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REPUBLIC OF SERBIA

2021 ARTICLE IV CONSULTATION AND REQUEST FOR A 30-MONTH POLICY COORDINATION INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF SERBIA

June 2021

In the context of the Article IV, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 18, 2021 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 18, 2021, following discussions that ended on April 23, 2021, with the officials of Republic of Serbia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 3, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Republic of Serbia.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2021 Article IV Consultation with Republic of Serbia and Approves a 30-Month Policy Coordination Instrument

FOR IMMEDIATE RELEASE

- Serbia's economic recovery is expected to continue in 2021, supported by ongoing measures to boost the economy.
- Nevertheless, high uncertainty about the path of the COVID-19 pandemic persists, and accelerated structural and institutional reforms are needed to ensure more inclusive and sustainable growth over the medium term.
- The new PCI aims at supporting the authorities structural reform agenda and ongoing economic recovery, while maintaining macroeconomic and financial stability.

Washington, DC – **June 18, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Republic of Serbia and approved a new 30-month Policy Coordination Instrument (PCI).[2]

Serbia has coped well with the COVID-19 pandemic and the economic recovery is expected to continue in 2021. The economic contraction in 2020 is estimated at around 1 percent, one of the smallest in Europe. Job losses have mostly been contained to the informal sector, which could not benefit from direct policy measures. Inflation remains low, with a stable exchange rate and well-anchored inflation expectations. The banking system remains stable, liquid, and well capitalized. A supplementary budget for 2021 was adopted in April, boosting capital expenditure and extending policy support to households and corporates. The latest wave of infections is tapering and Serbia's vaccination rollout remains one of the fastest in Europe. In this context, and given the strong 1Q2021 data, real GDP growth is projected to reach 6 percent in 2021.

Over the medium-term, growth is projected to gradually converge to its potential of 4 percent, supported by strong FDI, continued high public investment, and an assumed recovery in trading partner countries. Inflation is projected to remain in the lower half of the inflation target band. The current account deficit is projected at about 5 percent of GDP and to remain fully covered by FDI.

However, high uncertainty surrounds prospects for an ongoing swift recovery. The future course of the pandemic in Serbia and its key EU trading partners remains highly uncertain. New waves of infections and new variants of the virus present a clear downside risk to the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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

growth outlook and could lead to higher fiscal and external financing needs. On the other hand, building on the 1Q2021 momentum, a stronger-than-expected impact of the fast vaccine rollout in the country and globally could provide an upside risk.

The new PCI will build on the 2018 PCI successfully completed in January 2021 and aims at supporting the recovery from the pandemic, maintaining macroeconomic stability, and anchoring the medium-term fiscal policy framework, while pushing ahead with structural reforms to deliver more inclusive and sustainable growth. Program reviews will take place on a semiannual fixed schedule. While the PCI involves no use of IMF financial resources, successful completion of program reviews will help signal Serbia's commitment to continued strong macroeconomic policies and structural reforms.

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

"Serbia has coped relatively well with the COVID-19 pandemic. The hard-won macroeconomic stability that was achieved prior to the crisis, and the large policy support package that was deployed as the crisis hit, helped mitigate the adverse impact of the pandemic on economic activity. Nonetheless, with the uncertain future course of the pandemic, sustaining a solid economic recovery should be a policy priority.

"Fiscal policy is appropriately focused on providing support to the economy. The supplementary budget provides additional relief to households and businesses affected by the recent waves of the pandemic, while a scaling up of public investment—including in green infrastructure—should support near-term growth. Once the recovery gains momentum, it will be important to rebuild policy buffers and anchor them by a new fiscal rule.

"Monetary policy is accommodative, with inflation under control. In addition, extraordinary monetary and financial sector policy measures have supported economic activity through the pandemic. The banking system remains liquid but continued close monitoring of risks in the banking sector remains critical as crisis support measures expire.

"Further structural and institutional reforms are needed to underpin high, inclusive, and greener growth, as well as accelerate income convergence with the EU. Strengthening the governance and management of SOEs remains critical, while efforts to improve the business environment should continue to help attract investments. Developing domestic capital markets would enhance financial deepening and support medium-term growth. Finally, promoting green growth and enhancing the social safety net would support the recovery out of the crisis and ensure a more sustainable development."

Executive Board Assessment[3]

Executive Directors commended the authorities' strong policy response, which cushioned the impact of the pandemic and set the stage for an economic recovery. Continued policy support will be necessary in view of still high uncertainty, while safeguarding macroeconomic and

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

financial stability. It will also be important to maintain reform momentum to foster stronger, more resilient, and more inclusive medium-term growth.

Directors highlighted the importance of preserving flexibility in the policy response and avoiding a premature withdrawal of support and having a contingency plan. Any additional assistance should be targeted, take into account the narrowing fiscal room, and maintain transparency and accountability. Once the recovery is fully under way, public finances should be anchored by the adoption of a new fiscal rule to help restore fiscal buffers, while prioritizing productive capital investments, moderating the growth of public wages and pensions, and further enhancing fiscal management.

Directors agreed that the accommodative monetary and financial sector policies remain appropriate. Continued oversight of risks in the banking sector will be important as the crisis measures are gradually unwound. Directors welcomed the authorities' plans to encourage dinarization and improve capital markets and access to development finance. Some Directors considered that greater exchange rate flexibility could raise awareness to the risks of unhedged FX loans, and underscored the importance of developing hedging markets. A few other Directors, however, noted the potentially limited role of a more flexible exchange rate as a shock absorber.

Directors emphasized the importance of implementing structural reforms. They welcomed the reforms to state-owned enterprises, including the new ownership and governance strategy, as well as reforms to strengthen the rule of law, improve the efficiency of the judicial system, and curb corruption. Investment in a green and digital economy can raise productivity, support job creation, and enhance economic and environmental resilience. Reforms to labor taxation and social protection will also be important.

Table 1. Serbia: Selected Economic and Social Indicators, 2018-2023

	2018	2019	2020		2021		2022		2023
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.
			(Percent change, unless otherwise indicated)						
Real sector									
Real GDP	4.5	4.2	**-1.5**	-1.0	**5.0**	6.0	**4.5**	4.5	4.5
Real domestic demand (absorption)	6.5	6.2	**-1.7**	0.0	**6.7**	5.8	**4.6**	4.5	4.5
Consumer prices (average)	2.0	1.9	**1.7**	1.6	**1.9**	2.5	**2.3**	2.6	2.6
GDP deflator	2.0	1.9	**1.7**	1.3	**1.9**	3.0	**2.3**	2.4	2.6
Unemployment rate (in percent) 1/	2.0	2.4	**3.5**	1.8	**2.4**	2.6	**2.7**	2.9	2.9
Nominal GDP (in billions of dinars)	13.3	10.9	**…**	9.5	**…**	…	**…**	…	…
	5,073	5,418	**5,524**	5,464	**5,940**	5,942	**6,375**	6,389	6,868
			(Percent of GDP)						
General government finances									
Revenue 2/	41.5	42.1	**40.3**	41.3	**40.8**	41.7	**41.3**	41.4	41.6
Expenditure 2/	40.9	42.3	**49.2**	49.4	**43.8**	48.7	**42.8**	44.4	43.1
Current 2/	36.4	36.9	**43.1**	43.1	**37.6**	40.9	**36.7**	37.2	36.5
Capital and net lending	4.1	5.1	**5.9**	6.2	**6.0**	7.6	**5.8**	6.8	6.5
Amortization of called guarantees	0.4	0.2	**0.1**	0.1	**0.2**	0.2	**0.3**	0.3	0.1
Fiscal balance 3/	0.6	-0.2	**-8.9**	-8.1	**-3.0**	-6.9	**-1.5**	-3.0	-1.5
Primary fiscal balance (cash basis)	2.8	1.8	**-6.9**	-6.1	**-1.1**	-5.0	**0.3**	-1.1	0.4
Structural primary fiscal balance 4/	2.8	1.5	**1.2**	2.0	**0.5**	-0.3	**0.4**	-1.6	0.3
Gross debt /5	54.4	52.8	**59.1**	58.4	**57.7**	60.3	**55.5**	58.9	56.0
			(End of period 12-month change, percent)						
Monetary sector									
Money (M1)	20.1	16.3	**24.2**	36.3	**7.5**	11.8	**8.7**	8.4	8.0
Broad money (M2)	15.0	8.8	**12.7**	18.4	**7.1**	9.1	**7.3**	7.8	7.5
Domestic credit to non-government 6/	10.1	9.5	**10.6**	12.0	**6.5**	5.6	**7.8**	4.6	6.6
			(Period average, percent)						
Interest rates (dinar)									
NBS key policy rate	3.1	2.3	**…**	1.0	**…**	…	**…**	…	…
Interest rate on new FX and FX-indexed loans	2.8	3.1	**…**	3.0	**…**	…	**…**	…	…
			(Percent of GDP, unless otherwise indicated)						
Balance of payments									
Current account balance	-4.8	-6.9	**-5.7**	-4.3	**-5.8**	-5.1	**-5.6**	-5.0	-4.9
Exports of goods	35.2	35.7	**32.6**	34.5	**33.8**	39.3	**36.8**	40.3	40.8
Imports of goods	-47.1	-47.9	**-43.5**	-45.7	**-46.5**	-50.4	**-49.4**	-51.0	-51.3
Trade of goods balance	-11.9	-12.2	**-10.9**	-11.2	**-12.7**	-11.2	**-12.6**	-10.7	-10.5
Capital and financial account balance	6.7	10.6	**5.6**	5.2	**6.6**	8.4	**6.6**	6.8	6.3
External debt (percent of GDP) 7/	66.1	65.5	**67.4**	70.9	**64.3**	70.6	**61.4**	68.0	64.8
of which: Private external debt	30.9	30.8	**29.9**	34.1	**28.8**	31.8	**27.3**	30.2	28.5
Gross official reserves (in billions of euro)	11.3	13.4	**13.4**	13.5	**13.7**	15.2	**14.3**	16.1	16.9
(in months of prospective imports)	4.8	6.1	**5.5**	5.2	**5.0**	5.4	**4.7**	5.4	5.2
(percent of short-term debt)	195.3	408.9	**204.0**	412.3	**209.8**	463.6	**217.9**	493.1	516.3
(percent of broad money, M2)	52.2	57.8	**56.8**	57.7	**54.6**	60.3	**53.2**	60.1	58.7
(percent of risk-weighted metric) 8/	111.2	126.2	**122.0**	126.0	**120.7**	129.0	**119.2**	130.3	129.6
Exchange rate (dinar/euro, period average)	118.3	117.9	**…**	117.6	**…**	…	**…**	…	…
REER (annual average change, in percent; + indicates appreciation)	2.8	1.0	**…**	1.5	**…**	…	**…**	…	…
Social indicators									
Per capita GDP (in US$)	7,252	7,392	**7,723**	7,646	**8,442**	8,878	**9,653**	9,629	10,368
Real GDP per capita (percent change)	5.1	4.5	**-1.1**	-0.4	**6.4**	6.4	**4.9**	4.9	4.9
Population (in million)	7.0	7.0	**6.9**	6.9	**6.9**	6.9	**6.9**	6.9	6.8

Sources: Serbian authorities; and IMF staff estimates and projections.
1/ Unemployment rate for working age population (15-64).
2/ Includes employer contributions.
3/ Includes amortization of called guarantees.
4/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs.
5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 0.85 percent of GDP as of end-April 2021.
6/ At constant exchange rates.
7/ After CR19/369, domestic securities held by non-residents are included in external debt. Historical data were updated since 2015.
8/ The risk-weighted metric is IMF's ARA metric for the fixed exchange rate. Serbia was reclassified as stabilized exchange rate regime in 2019.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SERBIA

June 3, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND REQUEST FOR A 30-MONTH POLICY COORDINATION INSTRUMENT

EXECUTIVE SUMMARY

Recent economic developments. Supported by a large policy package, Serbia's economy rebounded quickly from the initial COVID-19 shock, recording a 1 percent contraction of real GDP in 2020. Job losses have mostly been contained to the informal sector, thanks to policy measures aimed at preserving formal employment. A supplementary budget for 2021 was adopted in April boosting capital expenditure and extending policy support to households and corporates, against the background of third and fourth waves of infections and related containment measures, as well as a weaker-than-expected economic recovery in key trading partners. Inflation remains low. After rising again in late February, infections tapered, helped by new containment measures and the rapid vaccine rollout.

Fiscal policy. The latest round of fiscal support and the extension of the loan guarantee scheme will help underpin the recovery, as well as prevent bankruptcies and protect employment. Any further support should be targeted more directly at the most vulnerable households and firms and sectors most affected by the pandemic. Once the recovery is fully under way, it will be important to rebuild policy buffers and anchor them by a new fiscal rule.

Monetary and financial sector policies. Monetary policy should remain accommodative and financial sector policies supportive. While the banking system remains stable, liquid, and well capitalized, any buildup of risks should be closely monitored. Developing domestic capital markets and further encouraging dinarization would enhance financial stability and support medium-term growth.

Structural reforms. Advancing reforms of Serbia's large and inefficient state-owned enterprises (SOEs) remains critical. Improving the business environment would help attract foreign as well as domestic investment. Promoting green growth and enhancing the social safety net would support the recovery and ensure a more sustainable development.

Risks. New waves of infections in Serbia or its main trading partners present a downside risk, while a stronger-than-expected impact of the fast vaccine rollout could provide an upside risk. Tighter global financing conditions could push up the cost of borrowing and slow down the recovery.

Program discussions. The requested new PCI aims at supporting the ongoing recovery while maintaining macroeconomic and financial stability, including by anchoring the medium-term fiscal policy framework to a fiscal rule, enhancing monitoring of fiscal risks, increasing transparency and accountability of state aid, and advancing SOEs reforms.

Approved By	
Jörg Decressin (EUR) **Maria Gonzalez (SPR)**	Discussions were held remotely during April 12-23, 2021. The staff team comprised Jan Kees Martijn (head), Pietro Dallari, Marina Marinkov (all EUR), Sandra Lizarazo Ruiz (FAD), Marco Rodriguez Waldo (SPR), Priscilla Toffano (MCM), Sebastian Sosa (resident representative), Desanka Obradović and Marko Paunović (local economists). Vuk Djoković (OED) attended some discussions. HQ support was provided by Piotr Kopyrski and Aniko Madaraszova (both EUR).

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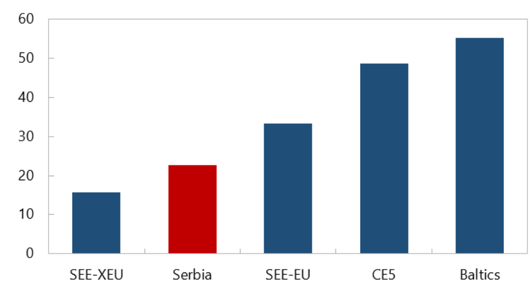
CONTEXT

1. **Serbia has weathered the COVID-19 crisis well so far, but high uncertainty about the path of the pandemic persists.** Serbia entered the crisis with sound macroeconomic fundamentals. In response to the pandemic, the authorities implemented a sizeable policy package, which helped mitigate the adverse impact on economic activity and supported the economic rebound. Serbia also embarked on one of the fastest COVID-19 vaccine rollouts in Europe (Text Figure 1). Nevertheless, high uncertainty about the course of the pandemic and its delayed effects on firms, banks, and households persist, and sustaining a solid economic recovery remains a policy priority.

2. **Further structural and institutional reforms are needed to put Serbia on a stronger, more resilient, and inclusive growth trajectory.** The 2018 PCI supported the authorities in maintaining fiscal discipline and advancing structural reforms, albeit with delays in some areas, including in the wake of the pandemic. Good progress was made in modernizing tax administration, strengthening public investment management frameworks, and privatization, including of the largest state-owned bank (Annex II). However, further reforms will be important to rebuild buffers and anchor fiscal performance over the medium term. And an ambitious structural reform agenda will be needed to underpin high, inclusive and greener growth. These efforts would also help prepare the country to successfully join the EU.

Nominal GDP per capita, 2019

(Percent of EU nominal GDP per capita; weighted averages)



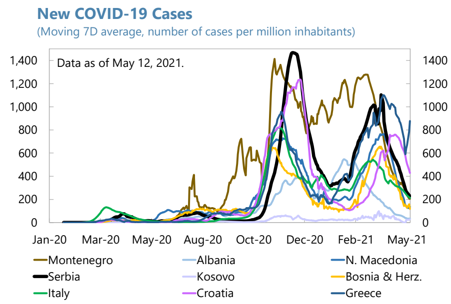
Sources: IMF, WEO database; and IMF Staff estimates.
Note: CE5 includes CZE, HUN, POL, SVK, SVN; Baltics includes EST, LVA, LTU; SEE-EU includes BGR, HRV, ROU; SEE-XEU includes ALB, BIH, MKD, MNE, KOS.

3. **Against this background, the authorities have requested a successor 30-month PCI.** In the absence of balance of payments needs, the authorities view the PCI as an appropriate vehicle to demonstrate Serbia's commitment to advance the reform agenda, enhance macroeconomic stability, and maintain close policy dialogue with the Fund.

4. **Politics are dominated by the 2022 general elections.** The current government, led by the SNS party, has maintained political and economic continuity, but the reform momentum could be affected by elections expected in April 2022. Discussions on normalizing relations with Kosovo have made limited progress.

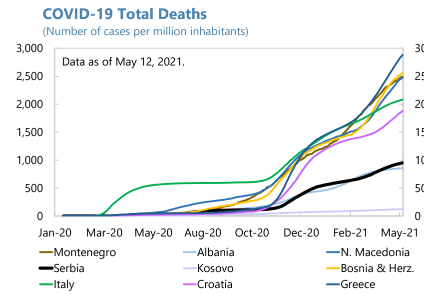
Text Figure 1. COVID-19 Evolution in Serbia

The fourth wave of infections, which started in February, is on the decline.



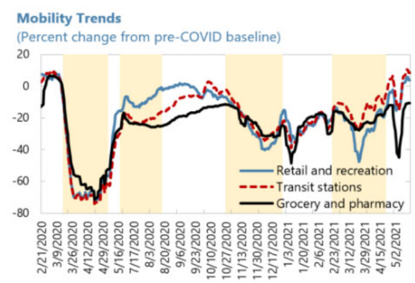
Sources: Johns Hopkins University; Haver Analytics; and IMF Staff calculations.

As of May 12, there were 703,497 confirmed COVID-19 cases and 6,611 deaths in Serbia.



Sources: Johns Hopkins University; Haver Analytics; and IMF Staff calculations.

Mobility indicators dipped in February and March amid the fourth wave…

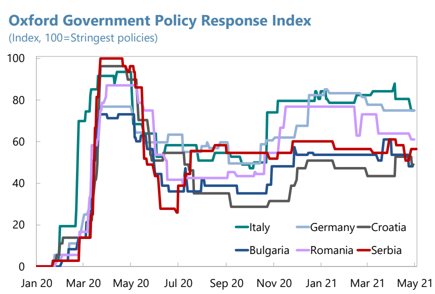


Source: Google COVID-19 Mobility Reports.
Note: Shaded areas represent pandemic waves.

