 100 km² is considerably below the CESEE average (130 km per 100 km²). This calls for ramping up infrastructure spending, commensurate with available fiscal space and consistent with the declining path of public debt. At the same time, public investment management reforms are ongoing, with an objective of operationalizing the Decree on Capital Projects, adopted in late 2023, and establishing a single project pipeline. These efforts are supported by the introduction of a Public Investment Management Information System at the national level in 2024 and at the local level in 2025. Additionally, the authorities remain committed to enhance the transparency of public investment projects. To accommodate the need to accelerate spending on infrastructure, the deficit agreed under the program will be slightly higher than originally planned, at 2½ in 2025 and 2¼ in 2026.

Based on modest deficits, low public debt, a prudent borrowing strategy, and strengthened fiscal buffers, the government’s gross financing needs remain manageable. Against the backdrop of increased volatility and bouts of risk aversion in global capital markets, the authorities stepped up efforts to strengthen fiscal buffers and substantially increased government deposits. Gross financing needs declined from about 10 percent of GDP in 2023 to below 9 percent in 2024. The 2024 budget is fully financed and the remaining debt issuances in 2024 will

be aimed at pre-funding the 2025 budget while maintaining market presence. At the same time, debt management is geared towards extending maturities while reducing exposure to exchange rate risks by gradually increasing the share of dinar-denominated debt.

Energy sector policies

Addressing long-standing shortcomings in the Serbian energy sector and limiting related fiscal risks remain key pillars of the Fund-supported program. A critical, gradual increase in energy tariffs, paired with a decline in energy prices and restored electricity generation, stabilized energy markets and led to the end of budgetary support to energy SOEs. Both the EPS—the electricity generation SOE—and Srbijagas—a gas import and distribution SOE—recorded profits in 2023. While the current energy tariffs allow EPS to cover all its operational costs, the authorities agree on the pressing need to establish a viable energy tariff mechanism for the unregulated market segment.

The authorities underscore that the restructuring of EPS is critical to ensure a stable electricity supply, minimize energy security risks, and foster the green transition. To improve governance, the legal status of EPS was changed to a joint-stock company, new members were appointed to the EPS Executive Board, including international and domestic experts, and a new CEO was selected. EPS has adopted a comprehensive restructuring plan, which is critical for modernizing the company’s governance and organizational structure, as well as strengthening its operations and investment project development. These efforts to modernize EPS will ensure national energy security while fostering the green energy transition.