… as did industrial production in March.

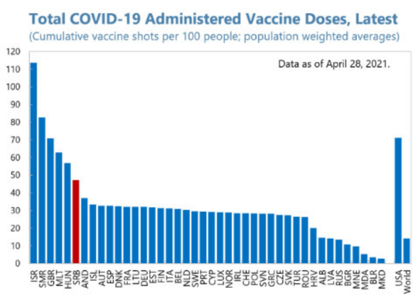
Source: Statistical Office of Serbia.

Moderate restrictive measures remain in place.



Source: Blavatnik School of Government, University of Oxford.

And the vaccination pace is one of the fastest in Europe, as vaccines are secured from multiple sources.

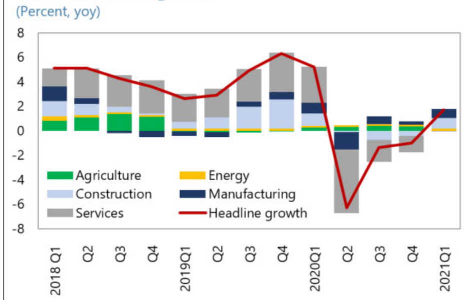


Sources: Bloomberg Finance L.P., and IMF Staff calculations.

RECENT ECONOMIC DEVELOPMENTS

5. **Serbia's economic recovery is on track, despite new waves of the pandemic.** Serbia recorded one of the smallest output contractions in Europe in 2020 (Box 1). While private consumption decreased by 2.5 percent, government spending provided a critical stimulus. On the supply side, services continued to be a drag on growth from 2Q2020, while agriculture and manufacturing rebounded in 3Q2020 and continued to support growth in 4Q2020 amid a third wave of the pandemic. The 1Q2021 GDP estimate of 1.7 percent yoy growth exceeded the expectations of both staff and authorities, given the new waves of the pandemic and the related

containment measures, and the weaker-than-expected economic performance in Serbia's key EU trading partners. The fourth wave of infections, which started in February, is tapering while Serbia's vaccination campaign remains one of the most successful in Europe. Given these developments, the growth forecast for 2021 has been revised up from 5 percent to 6 percent, although risks are pronounced.



Source: SORS, IMF staff calculations and projections.

6. Price pressures remain contained, thanks to a relatively stable exchange rate and well-anchored inflation expectations. Headline inflation returned to the tolerance range in March (at 1.8 percent), after three months below the lower bound, before picking up to 2.8 percent in April (Figure 4). Core inflation remains broadly stable at 1.8 percent. After four cuts in 2020, the NBS has kept the key policy rate unchanged at 1 percent since December.

7. Fiscal policy continues to be expansionary, providing support to the economy as the recovery takes root. The fiscal deficit reached 8.1 percent of GDP in 2020, from near balance in 2019, as the original budget was amended to include a support package worth about 9 percent of GDP, covering higher pandemic-related subsidies, wage costs, and healthcare spending. Revenue collection was flat compared to the previous year, despite the deferral of labor taxes and social security contributions. Public debt increased in 2020, reaching 58.4 percent of GDP by year-end.[1] For 2021, a supplementary budget was adopted in April raising the projected deficit from 3 percent of GDP to 7 percent. The budget revision aims to cushion the impact of the new waves of the pandemic and the associated containment measures, as well as offset the weaker than-expected private consumer demand and the economic recovery in key trading partners, which could affect the Serbian recovery including via protracted or lagged effects.

8. The external position is assessed to be broadly in line with medium-term fundamentals and desirable policies (Annex V). The current account deficit in 2020 was 4.3 percent of GDP, 2.6 pp of GDP below the 2019 deficit. A decline in exports and remittances due to the economic slowdown in Europe was more than offset by lower imports from lower domestic consumption and by lower profits earned by foreign companies (Figure 2). Net FDI inflows were 18 percent below the 2019 level but still exceeded the current account deficit. Current account developments in early 2021 have been generally positive, with exports recovering faster than imports, a lower primary income deficit, and rising remittances inflows. Pressures on the dinar were broadly balanced and moderate during 1Q2021, after net sales of foreign exchange by the NBS during most of 2020. The Central Bank's international reserve position remains adequate according to the usual metrics.

[1] Public debt excludes state guarantees on bank loans issued under the government guarantee scheme, with a potential maximum fiscal cost estimated at EUR 435 million (0.85 percent of GDP) as of end-April 2021.

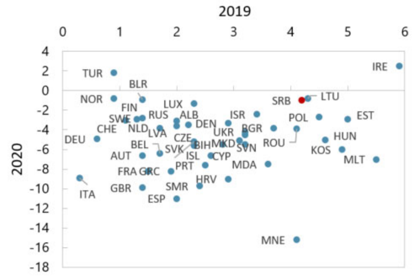
Box 1. Serbia's Output Performance During COVID-19

In 2020, Serbia's economy contracted by about 1 percent, compared to the average contractions of about 2 percent and 7 percent in emerging and advanced Europe, respectively.

This is partly explained by a stronger carry-over effect going into the pandemic in Serbia. Growth in 2019 registered 4.2 percent, with growth in 4Q2019—which is particularly important for the carry over into 2020—the strongest in yoy terms since 3Q2008.

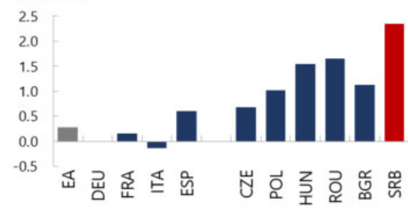
Serbia's modest reliance on high-contact sectors helped absorb the negative impact of containment measures. Although relatively strict containment measures in the early phase of the pandemic (Text Figure 1) negatively affected mobility, particularly during the lockdown period[1], their impact on Serbia's economic activity was likely more subdued, given its modest reliance on high-contact sectors. Monthly data for 2020 confirms that high-contact sectors in Serbia were most affected by the pandemic. For example, catering turnover and overnight tourist stays declined more drastically in April and did not recover to pre-COVID levels later in 2020, whereas industrial production and retail trade (which have a larger share in GDP) recorded V-shape recoveries.

European Economies: Real GDP Growth
(2020 vs. 2019, percent)



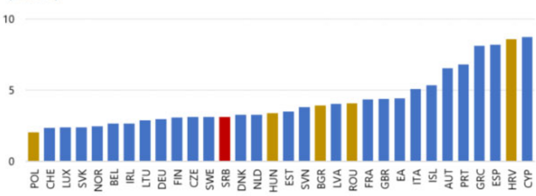
Source: WEO

Estimates of Carry-over Effect from 2019
(Percent)



Sources: WEO, IMF staff calculations.

Share of High-contact Sectors in Gross Value Added (GVA)
(Percent)



Source: Haver Analytics; IMF staff calculations.
Note: High-contact sectors include accommodation, food service, arts, entertainment and recreation.

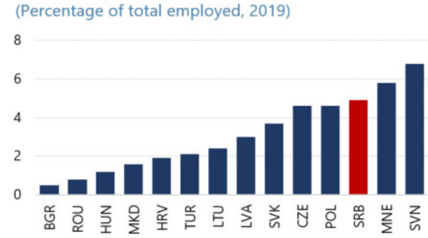
V-shaped recoveries **Slower recoveries**

Source: Statistical Office of Serbia, IMF staff calculations.
Note: Seasonally-adjusted indices, 2019 = 100.

The large and timely policy response played a key role in mitigating the economic costs of COVID-19. Serbia implemented a comprehensive support package in 2020 (Annex IV), including a fiscal impulse of about 6 percent of GDP, monetary policy relaxation (accommodating the increased domestic government financing needs) and financial sector support promoting high credit growth in 2020, see Table 6a).

Finally, teleworkability also played a helpful role. Before the pandemic, Serbia reported a larger share of employed persons working from home relative to CESEE peers. Data published by Serbia's Statistical Office shows that this share has increased by about 25 percent over 2Q2020-4Q2020 compared to the same period in 2019.

Employed persons working from home
(Percentage of total employed, 2019)



Source: Eurostat
Note: Persons reported as usually working from home; 15-64 years.

[1/] The authorities estimate that a 10-point increase in the stringency index led to a 13 percent decline in mobility in Serbia over a two-week period (National Bank of Serbia, *February 2021 Inflation Report*, Box 3, available here).

OUTLOOK AND RISKS

9. A strong economic recovery is expected as the pandemic subsides and restrictions are lifted (Tables 1-8).

- **Real GDP growth** is projected at 6 percent in 2021, gradually decreasing to its potential of around 4 percent over the medium term. This would leave a permanent effect of the crisis on the level of real GDP of 2 percent compared with pre-pandemic projections by end-2023. Over the medium-term, growth is expected to be supported by strong FDI, continued high public investment, and an assumed recovery in trading partner countries. Strong implementation of structural reforms, including under the PCI, represents an upside risk to medium-term growth.

- **Inflation** is projected to remain in the lower half of the inflation target band, in line with domestic demand and the evolution of imported inflation, before reaching the midpoint over the medium term.

- **The current account deficit** is projected at 5.1 percent of GDP in 2021 as both exports and imports recover from the 2020 downturn, while a normalization in remittances and tourism flows is expected to happen gradually. Over the medium term, the current account deficit is projected to remain at about 5 percent of GDP and be fully covered by FDI.

10. However, prospects for an ongoing swift recovery remain uncertain. The future course of the pandemic and related economic disruptions in Serbia and its trading partners are a key source of this uncertainty. A stronger resurgence of the pandemic (including through new variants), slower vaccine rollout, and delayed effects from the labor market present clear downside risks to the growth outlook and could lead to higher fiscal and external financing needs. On the other hand, building on the 1Q2021 growth momentum, a stronger-than-expected impact of the fast vaccine rollout in Serbia and globally could provide an upside risk. Furthermore, the permanent effects of the crisis could be smaller than now foreseen, in particular, if NPLs and firm closures do not rise significantly. The authorities broadly agreed with staff's assessment including the projected 6 percent growth rate in 2021. They assessed the risks to the baseline projection as symmetrical, with key downside risks stemming from the external environment (including potential slowdown in EU recovery) and upside risks from the domestic environment (stronger-than-expected domestic demand supported by the new fiscal package and the fast vaccine rollout).

11. Staff discussed with the authorities contingent policy options if new waves of the pandemic were to occur. A resulting deeper and more prolonged downturn could have a severe negative impact on corporates and households, whose buffers (credit lines and precautionary savings) could be quickly eroded. Additional support for the most affected sectors and the most vulnerable, including the informally employed, could become necessary. At the same time there would be limited fiscal space for additional measures. Against this background, contingent policies could cover:

- Ensuring continued provision of adequate health care.
- Targeted measures to support those most in need and companies or sectors that are most critical to the economy.
- Identifying options for reallocations of spending within the 2021 budget.
- Continued monetary accommodation, including operations to maintain market liquidity.
- Intensified monitoring of emerging financial vulnerabilities, in particular of banks and troubled state-owned enterprises (SOEs).

POLICY DISCUSSIONS

Staff recommended to sustain the economic recovery through continued monetary accommodation and temporary and well-targeted fiscal support, while managing fiscal and financing risks, and reducing fiscal deficits over the medium term. Staff also advised advancing structural fiscal reforms to underpin the necessary restoration of fiscal buffers and to anchor fiscal performance. Advancing the structural reform agenda will foster stronger and more sustainable growth over the medium term. Program discussions built on this assessment.

A. Fiscal Policy

Background

12. Serbia entered into the COVID-19 crisis from a strong fiscal position. Under two consecutive IMF programs during 2015-20, Serbia revamped a stagnating economy burdened with collapsing tax receipts and overspending. Notwithstanding large public wage increases since 2017 and a stubbornly large pension bill, total current expenditures in percent of GDP remained stable through 2019, while rising public investment turned the fiscal balance from small surpluses to a small deficit in 2019—well within the program limit. Revenue collection gradually improved, on the back of improved tax administration and rising incomes. Public debt declined sharply during this period. Growing investors' appetite for Serbia's government bonds and relatively benign international financial market conditions helped to reduce borrowing costs, and create sizable liquidity buffers.

13. Following the 2020 support package, the authorities adopted a supplementary budget in April 2021, covering a new round of support measures. The original 2021 budget, approved as a prior action for the final PCI review, envisaged a deficit of 3 percent of GDP, and did not anticipate the third and fourth pandemic waves that hit both Serbia and its trading partners. This budget included higher public investments to support the recovery and boost potential growth, while phasing out the temporary crisis measures deployed in 2020. The 2021 supplementary budget will raise the deficit to 7 percent of GDP. It includes renewed temporary support measures for households and firms (estimated at 2.3 percent of GDP), healthcare expenditures (0.5 percent of

GDP) and subsidies, in particular to support SOEs (including railways and road maintenance) affected by the pandemic (0.5 percent of GDP). Capital investments were revised upward by 1.7 percent of GDP, primarily for investment in infrastructure—including environmental protection, a COVID-19 hospital, and transport infrastructure—and the purchase of military equipment. The higher spending is offset in part (about 1 percent of GDP) by higher revenues. The authorities also expanded the existing state-guaranteed bank loans to SMEs (1 percent of GDP) and announced a new lending guarantee scheme for vulnerable companies (1 percent of GDP).

Supplementary Budget 2021

Measures	Percent of GDP
Temporary pandemic support and healthcare measures	**3.3**
Wage subsidies (three months)	1.2
Sector support (incl. travel and hospitality sectors)	0.1
Universal cash transfers (to be disbursed in May and November)	0.5
Assistance to pensioners (one-off payment and a cash transfer to be paid in September)	0.4
One-off assistance to the unemployed	0.1
Other Subsidies	0.6
Healthcare expenditures:	0.5
One-off higher wages for the healthcare sector	*0.2*
Healthcare expenditures (incl. COVID-19 vaccines)	*0.3*
Capital expenditures	**1.7**
Healthcare infrastructure (incl. factory for vaccine production and a new COVID-19 hospital)	0.1
Transportation infrastructure	0.3
Environmental protection infrastructure	0.3
Defense and security related expenditure	0.7
Other	0.3

Source: Serbian authorities and IMF staff calculations

14. Financing the larger deficit will rely on continued favorable market conditions (Annex VI). The gross financing needs for 2021 are estimated at 12.4 percent of GDP, compared to 15 percent of GDP in 2020. At the onset of the crisis, non-residents scaled down their investments in government securities by 0.5 percent of GDP, prompting a larger drawdown of government deposits and liquidity provision by the NBS. However, as portfolio inflows resumed later in the 2020, Serbia successfully placed two Eurobonds, totaling EUR 3 billion. In February this year, Serbia issued a 12-year Eurobond for EUR 1 billion at a 1.9 percent yield, and JP Morgan announced the inclusion of three dinar-denominated government bonds into its EM indexes, which is expected to increase liquidity and broaden the investor base. Discussions with Euroclear for the settlement of Serbian securities are also advancing. Downside to the debt outlook would stem from the materialization of unforeseen liabilities, additional fiscal costs, a slowdown in growth, and pressures on the exchange rate.

Policy Discussions

15. The supplementary budget provides additional relief to households and businesses affected by the new waves of the pandemic. The authorities also pointed to the need to support growth, in particular given the still uncertain international environment. They considered that the policy support was sufficiently targeted, with the new credit guarantee scheme helping the most affected firms, direct support to employees and firms in the travel and hospitality sectors, as well as support for the unemployed. Staff concurred that the worsening of the pandemic and of the economic outlook warranted additional public sector support and agreed that the additional temporary loosening of the fiscal stance does not jeopardize fiscal sustainability. Since the mission, the economic outlook has improved but still, and notwithstanding the fiscal impulse, a significant output gap remains. Concerning the design of the measures, staff argued that some measures could have been better targeted—for example, granting wage subsidies to COVID-impacted businesses only, and targeting cash transfers to households in need. Staff welcomed the scaling up of public investment in green infrastructure (railways, sewage and waste treatment). The authorities noted that the increased spending in defense was one-off. They reiterated their commitment to closely monitor fiscal risks from the credit guarantee scheme, and to ensure transparency and accountability in COVID-related spending, including by ensuring that this spending is officially accounted for through regular budget execution reports and covered in the regular ex-post audit of expenditures by the State Audit Institution (expected by end-2021).

16. To help entrench the recovery, flexibility in the crisis response needs to continue in 2021 and 2022. The program seeks to avoid a premature withdrawal of support to the economy, and only in case of significant new adverse shocks, further support may be warranted. However, at this stage, the authorities did not see significant scarring effects from the pandemic on the economy except in tourism and hospitality, given the lifelines provided to households and firms, and the positive impact of the higher public investments in overcoming infrastructure gaps and transforming the economy. Staff reiterated that with fiscal room narrowing, any further support, if necessary, should be better targeted towards the most vulnerable households and the most affected firms and sectors, to limit the fiscal cost and increase the fiscal multiplier. Possible additional revenues stemming from better-than-expected economic performance in 2021 should be saved. With the expected rebound of private investment and consumption, a decline in the 2022 deficit to 3 percent of GDP—underpinned in full by the expiration of this year one-off support measures—would allow for maintaining sufficient support for the recovery through high public investment while setting the public debt ratio on a clear downward trajectory. A gradual further decline of the fiscal deficit in subsequent years would support the convergence of output toward potential by 2023.

17. Once the recovery is fully under way, public finances should be anchored by the adoption of a new fiscal rule. The crisis response confirmed the importance of having fiscal space, which should be restored as COVID-19-related support ends. Staff noted that a small fiscal deficit from 2023 onwards, anchored to the level of public debt, constitutes an appropriate framework to put public debt on a downward path and help secure investor confidence. The authorities agreed that a new fiscal rule framework should be designed in consultation with Fund staff—including key elements such as debt thresholds, escape clauses, correction mechanisms, and a strong accountability framework—and be formalized by mid-2022, in time for the 2023 budget (**end-June 2022 RT**). Staff also advised prioritizing capital investments and argued that a gradual reduction of the public sector wage bill as a percent of GDP is warranted, after sizable increases in the last few years, which the authorities agreed to (PS ¶10). Pensions should continue to be indexed in line with the Swiss formula. The authorities noted that there are no plans to revise the pension indexation formula.

18. Hard-won gains in fiscal management should be preserved while paving the way for policies that can deliver stronger and more inclusive growth, enhance transparency and accountability, and manage risks.

- **Tax administration.** Despite some delays caused by the pandemic, Serbia's Tax Administration (STA) has continued to make progress in auditing, compliance risks management, the large taxpayer unit, and new legislation on unexplained wealth. A new Transformation Program Action Plan (TPAP) for 2021-25 aims to guide further modernization. The reforms, with continued IMF and World Bank support, will focus on business process re-engineering, e-fiscalization, and procurement of a new IT system. Staff emphasized the importance of deliberate change management of the extensive reform process. Recruitment of additional staff remains a priority for the STA, and a new HR strategy is being developed.

- **Fiscal risks.** With IMF and World Bank TA, the Fiscal Risks Department (FRD) continues to expand the range of risks it covers. Progress is ongoing to complete the methodologies to properly monitor and manage fiscal risks from litigation and local governments (**end-September 2021 RT**), in addition to those covering risks from natural disasters, SOEs and state guarantees which have already been completed. A set of bylaws detailing the responsibilities and roles in monitoring and managing fiscal risks, and the use of fiscal risks reports in the decision-making process will also be finalized (**end-September 2021 RT**). The authorities indicated that after recent personnel departures they were hiring new staff and rebuilding capacity. The mission encouraged these efforts and emphasized the importance of continued coordination with other ministries and departments.

- **Public investment management.** A Public Investment Management Unit (PIMU) was established in 2019 with IMF and World Bank support. Following recent personnel departures, the authorities agreed to renew efforts to build human resource capacity and strengthen coordination across departments. Development of a Public Investment Management Information System (PIMIS) is ongoing, and the system is expected to be operational in 2022. This would facilitate monitoring and management of public investment projects, which should all continue to be included in a single project pipeline.

- **State aid.** To advance transparency and oversight of state aid, an independent and well-resourced State Aid Commission has been appointed by Parliament. However, the effectiveness of the new system remains to be tested. The authorities will adopt the necessary secondary legislation to make the Law on State Aid Controls effective and aligned with the EU acquis and will publish an inventory of state aid schemes and the associated amounts (**end-September 2021 RT**).

- **Public procurement.** A new public procurement system was introduced in July 2020, with support from the EU and the World Bank. By 2022, all transactions should use the new online portal that offers increased transparency and simplifies procedures. However, selected Government-to-Government projects and infrastructure projects of 'special importance for the Republic of Serbia' can be exempted from public procurement rules. The authorities noted that exception to the rules are justified to expedite the execution of critical public investments projects. The mission reiterated that, to mitigate risks of corruption, and enhance transparency and trust, it is important to ensure competitive bidding processes, full use of the new portal, to maintain audit trails and to publish information regarding entities awarded procurement contracts, their beneficial owners, and details of the contracts. Staff noted that the new procurement framework and its implementation should be assessed once it has been in full use.

- **Social protection.** While the means-tested social assistance programs (especially financial social assistance and child allowances) are well-targeted, benefits and coverage are limited, leaving out many vulnerable people, including in times of crisis. Currently, only half of the population under the poverty line receives some support. Going forward, a more cost-efficient system would facilitate a more agile and effective response in times of crisis, while increasing its impact on poverty and inequality reduction. The ongoing effort of the government to upgrade the existing social cards should be a step in the right direction and should be used to expand the coverage of the most vulnerable.

- **Public wage and employment framework.** The authorities confirmed their commitment to adopt the new public wage system, as well as amendments to the job catalogue for the public sector and the associated coefficients during 2021, for implementation in 2022. Staff emphasized that the pace at which wages converge to their new levels should depend upon available fiscal space. The general government employment framework continues to be controlled by a cap on the total number of new hires, and guided by the Employment Commission's decisions on individual staff hires, although with enhanced flexibility since January 2021 for taking into account the institution's budget limits and staffing needs. The authorities plan to phase out the existing system once a new system based on medium-term workforce planning is sufficiently effective and comprehensive. This should anchor their objective of gradually reducing the public sector wage bill as a share of GDP.

- **Labor taxation.** The labor tax wedge remains relatively high, especially for low-income and part-time contract workers. The authorities indicated their willingness to reduce taxes weighing on labor income further by gradually increasing the threshold for non-taxable personal income. The mission suggested additional options for reforms, including the introduction of a family allowance, or tax breaks for social security contributions for low wage earners, that would make labor markets more inclusive and encourage formal employment.

- **Fiscal statistics.** The submission of general government fiscal data to the IMF GFS Yearbook publication restarted in January 2021. With Fund TA, the reporting of monthly fiscal accounts in line with GFSM 2014 presentation, and in accordance with international dissemination best practices, is being finalized (**end-September 2021 RT**).

B. Monetary and Financial Sector Policies

Background

19. Within the stabilized exchange rate regime, monetary policy remains accommodative and the banking system liquid. With inflation pressures subsiding and the emergence of the pandemic, the NBS cut its policy rate from 2.25 percent in 2020 to 1 percent by December (with an interest rate corridor reduced to ±0.9pp), where it has remained since. Short term interest rates have remained near the bottom of the corridor. To offset depreciation pressures since the onset of the pandemic crisis, the NBS made foreign exchange sales of EUR 1.45 billion in 2020, falling to EUR 50 million in 1Q2021 (Figure 3). However, reserves remain high at around EUR 13.5 billion (or 5.4 months of prospective imports), supported by the Eurobond issuances.

20. Furthermore, the NBS has taken extraordinary measures to support economic activity during the pandemic (Annex IV. Table 2):

- **Providing additional liquidity** through: (i) dinar repo purchases and FX swap auctions, (ii) outright purchase of dinar government securities at market rates (1.6 percent of GDP) to ensure stability of the government bond market, and (iii) making qualifying local-currency denominated corporate bonds issued before end-2020 eligible for open market operations and as collateral for banks to receive central bank short-term liquidity.

- **Arranging a repo line with the ECB** (up to EUR 1 billion in exchange for adequate euro-denominated collateral) until March 2022 to address the possible euro liquidity needs of Serbian banks in case of market dysfunction.

- **Subsidizing loans in dinars**, by increasing the remuneration (by 0.50 percentage points) on allocated required reserves in dinars for banks approving dinar loans under the state guarantee scheme at sufficiently low interest.

- **Introduced three rounds of debt moratoria to ease the burden of loan repayments**. The first two moratoria lasted from April to June and from August to September 2020 and were directed at all borrowers unless they opted out. The third relief measure, from December 2020 through April 2021, targeted only retail and corporate customers affected by the pandemic. At end-February 2021 only around 43,000 had made use of this facility (with an amount of EUR 0.9 billion, around 4 percent of private sector credit outstanding).

- **Facilitating housing loans,** including by reducing the mandatory down payment for first-time home buyers.

21. Credit activity remains robust. Supported by the NBS' measures and the government guarantee scheme for bank lending to SMEs, credit growth reached 7.7 percent yoy in March 2021. These measures have also encouraged credit dinarization, which recorded an all-time high of 37.4 percent in February 2021. While NPLs remained low (at 3.9 percent at end-March 2021), total loan loss provisions were increased by 12 percent in 2020 and by an additional 1.9 percent in the first two months of 2021 (allowances for loans' impairment covered 58 percent of gross NPLs at end-February 2021) in consideration of the possible increase in Stage 2 and Stage 3 status. Nonetheless, banks remained profitable (Table 9), and profitability declined less than elsewhere in the region.

Policy Discussions

22. With inflation below target and inflation expectations well anchored, staff supported maintaining an accommodative monetary policy stance and other measures to secure the

economic recovery. The authorities noted that they still had sufficient policy space to respond to further pressures if needed, including through the extension of the measures used so far. With inflation in Serbia expected to remain within the target band, a negative output gap, and interest rates in the eurozone low for the time being, monetary policy normalization is not anticipated until after 2021. The authorities were satisfied that their expansionary monetary and macroprudential measures had been effective in expanding bank lending to the real sector and had contributed to lowering the economic cost of the pandemic, and that the stability of the exchange rate had been key to preserving business and consumer confidence.

23. **Staff stressed the need to closely monitor risks in the banking sector.** While the NPL ratio is currently low, staff expected some increase once the crisis support measures expire. The authorities agreed that banks should continue to assess borrowers' creditworthiness and reclassify exposures when repayment appears unlikely, and they noted that dividend distribution would remain suspended until the pandemic crisis had ended. New measures aimed at discouraging lending in foreign currency had been postponed in light of the pandemic, and were planned to become effective later this year. Staff urged the authorities to find a prompt solution to the increasing number of lawsuits challenging the charging of loan and mortgage insurance fees that are currently being litigated in court (more than 130,000 cases at end-December).

24. **The authorities and staff discussed the case for more exchange rate flexibility over the medium term.** The authorities continued to see exchange rate stability as essential to macroeconomic stability, given the adverse impact that a significant depreciation could have on confidence, inflation, FX denominated debt and the dinarization strategy. Staff argued that, although there was a case for maintaining exchange rate stability through the crisis to maintain confidence, a more flexible exchange rate could actually support dinarization by exposing borrowers to the risks they incur through unhedged FX loans. Development of hedging instruments would also minimize these risks. The authorities responded that investors valued exchange rate stability and noted that hedging markets had not developed in earlier periods of exchange rate volatility. They also stressed that the dominance of foreign-currency pricing in trade invoices limited the ability of a flexible exchange rate to act as a shock absorber.

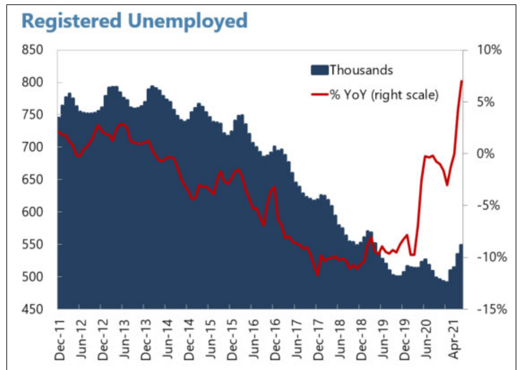
25. **The authorities plan to start reforms to strengthen capital markets and development finance.** Capital markets in Serbia remain relatively underdeveloped. Over the longer term, developing capital markets could provide more financing options for firms, allowing them to borrow based on future cash flow rather than their ability to post collateral. It would also enable firms to obtain financing with longer maturity than most bank financing permits. Furthermore, this could facilitate the dinar to become a long-term store of value, supporting the dinarization strategy. The authorities have prepared a strategic outline to enhance capital markets (with EBRD support) and an action plan should be ready by **end-September 2021** (**RT**). They are also preparing a plan for development finance, to facilitate access to finance, in particular, for SMEs. In this context, the authorities explained that they are continuing to implement the new strategy for the state-owned bank BPS, which was prepared with assistance from the World Bank. The strategy includes the bank's commercial reorientation towards retail banking, entrepreneurs, micro-enterprises and small

enterprises, as well as improvements in its corporate governance (PS ¶30). Staff reiterated the case against creating a development bank, given governance concerns and fiscal risks. The authorities indicated that such a bank would not be included in their planning (PS ¶31).

C. Structural Policies

Background

26. The impact of the pandemic on Serbia's labor market appears contained, in the context of a declining unemployment trend and a still-large informal sector. Labor market conditions held fairly steady in 2020 (Figure 7): the unemployment rate fell to 9.5 percent (from 10.9 percent in 2019) and employment increased to 61.3 percent (from 60.7 percent in 2019). Informal employment dropped to 17 percent (from 18.2 percent in 2019), albeit with some recovery in 4Q2020 yoy. Both registered employment and unemployment showed some pick-up in early 2021, which could largely reflect a return to active job search of those who left the labor force due to the pandemic. Although policy measures were introduced to prevent layoffs (Annex IV), these did not cover informally-employed and temporary/seasonal workers. However, layoffs may still increase once job protections expire. While official statistics are not available, the authorities noted a significant return of Serbian citizens working abroad due to the pandemic.



Sources: National employment service, IMF staff calculations.

27. In March, the authorities adopted a new ownership and governance strategy for SOEs, prepared with EBRD support. Serbia has a relatively large SOE sector, which has been a drag on growth and brought large fiscal costs in the past.[2] SOE governance frameworks could be improved for greater transparency, as well as for better accountability and performance. Reforms related to SOE governance were started under the previous PCI, but have not been completed (Annex II). The new state ownership policy complements ongoing efforts to better monitor and tackle fiscal risks and enhance efficiency (PS ¶40). It also identifies both the rationale and high-level objectives of the State's ownership; develops criteria for classification of SOEs; designs the framework for setting objectives and targets for SOEs and for monitoring their achievement; and reviews the Legal and regulatory framework for corporate governance of SOEs.

Policy Discussions

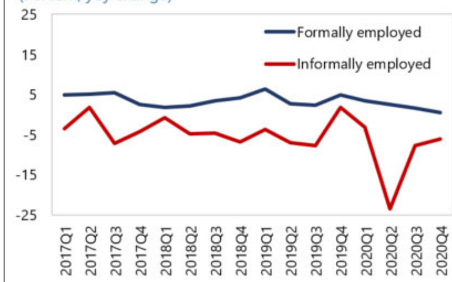
28. Better formation and utilization of skills will be key to sustained growth. Serbia has been successful in attracting FDI, taking advantage of its relatively modest labor costs. However, as unemployment has reached historically low levels, and given unfavorable demographic trends and the pull of higher wages in EU countries, greater emphasis on productivity will be imperative. The

[2] See Annex II in 2019 Article IV Staff Report (CR 19/238).

authorities intend to continue to focus on digitalization as the underlying tool for the transition to a knowledge- and innovation-based economy, noting ongoing efforts to digitize the education system. Staff also noted that the large scale return during the pandemic of Serbs who have been working abroad presented an opportunity to reverse some of the pre-pandemic demographic headwinds and welcomed the authorities' initiatives to encourage return migration.

Formal and Informal Employment

(Percent, yoy change)



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

29. Staff underscored the importance of advancing SOE reforms. Staff urged the authorities to set ambitious time frames to anchor reforms outlined in the action plan which should be adopted by **end-June 2021 (RT).** The authorities agreed that the key actions should include developing a key performance indicators (KPI) framework, establishing a unified process for monitoring the implementation of the state-owned policy, and establishing composition, fit and proper criteria, and tenure guidelines for the supervisory boards. The development of a centralized and updated database with a registry of all SOEs and their assets and the adoption of a ministerial act by the Ministry of Economy presenting mechanisms and criteria for approving key SOE decisions (**end-December 2021 RT**) would demonstrate progress towards the preparation of a new ownership management law (**December 2022 RT**). In parallel, the government plans to restructure the large public utility companies and to resolve the remaining strategic companies in the privatization portfolio.

- **Petrohemija.** The authorities noted recent progress towards privatizing the state-owned petrochemical company (a delayed reform under the previous PCI). They expressed an intention to launch a privatization tender during the Summer.

- **Elektroprivreda Srbije** (**EPS**, state-owned power utility company). The government adopted a new law on renewable energy sources in April, replacing the feed-in tariffs for renewable energy sources with a competitive auction system. The electricity tariff was increased by 3.4 percent in February but remains significantly lower than the EU average. The mission reiterated the need for cost recovery, while underscoring the importance of incorporating the distributional impact of tariff increases. The authorities noted that recent amendments to the Law on Energy had expanded the identified group of vulnerable consumers who receive subsidies for electricity, heat, or gas, from about 70,000 to 200,000, to protect them from undue price increases. Staff welcomed the authorities' plans to finalize the conversion of the company into a joint-stock company by **end-November 2022** (**RT**).

- **Srbijagas.** Staff supported the authorities' intention to complete the operational unbundling of Srbijagas and encouraged them to convert the company into a joint-stock company.

- **Others.** The authorities are in discussions with all stakeholders to implement an action plan for closing the unviable Resavica coal mines while cushioning the social impact in the vulnerable region. They also intend to continue exploring options for potential strategic investments for chemical company MSK and privatization of bus company Lasta in 2021.

30. Reducing the footprint of the informal economy remains critical to raising Serbia's growth prospects. The size of Serbia's grey economy remains high. The authorities reaffirmed their commitment to curb the grey economy with the adoption of a new action plan later this year, which prioritizes improvements in the inspection system, modernization of the tax administration, strengthening of incentives for voluntary compliance, and improving the business environment to encourage entrepreneurship and innovation. The authorities also noted that a large part of Serbia's grey economy reflects unregistered labor, and staff therefore encouraged the planned expansion of the law on seasonal employment.

31. Serbia should advance reforms to transition towards a greener economy. Investments in green infrastructure and the transition to a lower-carbon future can support job creation while increasing economic and environmental resiliency (Box 2). Staff noted that green investments in energy infrastructure are critical not only to raise efficiency and reduce greenhouse emissions, but also to improve air quality. The authorities emphasized the adoption of the Law on Climate Change in March as a milestone towards reducing emissions and ensuring adaptation to climate change. They noted that a low carbon development strategy and an action plan should be adopted within two years.

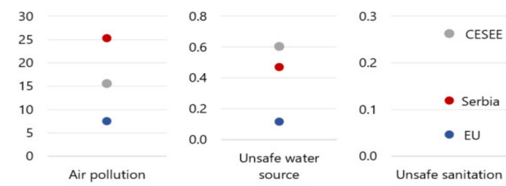
32. Serbia's anti-corruption framework needs further strengthening. Additional efforts are needed to strengthen the asset disclosure regime for high-level public officials, to enhance the capacity of anticorruption institutions, and to ensure credible prosecutions of false asset disclosures and of other corruption offenses.[3] The mission welcomed Serbia's recent progress in addressing AML/CFT deficiencies, but underscored that work needs to continue to demonstrate sustained improvement in the effectiveness of the AML/CFT framework, including beneficial ownership information and risk-based supervision. Staff urged the authorities to step up the implementation of the recommendations made by the Council of Europe's Group of States against corruption (GRECO). The authorities noted the ongoing constitutional reforms aimed at making the judiciary more independent, efficient and accountable, as well as intentions to upgrade the judicial IT system. The authorities expected that progress on GRECO recommendations will be acknowledged during the first PCI review.

[3] See also the 2019 Article IV Staff Report (CR 19/238).

Box 2. Serbia's Transition to a Greener Economy: Policies and Opportunities

Like other countries, Serbia has become increasingly vulnerable to climate and environmental risks. The authorities estimate that costs associated with extreme climate and weather events have exceeded EUR 5 billion since 2000, with droughts and rising temperatures accounting for most of the losses.[1] The Serbian population is also experiencing the negative repercussions from historical legacies, in particular those related to an energy sector centered on coal—which generates about 70 percent of total electricity in the country—and delays in waste disposal and water treatment. For example, when it comes to the health impact of air pollution, Serbia fairs particularly poorly relative to the EU and CESEE averages.

Health Impact Due to Environmental Risks, 2019
(DALYs per thousand inhabitants)



Source: OECD, IMF staff caculations.
Note: The DALY (disability adjusted life year) indicator accounts for the years lost to premature death and reduced quality of life due climate and environmental risks.

Serbia has committed to ambitious climate goals. In July 2017, Serbia ratified the Paris Agreement that aims to limit global warming by decreasing greenhouse gases (GHG) emissions. As an EU candidate, Serbia is also obliged to comply with EU legislation in a number of climate-related areas, as outlined in Chapter 27 of the EU acquis. More recently, Serbia has signed the Declaration on the Green Agenda for the Western Balkans that came as part of the Economic and Investment Plan for the Western Balkans adopted by the European Commission in 2020. The Declaration envisages action in five key areas: decarbonization, water and soil, circular economy, farming and food production, and biodiversity and air pollution.

To set the stage for meeting these goals, in March, Serbia adopted a Law on Climate Change providing the framework legislation to address climate change challenges. The law, developed with EU assistance, sets the scene for a low-carbon development strategy, which should be adopted in the next two years together with an action plan. The law also stipulates the reestablishment of the National Climate Change Committee, to provide expert opinion and oversight of climate action in the country. In March 2021, the government adopted four bills in the energy sector, aiming at enhancing energy efficiency and savings, enabling new investments in renewables, increasing transparency and competition in the energy market, and updating regulations in the mining sector.

Recent initiatives and legislation also aim to tackle environmental pollution. In January 2021, a new rulebook on liquid fossil fuels entered into force, which is expected to reduce SO_2 emissions from heating and contribute to improving air quality, especially in urban areas. In February 2020 the National Plan for the Reduction of the Main Pollutant Emissions from Old Large Combustion Plants was adopted, which is expected to support implementation of emissions reductions and lead to reduction in pollutants from large combustion plants.

Prioritizing green investments—including through the Serbia 2025 infrastructure investment program—and carbon pricing mechanisms can support both job-rich growth and emissions reduction. As the recovery takes hold, a gradual increase in carbon prices could provide additional revenues and create a virtuous circle of cost-efficient investments and adjustments in behavior. Compensation mechanisms should be designed to support those households adversely affected by the transition (typically the poorer, for whom energy represents a larger share of consumption).

The implementation of an ambitious green agenda would require substantial public and private funding. To this end, EU institutions can play a pivotal role to channel sizable investments. Instruments under the next EU Multiannual Financial Framework (MFF, 2021-2027) are being negotiated. Existing Instruments for Pre-Accession Assistance (IPA) can support energy efficiency and renewable energy sources and a shift to low-carbon economies. The introduction of innovative financial instruments (e.g. green bonds) to lever on the private sector could also be used, with IFI support.

1/ Intended Nationally Determined Contributions of the Republic of Serbia. Available here.

PROGRAM MODALITIES

33. The proposed new PCI aims at supporting the recovery from the crisis, maintaining macroeconomic stability, and anchoring the medium-term fiscal policy framework, while pushing ahead with structural reforms to deliver more inclusive and sustainable growth. Reform priorities under the program will reflect the authorities' policy and reform agenda, and will be anchored around the following key pillars:

- **Anchoring the fiscal policy framework.** After successful consolidation through 2019, fiscal discipline should be underpinned by new fiscal rules, effective implementation of the new employment framework, steps to contain public wage costs, ongoing strengthening of tax administration, effective implementation of PIM systems and fiscal risks monitoring, better controls of state aid, and updated accounting rules.

- **Strengthening SOE governance.** Implementation of the new strategy should ensure better monitoring, increased efficiency, and reduced fiscal risks.

- **Developing capital markets and further increasing dinarization.** Reforms should be guided by the forthcoming government strategies (see ¶25), which aim to develop domestic sovereign and corporate bond markets, and improve access to finance for SMEs, combined with already announced regulatory steps to limit risks from unhedged lending in foreign currency.

- **Improving the provision of social assistance.** A new integrated social card registry should be put in place to identify social needs in real time. Building on this, the social assistance system should be made more flexible (to deal with crisis situations) and more targeted and comprehensive to cover those in need.

- **Transition to a green economy.** Creating a legal framework for environmental and climate action, while implementing investments in green infrastructure and creating incentives for transition to a lower-carbon future.

34. The attached Program Statement (PS) details the authorities' policy commitments under the 30-month PCI. Serbia does not need the Fund's financial assistance under the baseline and is not seeking financial assistance from the Fund. Reviews are set out in PS Table 1, with quantitative targets (QTs) for the key set of macroeconomic variables to be monitored on a semi-annual basis: general government fiscal deficit, current primary expenditure of the Republican budget, domestic payment arrears, and the inflation consultation band. In addition, there is a continuous target on the non-accumulation of external debt payment arrears. The proposed reform targets (RTs) under the program have been calibrated and phased in accordance with the authorities' plans and implementation capacity, and in collaboration with other IFIs. Proposed RTs for the next 12 months are presented in PS Table 2. Over the course of the program, conditionality is expected to shift from fiscal reforms to other structural and financial-sector reforms, including those related to the green agenda and social protection, building on future TA and in collaboration with other IFIs on related strategies and actions over the course of the new PCI.

35. Risks to a new PCI are assessed to be moderate. Serbia built a good track record under the recently completed PCI. Going forward, Serbia will need to maintain a political consensus in favor of fiscal discipline and market-oriented reforms. There is no balance of payments gap for the next 12 months and there are good prospects that there will be adequate financing for the remaining program period. Nevertheless, program risks are elevated by pandemic-related uncertainties and the 2022 elections.

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

STAFF APPRAISAL

37. The fiscal, monetary and financial sector policy measures implemented in response to the pandemic provided vital support to the economy. Low reliance on tourism and other high-contact sectors, and strong growth momentum going into the crisis also helped to limit the pandemic's negative effects on Serbia's economy. Albeit exposed to many risks, the recovery now appears to be strengthening. Inflation is low and the banking system stable and liquid. Despite a large fiscal impulse, borrowing costs remain contained and public debt sustainable around 60 percent of GDP.

38. However, pandemic risks have not vanished yet, reflecting uncertainties on the pace and effectiveness of vaccinations across the region, and the timing and scale of reopening. In addition, the full impact of the pandemic on Serbia's labor market and NPLs is likely to manifest later on during the year, as wage subsidies, and the related cap on dismissing workers, and the loan moratorium will have expired. Further policy initiatives may still be needed to cushion renewed crisis effects, while maintaining transparency and accountability, and taking into account the more limited fiscal space. Serbia's external position remains broadly consistent with fundamentals and desirable policy settings.

39. The new program will assist the authorities navigating through the crisis, while advancing structural and institutional reforms to strengthen Serbia's economic potential. The immediate priorities consist of supporting the economy through the crisis, overseeing implementation and phase out of the large policy support package, and monitoring risks. The longer-term goals of the program will include fostering inclusive growth and maintaining financial stability. As the recovery takes hold, a return to small fiscal deficits and declining debt levels needs to be entrenched into the program to restore policy buffers. Spending increases on public sector wages and pensions should be tightly controlled.

40. The opportunity to build a greener and more digital economy should not be missed. The renewed focus, both domestically and abroad, on climate-related risks should be taken as an opportunity to avoid carbon-intensive investments. Instead, spending should be redirected to well-designed climate-smart infrastructures and technologies, and environmental protection projects, which can support near-term growth and limit the potential scarring effects of the crisis.

41. Decisive actions should be taken to advance structural reforms and strengthen institutions. Moving forward with reforms of Serbia's large and inefficient SOEs remains critical, to strengthen their governance and improve their management. Enhancing the business environment—including by strengthening the rule of law, improving the efficiency of the judicial system, and curbing corruption—would help attract foreign as well as domestic investments. Encouraging dinarization and developing domestic capital markets would enhance financial deepening and support medium-term growth.

42. The program faces domestic and external risks beyond those stemming from pandemic. Ongoing progress in the structural reform agenda hinges on continued political consensus. After several years of engagement with the Fund—first under a precautionary SBA, then under a PCI—it will be important to maintain the reform momentum, including during the forthcoming election period. Furthermore, Serbia remains exposed to external shocks, including possible tighter global financing conditions. Gradually allowing for greater exchange rate flexibility could be beneficial to financial stability.

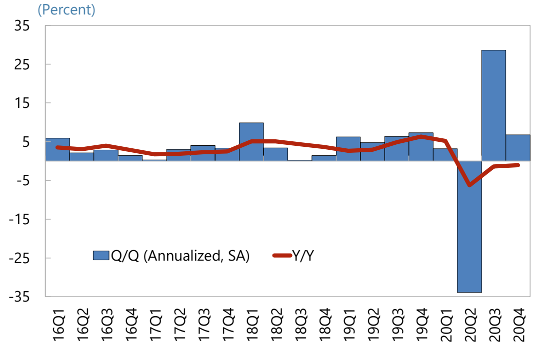
43. The PCI provides an appropriate instrument to support the authorities' program. Staff does not foresee a need for Fund financing during the program period. Program reviews will test the authorities' commitment to reforms during the program period, as well as provide the opportunity to adjust policies in light of developments. Staff supports the authorities' request for the PCI. It is recommended that the next Article IV consultation with Serbia be held on the 24-month cycle, in accordance with Decision No. 14747-(1096) on consultation cycles.

Figure 1. Serbia: Real Sector Developments

A strong rebound in 3Q2020, was followed by moderate growth in 4Q2020....

Gross Domestic Product

(Percent)

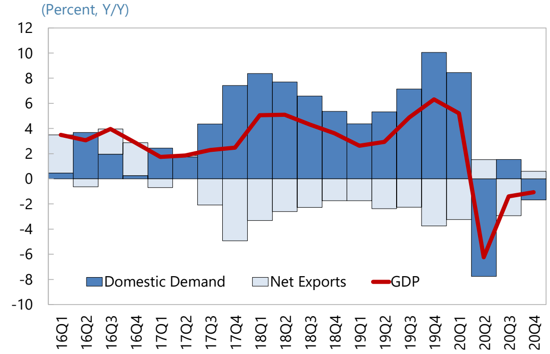


Sources: Haver Analytics; SORS; and IMF staff calculations.

....with some drag from domestic demand amid uncertainty related to the pandemic.

Contribution to Growth

(Percent, Y/Y)

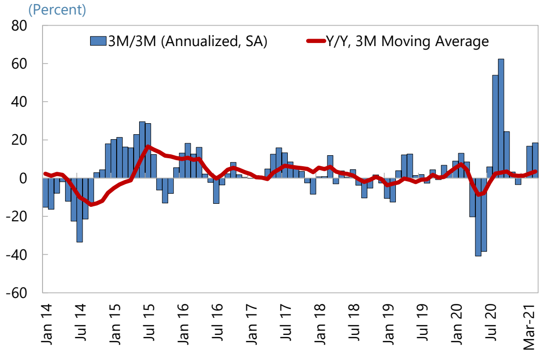


Sources: Haver Analytics; SORS; and IMF staff calculations.

Industrial production has recovered from the shock in 2Q2020 and picked up again in 1Q2021....

Industrial Production

(Percent)

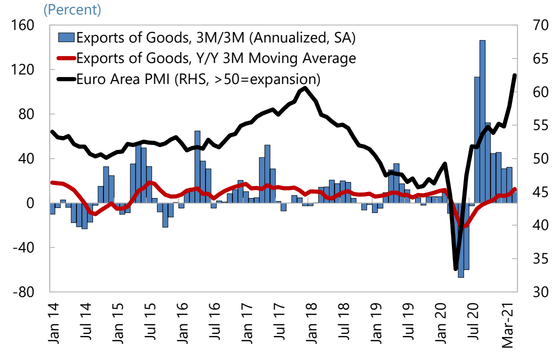


Sources: Haver Analytics; SORS; and IMF staff calculations.

....and exports recovered along with activity in Europe.

Exports of Goods and Euro Area PMI

(Percent)

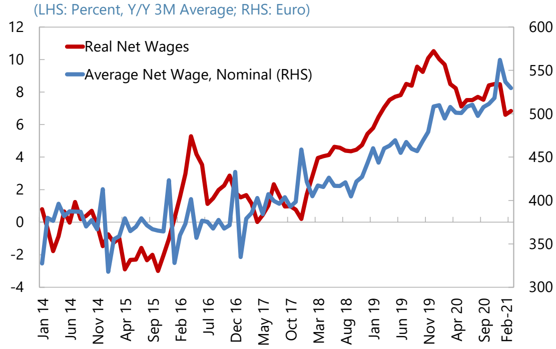


Sources: Haver Analytics; SORS; and IMF staff calculations.

Net wages growth declined in the first two months of 2021...

Net Wages

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

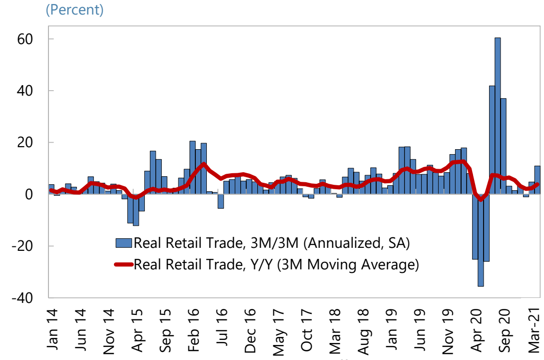


Sources: Haver Analytics; SORS; and IMF staff calculations.

.... but retail trade growth in yoy terms strengthened in March.

Retail Turnover

(Percent)

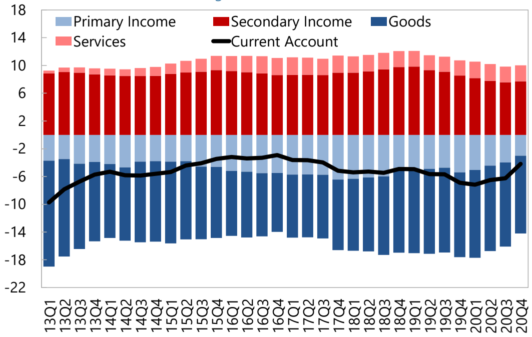


Sources: Haver Analytics; SORS; and IMF staff calculations.

Figure 2. Serbia: Balance of Payments and NIR

The current account deficit continued to decline in 4Q2020….

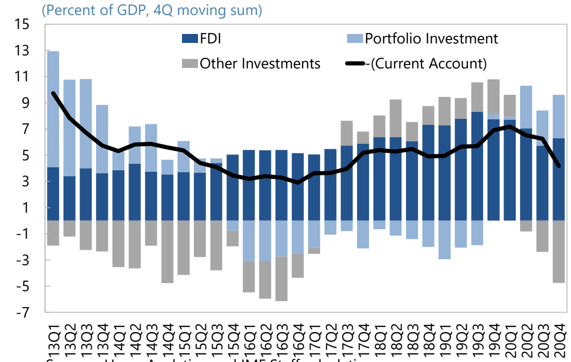
Current Account Balance
(Percent of GDP, 4Q moving sum)



Sources: Haver Analytics; and IMF Staff calculations.

….and remained covered by the FDI.

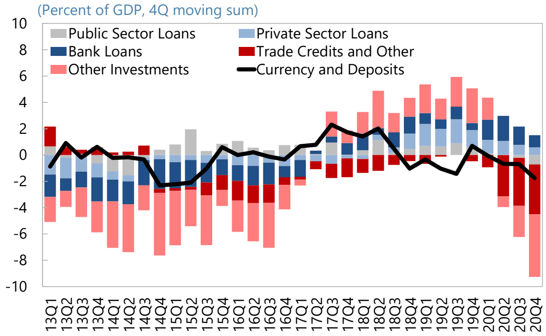
Financial Account Composition
(Percent of GDP, 4Q moving sum)



Sources: Haver Analytics; and IMF Staff calculations.

Other investments were driven by trade credits and loans.

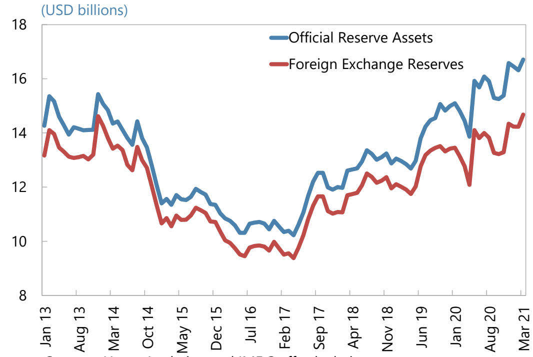
Other Investments 1/
(Percent of GDP, 4Q moving sum)



Sources: Haver Analytics; and IMF Staff calculations.
1/ BPM5 data spliced with BPM6 going forward starting March 2013.

International reserves increased since October, supported by non-resident investment in long-term dinar government securities and the Eurobond issuances.

Reserves
(USD billions)

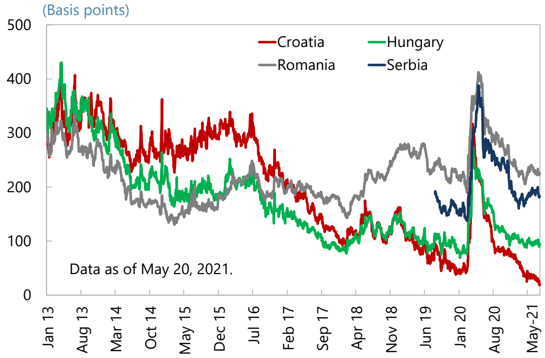


Sources: Haver Analytics; and IMF Staff calculations.

Figure 3. Serbia: Financial and Exchange Rate Developments

EMBI spreads continued to decline....

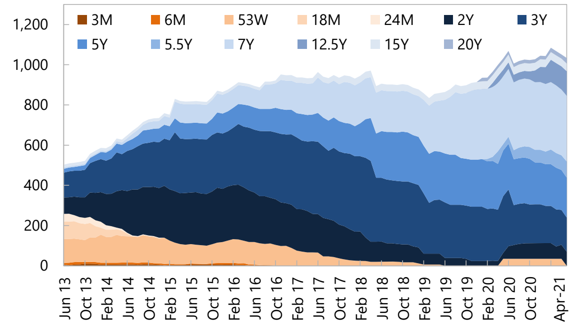
Sovereign Risk - Euro EMBIG Spreads
(Basis points)



Source: Bloomberg.

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

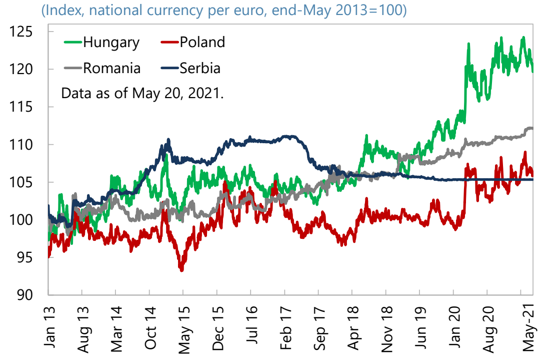
Domestic Debt Stock 1/
(RSD billions)



Source: National Bank of Serbia.
1/ Sum of dinar and FX-denominated securities at current exchange rate.

The exchange rate against the euro remains stable....

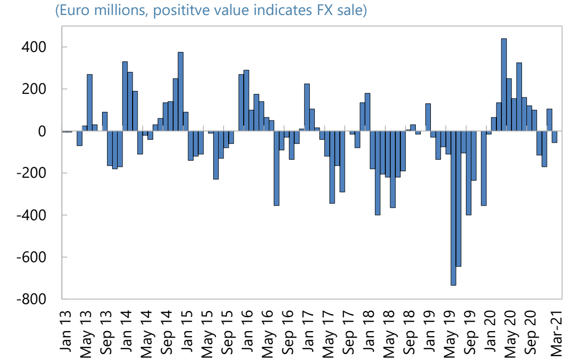
Exchange Rates in the Region
(Index, national currency per euro, end-May 2013=100)



Sources: Bloomberg.

....while the NBS foreign exchange purchases during the pandemic abated since 4Q2020.

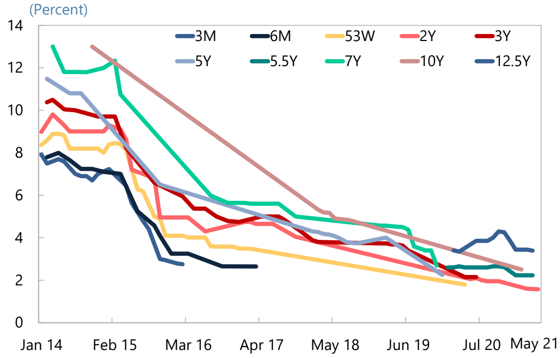
FX Interventions by NBS
(Euro millions, posititve value indicates FX sale)



Sources: National Bank of Serbia.

Yields for dinar-denominated securities remain low...

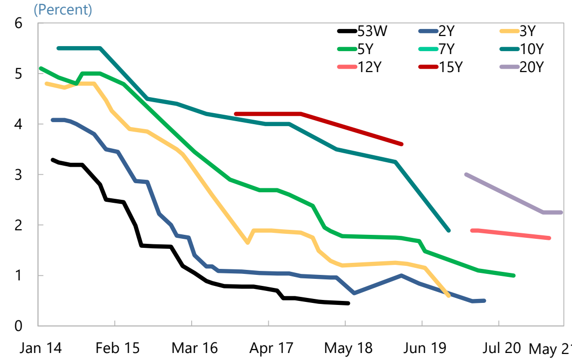
Yields on Dinar-Denominated Domestic Securities
(Percent)



Source: National Bank of Serbia.

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

Yields on Euro-Denominated Domestic Securities
(Percent)



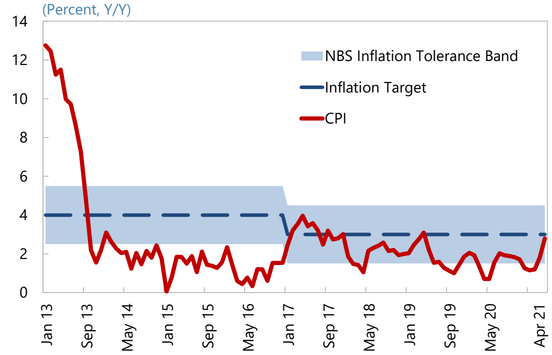
Sources: National Bank of Serbia.

Figure 4. Serbia: Inflation and Monetary Policy

Headline inflation returned to the tolerance band in March....

Inflation

(Percent, Y/Y)

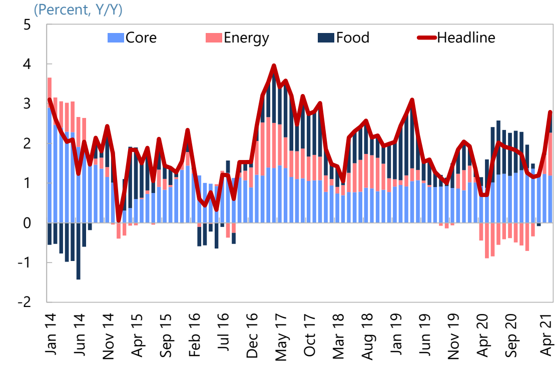


Source: National Bank of Serbia; and IMF staff calculations.

....driven by higher energy prices.

Contribution to Annual Inflation

(Percent, Y/Y)

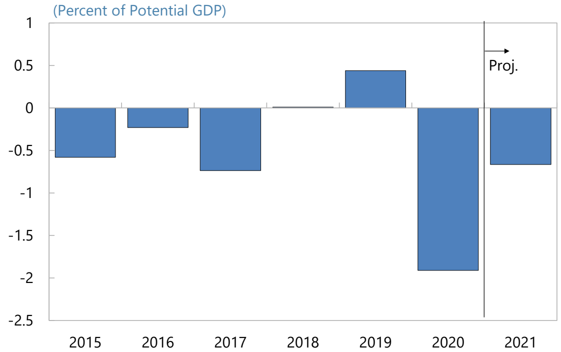


Source: SORS.

Preliminary estimates show a large output gap in 2020.

Output Gap

(Percent of Potential GDP)

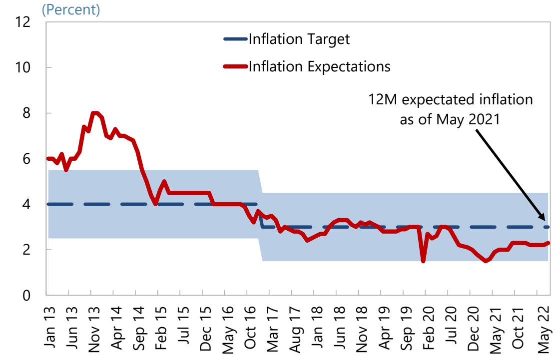


Sources: National Bank of Serbia; and IMF staff projections.

Inflation expectations remain well-anchored.

One-Year-Ahead Inflation Expectations

(Percent)

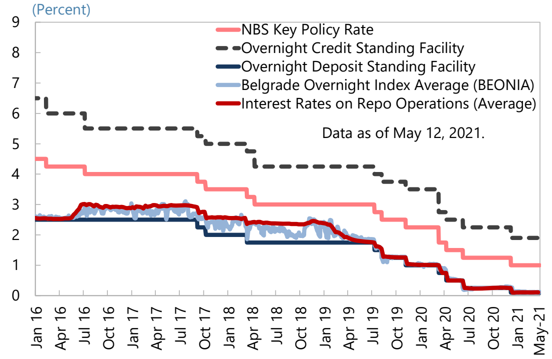


Sources: Bloomberg; SORS; and IMF staff projections.

The key policy rate was cut during 2Q2020 and has remained on hold since December 2020...

Interest Rates

(Percent)

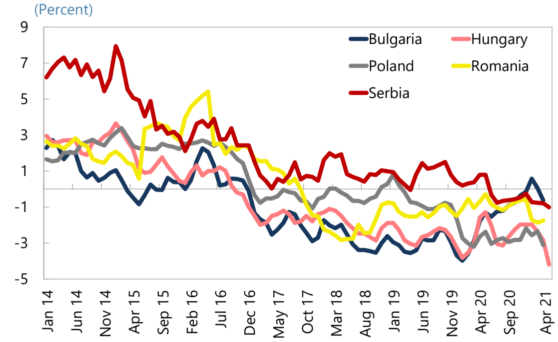


Sources: National Bank of Serbia; and Haver Analytics.

....and remains above most peer countries in real terms.

Policy Rate in Real Terms in Selected Countries

(Percent)



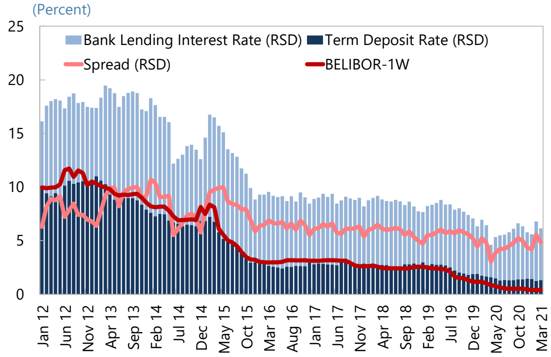
Source: Haver Analytics.
Nominal policy rates adjusted by inflation over the past 12 months.

Figure 5. Serbia: Selected Interest Rates

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

Selected Interest Rates (RSD)

(Percent)

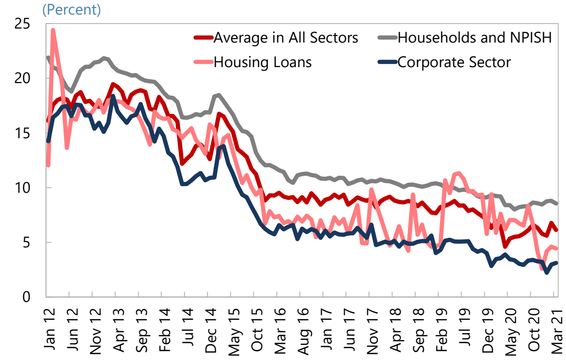


Source: National Bank of Serbia.

….along with most bank lending rates in dinar.

Bank Lending Interest Rates: RSD

(Percent)

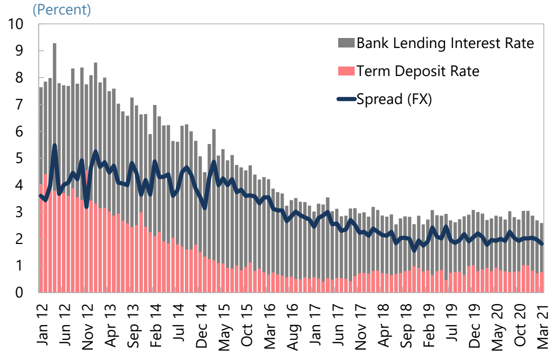


Source: National Bank of Serbia.

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

Selected Interest Rates (FX and FX-linked)

(Percent)

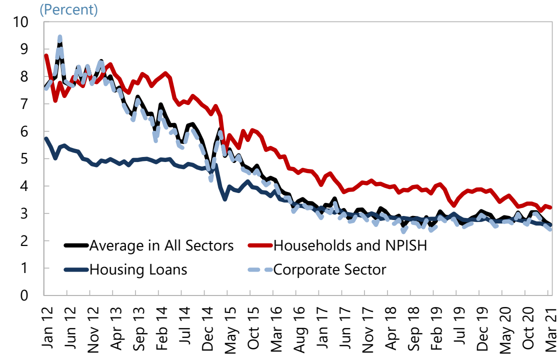


Source: National Bank of Serbia.

…. with lower lending rates to corporates.

Bank lending interest rates: FX and FX-linked

(Percent)



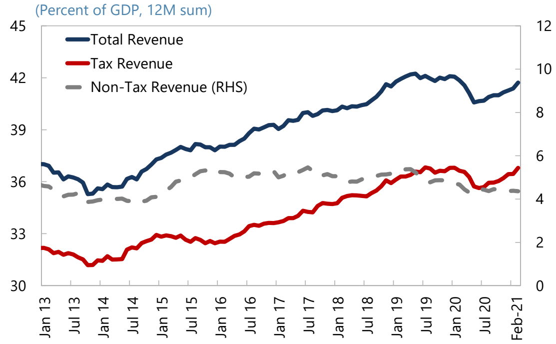
Source: National Bank of Serbia.

Figure 6. Serbia: Fiscal Developments

Revenues stabilized in 4Q2020 and continued to pick up in the first two months of 2021.

Total Revenue Composition

(Percent of GDP, 12M sum)

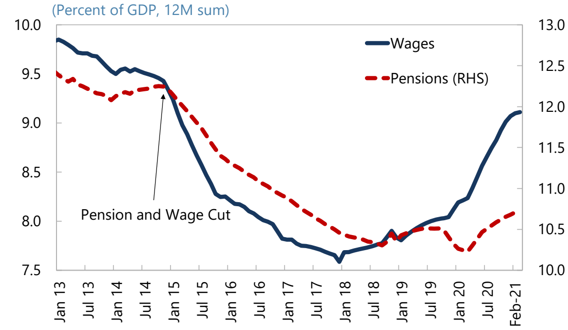


Sources: Ministry of Finance; and IMF staff calculations.

Public sector wages are elevated, but the pension bill remains below 11 percent of GDP.

Wages and Pensions 1/

(Percent of GDP, 12M sum)

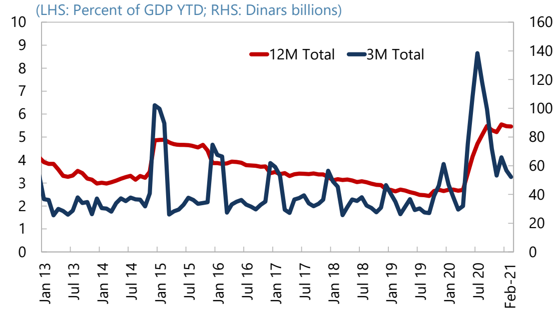


Sources: Ministry of Finance; and IMF staff calculations.
1/ Excludes employers' contributions.

Growth in state aid picked up due to the pandemic….

State Aid 2/

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

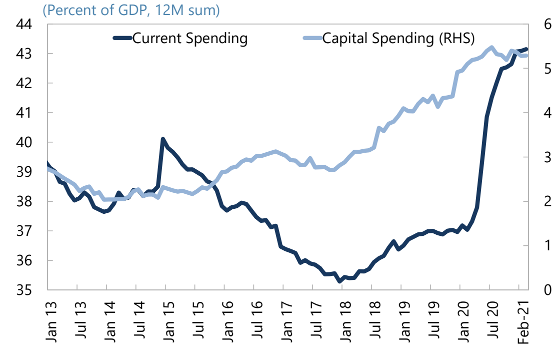


Sources: Ministry of Finance; and IMF staff calculations.
2/ State aid includes direct subsidies, net lending through the budget, assumption of SOE's debt, and the service of guaranteed debt called by creditors.

….along with current spending.

Current and Capital Spending

(Percent of GDP, 12M sum)

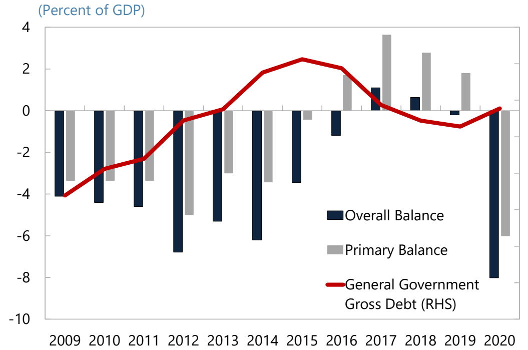


Sources: Ministry of Finance; and IMF staff calculations.

Government debt picked up in 2020….

Fiscal Balance and Debt

(Percent of GDP)

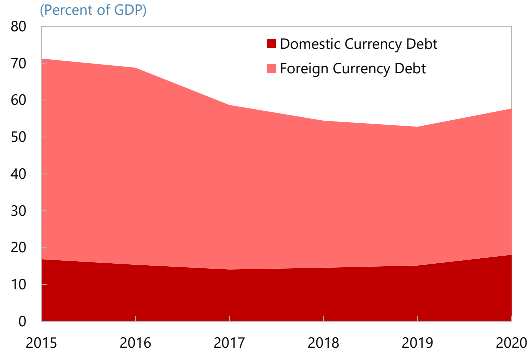


Sources: Ministry of Finance; and IMF staff calculations.

….while currency composition remained broadly unchanged.

Public Debt

(Percent of GDP)

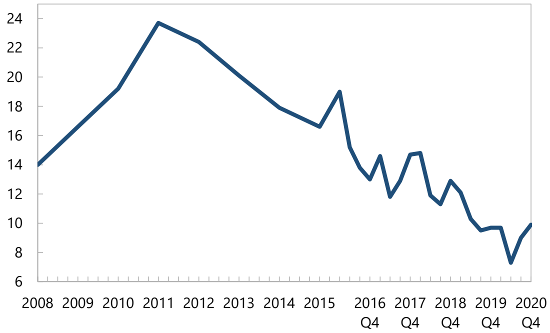


Sources: Ministry of Finance; and IMF staff calculations.

Figure 7. Serbia: Labor Market Developments

Unemployment picked up again in 4Q2020 ....

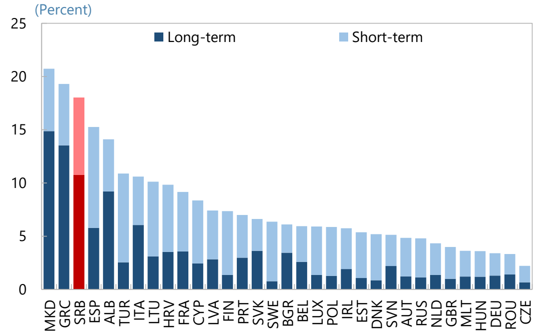
Unemployment Rate
(Percent, 15-64 years old)



Source: Haver Analytics.

....and long-term unemployment persists.

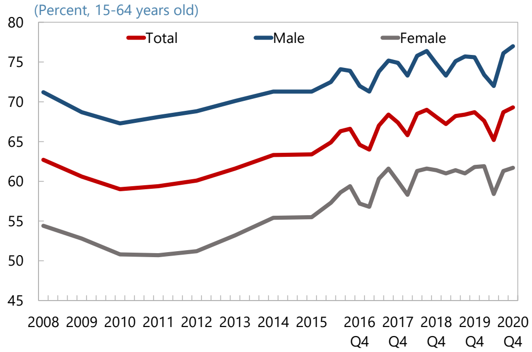
Unemployment Rate, 2019
(Percent)



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

Labor market participation continued to improve in 4Q2020 ....

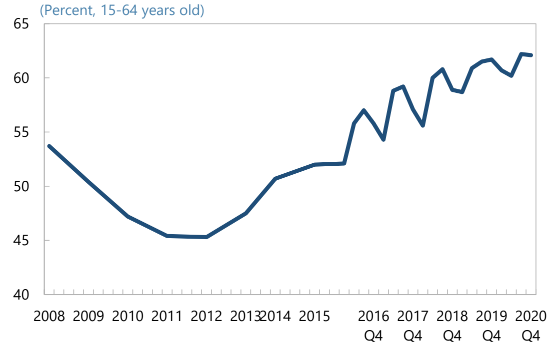
Labor Participation Rate
(Percent, 15-64 years old)



Sources: SORS.

.... along with employment growth.

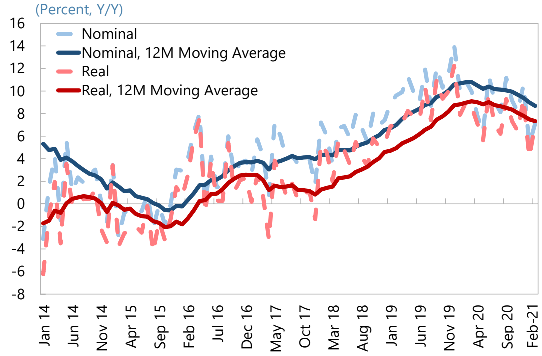
Employment Rate
(Percent, 15-64 years old)



Sources: SORS.

Growth of net wages has slowed....

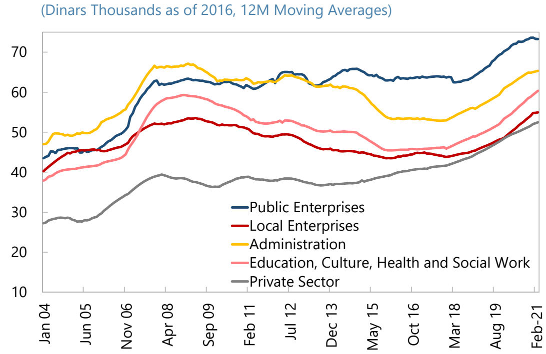
Net Wage Growth
(Percent, Y/Y)



Source: SORS.

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

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



Sources: SORS; and IMF staff calculations.

Table 1. Serbia: Selected Economic and Social Indicators, 2018-2023

	2018	2019	2020		2021			2022	2023
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.
			(Percent change, unless otherwise indicated)						
Real sector									
Real GDP	4.5	4.2	-1.5	-1.0	5.0	6.0	4.5	4.5	4.5
Real domestic demand (absorption)	6.5	6.2	-1.7	0.0	6.7	5.8	4.6	4.5	4.5
Consumer prices (average)	2.0	1.9	1.7	1.6	1.9	2.5	2.3	2.6	2.6
GDP deflator	2.0	2.4	3.5	1.8	2.4	2.6	2.7	2.9	2.9
Unemployment rate (in percent) 1/	13.3	10.9	...	9.5	...	...	...	...	...
Nominal GDP (in billions of dinars)	5,073	5,418	5,524	5,464	5,940	5,942	6,375	6,389	6,868
			(Percent of GDP)						
General government finances									
Revenue 2/	41.5	42.1	40.3	41.3	40.8	41.7	41.3	41.4	41.6
Expenditure 2/	40.9	42.3	49.2	49.4	43.8	48.7	42.8	44.4	43.1
Current 2/	36.4	36.9	43.1	43.1	37.6	40.9	36.7	37.2	36.5
Capital and net lending	4.1	5.1	5.9	6.2	6.0	7.6	5.8	6.8	6.5
Amortization of called guarantees	0.4	0.2	0.1	0.1	0.2	0.2	0.3	0.3	0.1
Fiscal balance 3/	0.6	-0.2	-8.9	-8.1	-3.0	-6.9	-1.5	-3.0	-1.5
Primary fiscal balance (cash basis)	2.8	1.8	-6.9	-6.1	-1.1	-5.0	0.3	-1.1	0.4
Structural primary fiscal balance 4/	2.8	1.5	1.2	2.0	0.5	-0.3	0.4	-1.6	0.3
Gross debt /5	54.4	52.8	59.1	58.4	57.7	60.3	55.5	58.9	56.0
			(End of period 12-month change, percent)						
Monetary sector									
Money (M1)	20.1	16.3	24.2	36.3	7.5	11.8	8.7	8.4	8.0
Broad money (M2)	15.0	8.8	12.7	18.4	7.1	9.1	7.3	7.8	7.5
Domestic credit to non-government 6/	10.1	9.5	10.6	12.0	6.5	5.6	7.8	4.6	6.6
			(Period average, percent)						
Interest rates (dinar)									
NBS key policy rate	3.1	2.3	...	1.0	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	2.8	3.1	...	3.0	...	...	...	...	...
			(Percent of GDP, unless otherwise indicated)						
Balance of payments									
Current account balance	-4.8	-6.9	-5.7	-4.3	-5.8	-5.1	-5.6	-5.0	-4.9
Exports of goods	35.2	35.7	32.6	34.5	33.8	39.3	36.8	40.3	40.8
Imports of goods	-47.1	-47.9	-43.5	-45.7	-46.5	-50.4	-49.4	-51.0	-51.3
Trade of goods balance	-11.9	-12.2	-10.9	-11.2	-12.7	-11.2	-12.6	-10.7	-10.5
Capital and financial account balance	6.7	10.6	5.6	5.2	6.6	8.4	6.6	6.8	6.3
External debt (percent of GDP) 7/	66.1	65.5	67.4	70.9	64.3	70.6	61.4	68.0	64.8
of which: Private external debt	30.9	30.8	29.9	34.1	28.8	31.8	27.3	30.2	28.5
Gross official reserves (in billions of euro)	11.3	13.4	13.4	13.5	13.7	15.2	14.3	16.1	16.9
(in months of prospective imports)	4.8	6.1	5.5	5.2	5.0	5.4	4.7	5.4	5.2
(percent of short-term debt)	195.3	408.9	204.0	412.3	209.8	463.6	217.9	493.1	516.3
(percent of broad money, M2)	52.2	57.8	56.8	57.7	54.6	60.3	53.2	60.1	58.7
(percent of risk-weighted metric) 8/	111.2	126.2	122.0	126.0	120.7	129.0	119.2	130.3	129.6
Exchange rate (dinar/euro, period average)	118.3	117.9	...	117.6	...	...	...	...	...
REER (annual average change, in percent; + indicates appreciation)	2.8	1.0	...	1.5	...	...	...	...	...
Social indicators									
Per capita GDP (in US$)	7,252	7,392	7,723	7,646	8,442	8,878	9,653	9,629	10,368
Real GDP per capita (percent change)	5.1	4.5	-1.1	-0.4	6.4	6.4	4.9	4.9	4.9
Population (in million)	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.9	6.8

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

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

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

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

5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 0.85 percent of GDP as of end-April 2021.

6/ At constant exchange rates.

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

8/ The risk-weighted metric is IMF's ARA metric for the fixed exchange rate. Serbia was reclassified as stabilized exchange rate regime in 2019.

Table 2. Serbia: Medium-Term Framework, 2018-2026

	2018	2019	2020		2021		2022		2023		2024	2025	2026
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.	Proj.	Proj.
							(percent change)						
Real sector													
GDP growth	4.5	4.2	**-1.5**	-1.0	**5.0**	6.0	**4.5**	4.5	**4.0**	4.5	4.0	4.0	4.0
Domestic demand (contribution)	7.0	6.8	**-1.9**	0.0	**7.4**	6.5	**5.1**	5.1	**4.5**	5.0	4.2	4.8	4.6
Net exports (contribution)	-2.5	-2.6	**0.4**	-1.0	**-2.4**	-0.5	**-0.7**	-0.6	**-0.5**	-0.5	-0.2	-0.8	-0.6
Consumer price inflation (average)	2.0	1.9	**1.7**	1.6	**1.9**	2.5	**2.3**	2.6	**2.6**	2.6	2.8	2.9	3.0
Consumer price inflation (end of period)	2.0	1.9	**1.7**	1.3	**1.9**	3.0	**2.3**	2.4	**2.6**	2.6	2.8	2.9	3.0
Output gap (in percent of potential)	0.0	0.4	**-2.2**	-2.1	**-0.9**	-1.9	**-0.4**	-1.0	**-0.3**	-0.5	-0.3	0.0	0.0
Potential GDP growth	3.7	3.8	**0.9**	1.6	**3.7**	5.8	**4.0**	3.6	**3.8**	4.0	3.8	3.7	4.0
Domestic credit to non-gov. (constant exchange rate) 1/	10.1	9.5	**10.6**	12.0	**6.5**	5.6	**7.8**	4.6	**8.0**	6.6	7.2	8.1	8.3
							(percent of GDP, unless otherwise indicated)						
General government													
Revenue 2/	41.5	42.1	**40.3**	41.3	**40.8**	41.7	**41.3**	41.4	**41.2**	41.6	41.4	41.4	41.3
Expenditure 2/	40.9	42.3	**49.2**	49.4	**43.8**	48.7	**42.8**	44.4	**42.1**	43.1	42.6	42.5	42.4
Current 2/	36.4	36.9	**43.1**	43.1	**37.6**	40.9	**36.7**	37.2	**36.5**	36.5	36.1	36.0	35.9
of which: Wages and salaries 2/	9.2	9.5	**10.4**	10.6	**10.2**	10.4	**10.0**	10.0	**9.9**	9.8	9.7	9.6	9.5
of which: Pensions	10.4	10.5	**10.7**	11.0	**10.5**	10.6	**10.2**	10.2	**10.0**	10.0	10.0	10.0	10.0
of which: Goods and services	8.1	8.7	**11.2**	11.1	**8.9**	10.4	**8.5**	9.1	**8.5**	8.6	8.4	8.4	8.3
Capital and net lending	4.1	5.1	**5.9**	6.2	**6.0**	7.6	**5.8**	6.8	**5.5**	6.5	6.3	6.3	6.4
Amortization of called guarantees	0.4	0.2	**0.1**	0.1	**0.2**	0.2	**0.3**	0.3	**0.2**	0.1	0.2	0.2	0.2
Fiscal balance 3/	0.6	-0.2	**-8.9**	-8.1	**-3.0**	-6.9	**-1.5**	-3.0	**-1.0**	-1.5	-1.2	-1.1	-1.1
change (+ = consolidation)	*-0.5*	*-0.8*	***-8.7***	*-7.9*	***5.9***	*1.2*	***1.5***	*4.0*	***0.6***	*1.4*	*0.3*	*0.1*	*0.0*
Primary fiscal balance	2.8	1.8	**-6.9**	-6.1	**-1.1**	-5.0	**0.3**	-1.1	**0.9**	0.4	0.7	0.8	0.9
change (+ = consolidation)	*-0.9*	*-1.0*	***-8.7***	*-7.9*	***5.8***	*1.1*	***1.4***	*4.0*	***0.6***	*1.5*	*0.3*	*0.1*	*0.1*
One-off fiscal items, net 4/	-0.1	0.1	**-7.3**	-7.4	**0.0**	-4.4	**0.0**	0.7	**0.0**	0.0	0.0	0.0	0.0
Structural primary balance	2.8	1.5	**1.2**	2.0	**0.5**	-0.3	**0.4**	-1.6	**0.4**	0.3	0.5	0.6	0.7
change (+ = consolidation)	*-0.8*	*-1.3*	***-0.4***	*0.6*	***-0.7***	*-2.4*	***-0.1***	*-1.3*	***0.0***	*1.9*	*0.3*	*0.1*	*0.1*
Structural primary balance net of capital expenditures	6.8	6.4	**6.4**	7.4	**6.3**	6.9	**5.9**	4.7	**5.6**	6.3	6.5	6.5	6.7
Gross debt	54.4	52.8	**59.1**	58.4	**57.7**	60.3	**55.5**	58.9	**53.2**	56.0	53.4	50.8	48.4
Effective interest rate on government borrowing (percent)	3.9	3.9	**3.9**	3.9	**3.5**	3.5	**3.4**	3.4	**3.6**	3.6	3.6	3.9	4.2
Domestic borrowing (including FX)	5.0	4.7	**4.6**	4.4	**4.3**	4.3	**4.4**	4.4	**4.4**	4.4	4.6	4.7	4.7
External borrowing	3.1	3.3	**2.8**	3.1	**2.7**	2.7	**2.9**	2.9	**3.1**	3.1	3.3	3.7	3.7
							(percent of GDP, unless otherwise indicated)						
Balance of payments													
Current account	-4.8	-6.9	**-5.7**	-4.3	**-5.8**	-5.1	**-5.6**	-5.0	**-5.6**	-4.9	-5.1	-5.0	-5.0
of which: Trade balance	-11.9	-12.2	**-10.9**	-11.2	**-12.7**	-11.2	**-12.6**	-10.7	**-12.5**	-10.5	-10.1	-10.2	-10.2
of which: Current transfers, net (excl. grants)	9.2	7.9	**6.7**	7.2	**8.1**	7.7	**8.3**	7.8	**8.2**	8.0	8.1	8.3	8.3
Capital and financial account	6.7	10.6	**5.6**	5.2	**6.6**	8.4	**6.6**	6.8	**6.4**	6.3	6.3	6.0	5.7
of which: Foreign direct investment	7.4	7.7	**4.8**	6.2	**5.5**	6.2	**5.9**	6.2	**6.0**	6.1	6.1	6.0	6.0
External debt (end of period) 5/	66.1	65.5	**67.4**	70.9	**64.3**	70.6	**61.4**	68.0	**59.3**	64.8	60.9	58.1	55.4
of which: Private external debt	30.9	30.8	**29.9**	34.1	**28.8**	31.8	**27.3**	30.2	**25.8**	28.5	27.0	25.4	23.9
Gross official reserves													
(in billions of euros)	11.3	13.4	**13.4**	13.5	**13.7**	15.2	**14.3**	16.1	**14.7**	16.9	17.6	18.3	18.8
(in percent of short-term external debt)	195.3	408.9	**204.0**	412.3	**209.8**	463.6	**217.9**	493.1	**225.2**	516.3	539.2	557.9	573.1
REER (ann. av. change; + = appreciation)	2.8	1.0	**...**	1.5	**...**	...	**...**	...	**...**	...	...	...	...

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

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

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

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

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

Table 3. Serbia: Growth Composition, 2018-2026

	2018	2019	2020		2021		2022		2023		2024	2025	2026
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.	Proj.	Proj.
					(Percent change, unless otherwise noted)								
Real													
Gross Domestic Product (GDP)	4.5	4.2	**-1.5**	-1.0	**5.0**	6.0	**4.5**	4.5	**4.0**	4.5	4.0	4.0	4.0
Domestic demand	6.5	6.2	**-1.7**	0.0	**6.7**	5.8	**4.6**	4.5	**4.0**	4.5	3.8	4.3	4.1
Consumption	3.2	3.3	**-1.3**	-1.0	**5.3**	3.9	**4.0**	5.1	**3.3**	4.2	3.4	4.0	3.5
Non-government	3.1	3.6	**-3.2**	-2.5	**6.8**	4.6	**4.9**	6.3	**3.8**	4.5	3.7	4.2	3.6
Government	3.8	2.0	**7.0**	5.6	**-0.8**	1.2	**0.0**	-0.1	**1.1**	2.9	2.0	2.8	2.8
Investment	20.8	17.4	**-2.9**	3.3	**11.4**	11.7	**6.4**	2.9	**5.9**	5.2	4.8	5.4	6.0
Gross fixed capital formation	17.5	17.2	**-3.2**	-2.8	**13.1**	14.0	**7.3**	3.5	**6.5**	6.1	5.6	6.3	6.9
Non-government	13.2	14.5	**-5.6**	-6.0	**12.0**	6.5	**9.5**	8.0	**8.0**	7.5	6.5	7.0	7.0
Government	45.2	30.7	**7.3**	11.0	**17.2**	42.1	**-1.0**	-9.1	**0.1**	1.3	2.2	3.9	6.3
Exports of goods and services	7.5	7.7	**-6.5**	-5.9	**9.7**	17.1	**12.5**	7.4	**10.5**	6.7	6.7	5.9	6.3
Imports of goods and services	10.8	10.7	**-6.1**	-3.5	**11.8**	14.7	**11.2**	7.0	**9.4**	6.2	5.8	6.1	6.1
					(contributions to GDP, percent)								
Gross Domestic Product (GDP)	4.5	4.2	**-1.5**	-1.0	**5.0**	6.0	**4.5**	4.5	**4.0**	4.5	4.0	4.0	4.0
Domestic demand (absorption)	7.0	6.8	**-1.9**	0.0	**7.4**	6.5	**5.1**	5.1	**4.5**	5.0	4.2	4.8	4.6
Net exports of goods and services	-2.5	-2.6	**0.4**	-1.0	**-2.4**	-0.5	**-0.7**	-0.6	**-0.5**	-0.5	-0.2	-0.8	-0.6
Consumption	2.8	2.8	**-1.1**	-0.9	**4.5**	3.4	**3.4**	4.2	**2.8**	3.5	2.9	3.3	2.9
Non-government	2.2	2.5	**-2.2**	-1.7	**4.7**	3.2	**3.4**	4.3	**2.7**	3.1	2.5	2.9	2.5
Government	0.6	0.3	**1.1**	0.9	**-0.1**	0.2	**0.0**	0.0	**0.2**	0.4	0.3	0.4	0.4
Investment	4.1	4.0	**-0.8**	0.8	**2.9**	3.1	**1.7**	0.8	**1.6**	1.5	1.4	1.5	1.7
Gross fixed capital formation	3.2	3.5	**-0.7**	-0.6	**2.9**	3.1	**1.8**	0.8	**1.6**	1.4	1.3	1.6	1.7
Non-government	2.1	2.4	**-1.0**	-1.1	**2.1**	1.1	**1.8**	1.4	**1.6**	1.4	1.2	1.4	1.4
Government	1.1	1.0	**0.3**	0.5	**0.8**	2.0	**-0.1**	-0.6	**0.0**	0.1	0.1	0.2	0.3
Change in inventories	1.0	0.5	**0.0**	1.5	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Exports of goods and services	3.9	4.1	**-3.6**	-3.3	**5.1**	9.0	**6.9**	4.3	**6.2**	4.0	4.0	3.7	4.0
Imports of goods and services	6.3	6.7	**-4.0**	-2.3	**7.5**	9.5	**7.5**	4.9	**6.7**	4.5	4.2	4.5	4.6
					(Percent change, unless otherwise noted)								
Nominal													
Gross Domestic Product (GDP)	6.6	6.8	**2.0**	0.8	**7.5**	8.7	**7.3**	7.5	**7.0**	7.5	7.1	7.2	7.2
Domestic demand (absorption), contribution to GDP growth	9.2	8.8	**0.5**	-0.2	**9.7**	9.5	**7.9**	7.8	**7.5**	7.7	7.1	7.8	7.6
Net exports of goods and services, contribution to GDP growth	-2.6	-2.0	**1.5**	1.0	**-2.2**	-0.7	**-0.6**	-0.2	**-0.5**	-0.2	0.0	-0.6	-0.4
Non-government	4.4	5.0	**-1.6**	-0.9	**8.8**	7.3	**7.3**	9.1	**6.5**	7.2	6.6	7.2	6.7
Government	9.2	7.5	**14.2**	13.0	**3.0**	5.3	**4.3**	1.9	**5.7**	6.2	5.4	6.2	6.3
Investment	23.3	18.3	**-3.2**	-6.9	**14.1**	15.5	**9.1**	5.7	**8.6**	7.7	7.4	7.9	8.8
Gross fixed capital formation	20.4	19.8	**-2.5**	-3.6	**16.4**	19.1	**9.7**	5.8	**9.0**	8.4	7.9	8.8	9.5
Non-government	15.0	16.4	**-5.3**	-7.4	**15.1**	9.9	**12.3**	11.2	**10.9**	10.1	9.1	9.6	9.7
Government	48.9	33.6	**7.7**	10.1	**20.5**	46.6	**1.6**	-6.4	**2.8**	3.8	4.7	6.5	8.9
Exports of goods and services	6.5	8.1	**-6.8**	-5.2	**10.4**	19.1	**14.0**	9.2	**12.3**	8.6	8.8	7.8	8.3
Imports of goods and services	10.3	10.4	**-8.1**	-6.0	**12.8**	17.4	**12.7**	8.3	**11.1**	7.8	7.7	7.9	8.0
Memorandum items:													
GDP deflator (percent)	2.0	2.4	**3.5**	1.8	**2.4**	2.6	**2.7**	2.9	**3.0**	2.9	3.0	3.0	3.1
Nominal GDP (billions of dinars)	5073	5418	**5524**	5464	**5940**	5942	**6375**	6389	**6824**	6868	7354	7881	8449

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

Table 4a. Serbia: Balance of Payments, 2018-2026 1/

(Billions of euros)

	2018	2019	2020		2021		2022		2023		2024	2025	2026
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.	Proj.	Proj.
							(Billions of euros)						
Current account balance	-2.1	-3.2	**-2.7**	-2.0	**-2.9**	-2.5	**-3.0**	-2.7	**-3.2**	-2.8	-3.1	-3.3	-3.5
Trade of goods balance	-5.1	-5.6	**-5.1**	-5.2	**-6.3**	-5.6	**-6.7**	-5.8	**-7.1**	-6.0	-6.2	-6.7	-7.1
Exports of goods	15.1	16.4	**15.3**	16.0	**17.0**	19.7	**19.7**	21.6	**22.3**	23.4	25.4	27.3	29.6
Imports of goods	-20.2	-22.0	**-20.4**	-21.3	**-23.3**	-25.4	**-26.4**	-27.3	**-29.5**	-29.4	-31.6	-34.0	-36.7
Services balance	1.0	1.0	**1.2**	1.1	**1.4**	1.1	**1.5**	1.2	**1.6**	1.3	1.4	1.6	1.7
Exports of nonfactor services	6.1	6.9	**6.5**	6.2	**7.1**	6.7	**7.8**	7.3	**8.5**	8.0	8.7	9.5	10.3
Imports of nonfactor services	-5.1	-5.9	**-5.3**	-5.1	**-5.7**	-5.6	**-6.3**	-6.1	**-6.9**	-6.7	-7.3	-7.9	-8.6
Income balance	-2.2	-2.5	**-2.0**	-1.4	**-2.1**	-2.1	**-2.3**	-2.4	**-2.5**	-2.9	-3.5	-3.8	-4.0
Net interest	-0.7	-0.7	**-0.8**	-0.6	**-0.7**	-0.7	**-0.8**	-0.7	**-0.6**	-0.7	-0.7	-0.8	-0.8
Current transfer balance	4.2	3.9	**3.3**	3.6	**4.2**	4.0	**4.6**	4.3	**4.8**	4.8	5.1	5.6	6.0
Others, including private remittances	3.9	3.7	**3.1**	3.3	**4.0**	3.9	**4.4**	4.2	**4.7**	4.6	4.9	5.4	0.0
Capital and financial account balance 2/	2.9	4.9	**2.6**	2.4	**3.3**	4.2	**3.5**	3.6	**3.6**	3.6	3.8	3.9	4.0
Foreign direct investment balance	3.2	3.6	**2.2**	2.9	**2.8**	3.1	**3.2**	3.3	**3.4**	3.5	3.7	3.9	4.2
Portfolio investment balance	-0.9	0.2	**1.7**	1.6	**0.0**	2.0	**-0.2**	0.3	**0.2**	0.2	0.2	0.2	0.1
of which: debt liabilities	-0.9	0.3	**1.7**	1.6	**0.0**	2.0	**-0.2**	0.3	**0.2**	0.2	0.2	0.2	0.1
Other investment balance	0.6	1.2	**-1.2**	-2.1	**0.5**	-0.9	**0.5**	0.0	**0.1**	-0.1	-0.1	-0.2	-0.4
Public sector 2/ 3/	0.2	0.3	**0.1**	-0.3	**0.2**	0.4	**0.6**	0.4	**0.6**	0.4	-0.3	0.4	0.5
Domestic banks	0.1	0.6	**-0.3**	-0.3	**0.2**	-0.4	**0.0**	-0.1	**-0.2**	-0.1	0.0	0.0	-0.1
Other private sector 4/	0.3	0.4	**-1.0**	-1.5	**0.1**	-0.9	**-0.1**	-0.3	**-0.3**	-0.4	0.2	-0.6	-0.8
Errors and omissions	0.3	0.2	**0.0**	-0.2	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	1.3	1.9	**0.0**	0.3	**0.4**	1.7	**0.5**	1.0	**0.5**	0.8	0.8	0.6	0.5
Financing	-1.3	-1.9	**0.0**	-0.3	**-0.4**	-1.7	**-0.5**	-1.0	**-0.5**	-0.8	-0.8	-0.6	-0.5
Gross international reserves (increase, -)	-1.3	-1.9	**0.0**	-0.3	**-0.4**	-1.7	**-0.5**	-1.0	**-0.5**	-0.8	-0.8	-0.6	-0.5
Financing Gap	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Use of Fund credit, net	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0

Sources: NBS; and IMF staff estimates and projections.

1/ SORS released revised 2016 BOP in October 2017.
2/ Excluding net use of IMF resources.
3/ Includes SDR allocations in 2009.
4/ Includes trade credits (net).

Table 4b. Serbia: Balance of Payments, 2018-2026 1/

(Percent of GDP)

	2018	2019	2020		2021		2022		2023		2024	2025	2026
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.	Proj.	Proj.
							(Percent of GDP)						
Current account balance	-4.8	-6.9	**-5.7**	-4.3	**-5.8**	-5.1	**-5.6**	-5.0	**-5.6**	-4.9	-5.1	-5.0	-5.0
Trade of goods balance	-11.9	-12.2	**-10.9**	-11.2	**-12.7**	-11.2	**-12.6**	-10.7	**-12.5**	-10.5	-10.1	-10.2	-10.2
Exports of goods	35.2	35.7	**32.6**	34.5	**33.8**	39.3	**36.8**	40.3	**39.2**	40.8	41.6	41.8	42.3
Imports of goods	-47.1	-47.9	**-43.5**	-45.7	**-46.5**	-50.4	**-49.4**	-51.0	**-51.8**	-51.3	-51.7	-52.1	-52.5
Services balance	2.3	2.2	**2.6**	2.3	**2.8**	2.3	**2.8**	2.2	**2.8**	2.2	2.3	2.4	2.4
Income balance	-5.1	-5.4	**-4.2**	-3.0	**-4.3**	-4.1	**-4.3**	-4.5	**-4.3**	-5.0	-5.7	-5.8	-5.8
Current transfer balance	9.8	8.5	**6.9**	7.7	**8.4**	8.0	**8.5**	8.1	**8.5**	8.3	8.4	8.6	8.6
Official grants	0.6	0.6	**0.3**	0.5	**0.3**	0.3	**0.3**	0.3	**0.3**	0.3	0.3	0.3	0.3
Others, including private remittances	9.2	7.9	**6.7**	7.2	**8.1**	7.7	**8.3**	7.8	**8.2**	8.0	8.1	8.3	0.0
Capital and financial account balance 2/	6.7	10.6	**5.6**	5.2	**6.6**	8.4	**6.6**	6.8	**6.4**	6.3	6.3	6.0	5.7
Capital transfers balance	0.0	-0.2	**0.0**	-0.1	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Foreign direct investment balance	7.4	7.7	**4.8**	6.2	**5.5**	6.2	**5.9**	6.2	**6.0**	6.1	6.1	6.0	6.0
Portfolio investment balance	-2.1	0.4	**3.5**	3.5	**0.0**	4.0	**-0.3**	0.6	**0.3**	0.3	0.3	0.3	0.2
Other investment balance	1.5	2.7	**-2.7**	-4.5	**1.1**	-1.8	**1.0**	-0.1	**0.1**	-0.2	-0.1	-0.3	-0.5
Public sector 2/ 3/	0.5	0.6	**0.2**	-0.7	**0.5**	0.9	**1.1**	0.7	**1.1**	0.7	-0.4	0.7	0.7
Domestic banks	0.3	1.3	**-0.6**	-0.6	**0.4**	-0.8	**0.0**	-0.3	**-0.3**	-0.2	0.0	-0.1	-0.1
Other private sector 4/	0.7	0.8	**-2.2**	-3.2	**0.1**	-1.9	**-0.2**	-0.5	**-0.6**	-0.7	0.3	-0.9	-1.2
Errors and omissions	0.8	0.4	**0.0**	-0.3	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	3.0	4.1	**-0.1**	0.6	**0.8**	3.3	**1.0**	1.8	**0.8**	1.3	1.2	0.9	0.7
Memorandum items:													
Nominal growth of exports of goods	7.4	8.7	**-7.1**	-2.3	**11.2**	23.1	**16.0**	9.4	**13.5**	8.5	8.7	7.5	8.1
Nominal growth of import of goods	11.8	9.1	**-7.5**	-3.5	**14.3**	19.3	**13.3**	7.8	**11.5**	7.6	7.4	7.6	7.8
Volume growth of exports of goods	5.7	8.4	**-6.9**	-3.1	**10.4**	21.0	**14.4**	7.5	**11.7**	6.5	6.5	5.5	6.0
Volume growth of import of goods	8.9	9.8	**-5.5**	-0.3	**13.3**	16.6	**11.8**	6.6	**9.8**	6.1	5.6	5.9	5.9
Trading partner import growth	5.2	2.7	**-11.8**	-9.0	**9.8**	8.2	**7.0**	6.9	**5.5**	5.0	4.3	4.2	3.9
Export prices growth	1.6	0.2	**-0.2**	0.8	**0.7**	1.7	**1.3**	1.7	**1.5**	1.8	2.0	1.8	1.9
Import prices growth	2.6	-0.6	**-2.1**	-3.3	**0.9**	2.3	**1.4**	1.2	**1.6**	1.5	1.8	1.7	1.8
Change in terms of trade	-1.0	0.8	**1.9**	4.2	**-0.2**	-0.6	**0.0**	0.5	**0.0**	0.3	0.2	0.2	0.1
Gross official reserves (in billions of euro)	11.3	13.4	**13.4**	13.5	**13.7**	15.2	**14.3**	16.1	**14.7**	16.9	17.6	18.3	18.8
(In months of prospective imports of GNFS)	4.8	6.1	**5.5**	5.2	**5.0**	5.4	**4.7**	5.4	**4.4**	5.2	5.0	4.8	4.4
(in percent of short-term debt)	195.3	408.9	**204.0**	412.3	**209.8**	463.6	**217.9**	493.1	**225.2**	516.3	539.2	557.9	573.1
(in percent of broad money, M2)	52.2	57.8	**56.8**	57.7	**54.6**	60.3	**53.2**	60.1	**51.7**	58.7	57.4	55.6	53.5
(in percent of risk-weighted metric) 5/	111.2	126.2	**122.0**	126.0	**120.7**	129.0	**119.2**	130.3	**115.9**	129.6	130.1	128.6	127.5
GDP (billions of euros)	42.9	46.0	**46.9**	46.5	**50.1**	50.3	**53.5**	53.6	**56.9**	57.3	61.2	65.4	69.8

Sources: NBS; and IMF staff estimates and projections.

1/ SORS released revised 2016 BOP in October 2017.

2/ Excluding net use of IMF resources.

3/ Includes SDR allocations in 2009.

4/ Includes trade credits (net).

5/ The risk-weighted metric is IMF's ARA metric for the fixed exchange rate. Serbia was reclassified as stabilized exchange rate regime in 2019.

Table 5. Serbia: External Financing Requirements, 2018-2026

(Billions of euros)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.			
1. Total financing requirement	**8.4**	**10.8**	**5.5**	**8.4**	**8.0**	**7.8**	**8.4**	**7.2**	**7.2**
Current account deficit	2.1	3.2	2.0	2.5	2.7	2.8	3.1	3.3	3.5
Debt amortization	5.0	5.8	3.3	4.1	4.3	4.2	4.5	3.3	3.2
Medium and long-term debt	4.1	4.4	3.0	2.6	2.8	2.7	3.0	1.8	1.8
Public sector	3.1	3.4	2.3	1.8	1.6	1.6	2.4	1.4	1.4
Of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Eurobonds	1.0	1.5	0.2	0.6	0.0	0.0	0.0	0.0	0.0
Of which: Domestic bonds (non-residents)	1.1	1.0	1.1	0.3	0.5	0.5	0.5	0.5	0.6
Commercial banks	0.3	0.4	0.3	0.3	0.5	0.5	0.4	0.2	0.1
Corporate sector	0.8	0.6	0.4	0.5	0.8	0.6	0.3	0.2	0.3
Short-term debt	0.8	1.4	0.3	1.5	1.5	1.5	1.5	1.5	1.5
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.8	1.3	0.3	1.5	1.5	1.5	1.5	1.5	1.5
Corporate sector	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in gross reserves (increase=+)	1.3	1.9	0.3	1.7	1.0	0.8	0.8	0.6	0.5
2. Total financing sources	**8.4**	**10.8**	**5.5**	**8.4**	**8.0**	**7.8**	**8.4**	**7.2**	**7.2**
Capital transfers	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	3.2	3.6	2.9	3.1	3.3	3.5	3.7	3.9	4.2
Portfolio investment (net) 1/	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	5.0	7.1	6.0	6.7	5.3	4.9	4.6	4.1	4.0
Medium and long-term debt	4.2	5.7	5.7	5.2	3.8	3.4	3.1	2.6	2.5
Public sector 2/	2.4	3.9	4.4	4.2	2.3	2.2	2.3	2.0	2.0
Of which: Eurobonds	0.0	1.5	3.0	2.2	0.0	0.0	0.0	0.0	0.0
Of which: Domestic bonds (non-residents)	1.3	1.2	0.7	0.7	0.8	0.7	0.7	0.7	0.7
Commercial banks	0.5	0.6	0.7	0.4	0.6	0.5	0.5	0.2	0.1
Corporate sector	1.3	1.1	0.7	0.6	1.0	0.7	0.3	0.3	0.3
Short-term debt	0.8	1.4	0.3	1.5	1.5	1.5	1.5	1.5	1.5
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.8	1.3	0.3	1.5	1.5	1.5	1.5	1.5	1.5
Corporate sector	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net capital inflows 3/	0.2	0.4	-3.4	-1.5	-0.6	-0.7	0.0	-0.7	-1.0
o/w trade credit and currency and deposits	1.5	0.5	2.9	1.5	0.6	0.7	0.0	0.7	1.0
3. Total financing needs	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Debt service	5.6	6.4	3.9	4.8	4.9	4.7	4.9	3.7	3.5
Interest	0.7	0.6	0.7	0.7	0.5	0.5	0.4	0.4	0.3
Amortization	5.0	5.8	3.3	4.1	4.3	4.2	4.5	3.3	3.2

Sources: NBS; and Fund staff estimates and projections.

1/ Only includes equity securities and financial derivatives.

2/ Excluding IMF.

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

Table 6a. Serbia: General Government Fiscal Operations, 2018-2026 1/

(Billions of RSD)

	2018	2019	2020		2021		2022		2023		2024	2025	2026
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.	Proj.	Proj.
Revenue	2,105	2,279	2,224	2,255	2,423	2,480	2,634	2,645	2,810	2,855	3,043	3,259	3,492
Taxes	1,822	1,994	1,962	1,991	2,175	2,225	2,380	2,384	2,543	2,586	2,765	2,973	3,196
Personal income tax	179	204	202	204	228	236	248	244	264	264	287	314	344
Social security contributions 2/	620	676	660	674	785	816	861	860	911	910	976	1,047	1,123
Taxes on profits	112	127	122	123	106	107	114	126	127	156	167	179	192
Value-added taxes	500	551	547	549	604	600	651	644	698	695	739	790	844
Excises	290	307	300	306	316	323	351	352	378	393	416	450	484
Taxes on international trade	44	48	51	52	52	57	59	62	64	67	72	78	84
Other taxes	77	82	80	83	86	86	96	96	101	102	108	116	126
Non-tax revenue	263	259	245	239	231	235	236	241	247	247	254	262	271
Capital revenue	6	11	0	14	0	0	0	0	0	0	0	0	0
Grants	15	15	16	11	17	20	18	21	19	22	24	23	24
Expenditure	2,073	2,290	2,716	2,698	2,603	2,892	2,731	2,834	2,876	2,959	3,130	3,347	3,583
Current expenditure	1,845	2,002	2,379	2,353	2,234	2,428	2,339	2,380	2,489	2,505	2,653	2,835	3,031
Wages and salaries 3/	469	516	576	579	606	616	640	638	679	675	714	755	799
Goods and services	412	472	621	606	530	618	543	579	582	589	619	660	705
Interest	109	109	111	110	114	114	118	121	127	134	140	154	166
Subsidies	110	121	258	251	132	219	142	145	152	156	167	179	192
Transfers	746	783	814	806	853	862	896	896	949	951	1,013	1,086	1,168
Pensions 4/	525	568	593	599	621	627	648	652	685	690	733	784	842
Other transfers 5/	221	215	221	207	232	235	247	244	264	261	279	302	326
Capital expenditure	199	266	287	293	345	430	351	402	361	417	437	465	507
Net lending	9	11	42	44	12	22	21	32	14	26	28	30	33
Amortization of activated guarantees	20	11	8	7	12	12	21	21	12	10	12	17	13
Fiscal balance	32	-11	-492	-443	-180	-412	-97	-189	-66	-104	-87	-89	-91
Financing	-32	11	492	443	180	412	97	189	66	104	87	89	91
Privatization proceeds	3	49	53	53	0	0	0	0	0	0	0	0	0
Equity investment	0	-26	0	0	0	0	0	0	0	0	0	0	0
Domestic	48	-59	203	181	164	156	52	139	20	52	115	30	27
External	-84	47	236	209	17	257	45	50	46	52	-28	58	64
Program	0	0	0	0	0	0	0	0	0	0	0	0	0
Project	79	90	57	58	120	114	151	151	150	150	150	150	150
Bonds and loans	40	213	370	355	101	325	30	31	30	31	46	15	18
Amortization	-202	-256	-191	-204	-204	-182	-136	-132	-134	-130	-224	-107	-104
Memorandum items:													
Gross 1 wages and salaries	397	440	492	495	516	525	547	545	579	576	609	645	682
Arrears accumulation (domestic)	1	2	-1	1	-1	-1	-1	-1	-1	-1	-1	-1	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	38	32	11	33	3	4	7	8	5	9	5	5	5
Government deposits (stock)	105	212	166	207	180	129	180	129	196	147	167	167	167
Gross public debt 6/	2760	2859	3264	3189	3429	3584	3540	3762	3628	3845	3928	4006	4085
Gross public debt (including restitution) 6/	3003	3102	3508	3432	3652	3808	3744	3966	3812	4028	4092	4150	4209
Nominal GDP (billions of dinars)	5073	5418	5524	5464	5940	5942	6375	6389	6824	6868	7354	7881	8449

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

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

2/ Includes employer contributions.

3/ Including severence payments. Includes employer contributions.

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

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

6/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 0.85 percent of GDP as of end-April 2021.

Table 6b. Serbia: General Government Fiscal Operations, 2018-2026 1/

(Percent of GDP)

	2018	2019	2020		2021		2022		2023		2024	2025	2026
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.	Proj.	Proj.
Revenue	41.5	42.1	**40.3**	41.3	**40.8**	41.7	**41.3**	41.4	**41.2**	41.6	41.4	41.4	41.3
Taxes	35.9	36.8	**35.5**	36.4	**36.6**	37.5	**37.3**	37.3	**37.3**	37.6	37.6	37.7	37.8
Personal income tax	3.5	3.8	**3.7**	3.7	**3.8**	4.0	**3.9**	3.8	**3.9**	3.8	3.9	4.0	4.1
Social security contributions 2/	12.2	12.5	**11.9**	12.3	**13.2**	13.7	**13.5**	13.5	**13.3**	13.2	13.3	13.3	13.3
Taxes on profits	2.2	2.3	**2.2**	2.2	**1.8**	1.8	**1.8**	2.0	**1.9**	2.3	2.3	2.3	2.3
Value-added taxes	9.9	10.2	**9.9**	10.1	**10.2**	10.1	**10.2**	10.1	**10.2**	10.1	10.1	10.0	10.0
Excises	5.7	5.7	**5.4**	5.6	**5.3**	5.4	**5.5**	5.5	**5.5**	5.7	5.7	5.7	5.7
Taxes on international trade	0.9	0.9	**0.9**	1.0	**0.9**	1.0	**0.9**	1.0	**0.9**	1.0	1.0	1.0	1.0
Other taxes	1.5	1.5	**1.4**	1.5	**1.4**	1.5	**1.5**	1.5	**1.5**	1.5	1.5	1.5	1.5
Non-tax revenue	5.2	4.8	**4.4**	4.4	**3.9**	4.0	**3.7**	3.8	**3.6**	3.6	3.5	3.3	3.2
Capital revenue	0.1	0.2	**0.0**	0.3	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Grants	0.3	0.3	**0.3**	0.2	**0.3**	0.3	**0.3**	0.3	**0.3**	0.3	0.3	0.3	0.3
Expenditure	40.9	42.3	**49.2**	49.4	**43.8**	48.7	**42.8**	44.4	**42.1**	43.1	42.6	42.5	42.4
Current expenditure	36.4	36.9	**43.1**	43.1	**37.6**	40.9	**36.7**	37.2	**36.5**	36.5	36.1	36.0	35.9
Wages and salaries 3/	9.2	9.5	**10.4**	10.6	**10.2**	10.4	**10.0**	10.0	**9.9**	9.8	9.7	9.6	9.5
Goods and services	8.1	8.7	**11.2**	11.1	**8.9**	10.4	**8.5**	9.1	**8.5**	8.6	8.4	8.4	8.3
Interest	2.1	2.0	**2.0**	2.0	**1.9**	1.9	**1.8**	1.9	**1.9**	1.9	1.9	1.9	2.0
Subsidies	2.2	2.2	**4.7**	4.6	**2.2**	3.7	**2.2**	2.3	**2.2**	2.3	2.3	2.3	2.3
Transfers	14.7	14.5	**14.7**	14.8	**14.4**	14.5	**14.1**	14.0	**13.9**	13.8	13.8	13.8	13.8
Pensions 4/	10.4	10.5	**10.7**	11.0	**10.5**	10.6	**10.2**	10.2	**10.0**	10.0	10.0	10.0	10.0
Other transfers 5/	4.4	4.0	**4.0**	3.8	**3.9**	3.9	**3.9**	3.8	**3.9**	3.8	3.8	3.8	3.9
Capital expenditure	3.9	4.9	**5.2**	5.4	**5.8**	7.2	**5.5**	6.3	**5.3**	6.1	5.9	5.9	6.0
Net lending	0.2	0.2	**0.8**	0.8	**0.2**	0.4	**0.3**	0.5	**0.2**	0.4	0.4	0.4	0.4
Amortization of activated guarantees	0.4	0.2	**0.1**	0.1	**0.2**	0.2	**0.3**	0.3	**0.2**	0.1	0.2	0.2	0.2
Fiscal balance	0.6	-0.2	**-8.9**	-8.1	**-3.0**	-6.9	**-1.5**	-3.0	**-1.0**	-1.5	-1.2	-1.1	-1.1
Financing	-0.6	0.2	**8.9**	8.1	**3.0**	6.9	**1.5**	3.0	**1.0**	1.5	1.2	1.1	1.1
Privatization proceeds	0.1	0.9	**1.0**	1.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Equity investment	0.0	-0.5	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Domestic	1.0	-1.1	**3.7**	3.3	**2.8**	2.6	**0.8**	2.2	**0.3**	0.8	1.6	0.4	0.3
External	-1.7	0.9	**4.3**	3.8	**0.3**	4.3	**0.7**	0.8	**0.7**	0.8	-0.4	0.7	0.8
Program	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Project	1.5	1.7	**1.0**	1.1	**2.0**	1.9	**2.4**	2.4	**2.2**	2.2	2.0	1.9	1.8
Bonds and loans	0.8	3.9	**6.7**	6.5	**1.7**	5.5	**0.5**	0.5	**0.4**	0.5	0.6	0.2	0.2
Amortization	-4.0	-4.7	**-3.5**	-3.7	**-3.4**	-3.1	**-2.1**	-2.1	**-2.0**	-1.9	-3.1	-1.4	-1.2
Memorandum items:													
Gross 1 wages and salaries	7.8	8.1	**8.9**	9.1	**8.7**	8.8	**8.6**	8.5	**8.5**	8.4	8.3	8.2	8.1
Arrears accumulation (domestic)	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Government deposits (stock)	2.1	3.9	**3.0**	3.8	**3.0**	2.2	**2.8**	2.0	**2.9**	2.1	2.3	2.1	2.0
Gross financing need	8.8	10.7	**15.5**	15.0	**8.7**	12.2	**7.8**	9.3	**7.1**	8.1	7.1	5.4	5.1
Gross public debt 6/	54.4	52.8	**59.1**	58.4	**57.7**	60.3	**55.5**	58.9	**53.2**	56.0	53.4	50.8	48.4
Gross public debt (including restitution) 6/	59.2	57.3	**63.5**	62.8	**61.5**	64.1	**58.7**	62.1	**55.9**	58.7	55.6	52.7	49.8
Nominal GDP (billions of dinars)	5,073	5,418	**5,524**	5,464	**5,940**	5,942	**6,375**	6,389	**6,824**	6,868	7,354	7,881	8,449

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

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

2/ Includes employer contributions.

3/ Including severence payments. Includes employer contributions.

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

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

6/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 0.85 percent of GDP as of end-April 2021.

Table 7. Serbia: Monetary Survey, 2018-2026

	2018	2019	2020		2021		2022		2023		2024	2025	2026
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/												
Net foreign assets 2/	1116	1287	**1300**	1347	**1323**	1601	**1391**	1744	**1480**	1851	1948	2033	2108
in billions of euro	9.4	11.0	**11.0**	11.5	**11.1**	13.5	**11.6**	14.6	**12.3**	15.4	16.2	16.8	17.4
Foreign assets	1616	1831	**1843**	1924	**1875**	2190	**1950**	2343	**2046**	2458	2566	2659	2741
NBS	1342	1585	**1568**	1598	**1622**	1812	**1696**	1940	**1766**	2036	2135	2214	2284
Commercial banks	273	247	**275**	326	**253**	378	**254**	403	**280**	422	432	445	458
Foreign liabilities (-)	-500	-544	**-543**	-577	**-551**	-589	**-559**	-599	**-565**	-607	-618	-627	-634
NBS	-3	-2	**-3**	-1	**-3**	-3	**-3**	-3	**-3**	-3	-3	-3	-3
Commercial banks	-497	-542	**-540**	-576	**-548**	-586	**-556**	-596	**-562**	-603	-615	-623	-631
Net domestic assets	1,435	1,486	**1,828**	1,938	**2,026**	1,982	**2,202**	2,118	**2,396**	2,302	2,513	2,760	3,038
Domestic credit	2,552	2,643	**3,124**	3,090	**3,387**	3,295	**3,630**	3,488	**3,900**	3,729	4,003	4,329	4,687
Government, net	346	225	**438**	379	**514**	412	**521**	458	**528**	495	526	561	598
NBS	-233	-360	**-197**	-273	**-215**	-195	**-223**	-196	**-265**	-244	-280	-290	-301
Claims on government	5	1	**98**	93	**98**	95	**90**	95	**65**	65	50	40	30
Liabilities (deposits)	238	361	**295**	366	**313**	290	**313**	291	**330**	309	330	330	331
Banks	578	586	**635**	652	**729**	607	**745**	654	**793**	739	805	851	898
Claims on government	641	676	**726**	747	**820**	702	**836**	749	**884**	834	900	946	994
Liabilities (deposits)	63	91	**91**	95	**91**	95	**91**	96	**92**	96	95	95	96
Local governments, net	-28	-19	**-19**	-20	**-19**	-20	**-19**	-20	**-19**	-20	-20	-20	-20
Non-government sector	2,235	2,437	**2,705**	2,731	**2,891**	2,902	**3,127**	3,049	**3,391**	3,254	3,497	3,787	4,109
Households	1,018	1,112	**1,227**	1,244	**1,309**	1,319	**1,414**	1,383	**1,530**	1,474	1,581	1,710	1,853
Enterprises	1,188	1,291	**1,440**	1,453	**1,542**	1,547	**1,671**	1,628	**1,814**	1,740	1,872	2,030	2,204
Other	29	33	**37**	34	**40**	36	**43**	38	**47**	41	44	47	52
Other assets, net	-1,117	-1,156	**-1,296**	-1,152	**-1,361**	-1,313	**-1,428**	-1,370	**-1,504**	-1,427	-1,490	-1,569	-1,648
Capital accounts (-)	-997	-1,046	**-1,158**	-1,018	**-1,211**	-1,159	**-1,268**	-1,206	**-1,326**	-1,245	-1,295	-1,341	-1,382
NBS	-324	-353	**-292**	-340	**-263**	-380	**-263**	-380	**-210**	-304	-213	-85	0
Banks	-673	-693	**-866**	-678	**-948**	-779	**-1,005**	-826	**-1,116**	-942	-1,083	-1,256	-1,382
Provisions (-)	-121	-106	**-133**	-120	**-145**	-139	**-155**	-148	**-172**	-165	-176	-208	-245
Other assets	1	-5	**-5**	-14	**-5**	-15	**-5**	-16	**-6**	-17	-19	-20	-21
Broad money (M2)	2551	2774	**3128**	3285	**3349**	3583	**3593**	3862	**3876**	4153	4461	4793	5146
M1	745	867	**1077**	1182	**1158**	1322	**1259**	1433	**1383**	1547	1669	1799	1939
Currency in circulation	183	210	**260**	267	**280**	298	**304**	323	**334**	349	377	406	438
Demand deposits	563	657	**816**	915	**878**	1023	**954**	1110	**1049**	1198	1292	1393	1502
Time and saving deposits	220	273	**339**	325	**364**	364	**396**	394	**435**	426	459	495	534
Foreign currency deposits	1585	1634	**1713**	1779	**1827**	1898	**1939**	2034	**2058**	2180	2333	2499	2673
in billions of euro	13.4	13.9	**14.5**	15.1	**15.4**	16.0	**16.2**	17.0	**17.1**	18.2	19.4	20.7	22.0
Memorandum items:	(year-on-year change unless indicated otherwise)												
M1	20.1	16.3	**24.2**	36.3	**7.5**	11.8	**8.7**	8.4	**9.9**	8.0	7.9	7.8	7.8
M2	15.0	8.8	**12.7**	18.4	**7.1**	9.1	**7.3**	7.8	**7.9**	7.5	7.4	7.4	7.4
Velocity (Dinar part of money supply)	5.3	4.8	**3.9**	3.6	**3.9**	3.5	**3.9**	3.5	**3.8**	3.5	3.5	3.4	3.4
Velocity (M2)	2.0	2.0	**1.8**	1.7	**1.8**	1.7	**1.8**	1.7	**1.8**	1.7	1.6	1.6	1.6
Deposits at constant exchange rate	15.9	8.7	**11.4**	17.6	**6.7**	8.2	**6.8**	7.3	**7.3**	7.3	7.1	7.2	7.1
Credit to non-gov. (current exchange rate)	9.6	8.0	**5.8**	12.2	**6.2**	4.9	**6.3**	4.1	**6.5**	5.0	5.5	6.1	6.4
Credit to non-gov. (constant exchange rates) 3/	10.2	8.5	**5.4**	12.1	**5.7**	4.1	**5.8**	3.6	**6.0**	4.9	5.2	5.9	6.1
Domestic	10.1	9.5	**10.6**	12.0	**6.5**	5.6	**7.8**	4.6	**8.0**	6.6	7.2	8.1	8.3
Households	12.9	9.5	**10.1**	11.8	**6.4**	5.6	**7.7**	4.6	**7.9**	6.4	7.1	8.0	8.1
Enterprises and other sectors	7.9	9.4	**11.0**	12.1	**6.6**	5.6	**7.8**	4.7	**8.1**	6.7	7.3	8.2	8.3
External	10.5	6.6	**-5.0**	12.3	**3.9**	0.9	**1.2**	1.4	**1.0**	1.1	0.5	0.4	0.4
Credit to non-gov. (real terms) 4/	7.5	6.0	**4.1**	10.8	**4.2**	1.8	**3.9**	1.7	**3.8**	2.4	2.6	3.1	3.3
Domestic credit to non-gov. (real terms)	7.4	7.1	**9.1**	10.7	**4.9**	3.2	**5.7**	2.6	**5.7**	4.0	4.5	5.2	5.3
Households	10.3	7.3	**8.5**	10.4	**4.7**	3.0	**5.5**	2.4	**5.5**	3.8	4.4	5.1	5.2
Enterprises and other sectors	5.1	6.9	**9.7**	10.9	**5.1**	3.3	**5.9**	2.8	**5.8**	4.2	4.7	5.4	5.4
External	7.6	4.0	**-6.1**	10.9	**2.5**	-1.0	**-0.4**	-0.3	**-1.0**	-1.2	-1.9	-2.2	-2.1
12-m change in NBS's NFA, billions of euros	0.0	0.3	**-0.6**	0.5	**0.1**	-0.7	**0.0**	0.0	**0.1**	0.2	0.2	0.0	-1.3
Deposit euroization (percent of total) 5/	66.9	63.7	**59.7**	58.9	**59.5**	57.8	**58.9**	57.5	**58.1**	57.3	57.1	57.0	56.8
Credit euroization (percent of total) 5/	66.9	66.7	**65.7**	62.0	**64.9**	61.2	**64.1**	60.4	**63.1**	59.4	58.4	57.4	56.4

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

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

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

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

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

5/ Using current exchange rates.

Table 8. Serbia: NBS Balance Sheet, 2018-2026

	2018	2019	2020		2021		2022		2023		2024	2025	2026
			CR 21/8	Est.	CR 21/8	Proj.	CR 21/8	Proj.	CR 21/8	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/												
Net foreign assets	1339	1583	**1565**	1597	**1618**	1809	**1693**	1937	1762	2033	2131	2211	2281
(In billions of euro)	11.3	13.5	**13.2**	13.6	**13.6**	15.2	**14.2**	16.2	14.7	17.0	17.7	18.3	18.8
Gross foreign reserves	1342	1585	**1568**	1598	**1622**	1812	**1696**	1940	1766	2036	2135	2214	2284
Gross reserve liabilities (-)	-3	-2	**-3**	-1	**-3**	-3	**-3**	-3	-3	-3	-3	-3	-3
Net domestic assets	-607	-806	**-619**	-625	**-603**	-704	**-596**	-742	-568	-745	-745	-719	-675
Net domestic credit	-282	-453	**-327**	-285	**-340**	-324	**-333**	-362	-358	-441	-532	-634	-688
Net credit to government	-233	-360	**-197**	-273	**-215**	-195	**-223**	-196	-265	-244	-280	-290	-301
Claims on government	5	1	**98**	93	**98**	95	**90**	95	65	65	50	40	30
Liabilities to government (-)	-238	-361	**-295**	-366	**-313**	-290	**-313**	-291	-330	-309	-330	-330	-331
Liabilities to government (-): local currency	-137	-222	**-222**	-171	**-222**	-171	**-222**	-171	-222	-171	-171	-171	-171
Liabilities to government (-): foreign currency	-101	-140	**-74**	-195	**-91**	-119	**-91**	-119	-108	-138	-158	-159	-159
Net credit to local governments	-46	-36	**-38**	-38	**-38**	-38	**-38**	-38	-38	-38	-38	-38	-38
Net claims on banks	-16	-69	**-104**	-14	**-101**	-103	**-85**	-141	-68	-171	-227	-318	-361
Capital accounts (-)	-324	-353	**-292**	-340	**-263**	-380	**-263**	-380	-210	-304	-213	-85	13
Reserve money	732	777	**946**	973	**1015**	1106	**1097**	1195	1194	1288	1386	1492	1606
Currency in circulation	183	210	**260**	267	**280**	298	**304**	323	334	349	377	406	438
Commercial bank reserves	269	341	**430**	431	**463**	524	**503**	568	553	613	661	713	769
Required reserves	171	192	**185**	220	**197**	205	**209**	220	222	235	252	270	289
Excess reserves	98	149	**245**	210	**265**	319	**294**	348	330	378	409	443	480
FX deposits by banks, billions of euros	2.4	1.9	**2.2**	2.3	**2.3**	2.4	**2.4**	2.5	2.6	2.7	2.9	3.1	3.3

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

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

Table 9. Serbia: Banking Sector Financial Soundness Indicators, 2016-2021

	2016	2017	2018	2019	2020				2021
					Mar	Jun	Sept	Dec	Feb
Capital adequacy									
Regulatory capital to risk-weighted assets	21.8	22.6	22.3	23.4	22.7	22.7	22.4	22.4	22.4
Regulatory Tier 1 capital to risk-weighted assets	20.0	21.6	21.1	22.4	21.9	21.8	21.5	21.6	21.6
Nonperforming loans net of provisions to regulatory capital	27.1	17.7	9.7	6.3	6.5	6.0	5.7	6.7	7.2
Regulatory Tier 1 capital to assets	11.6	13.7	13.5	14.4	14.0	13.6	13.3	13.1	13.0
Large exposures to capital	86.0	69.3	77.4	66.5	70.5	71.2	77.8	73.8	73.8
Regulatory capital to assets	12.7	14.4	14.2	15.1	14.6	14.2	13.9	13.6	13.5
Asset quality									
Nonperforming loans to total gross loans	17.0	9.8	5.7	4.1	4.0	3.7	3.4	3.7	3.8
Sectoral distribution of loans (percent of total loans)									
Deposit takers	0.5	0.3	0.4	0.4	0.4	0.2	0.2	0.3	0.3
Central bank	1.7	2.1	0.7	2.8	0.4	1.5	1.1	1.1	1.3
General government	1.5	1.3	1.1	1.5	1.6	1.5	1.6	1.6	1.5
Other financial corporations	0.9	0.9	0.8	0.8	0.8	0.7	0.8	0.8	0.6
Nonfinancial corporations	52.6	50.5	50.0	49.2	51.0	50.2	49.9	49.6	49.2
Agriculture	3.6	3.5	3.5	3.5	3.2	3.3	3.4	3.3	3.1
Industry	16.5	16.2	16.5	15.0	15.1	14.8	14.8	15.0	14.8
Construction	4.1	4.0	4.2	4.8	4.8	4.9	5.0	5.1	5.1
Trade	14.3	14.6	14.0	13.7	14.6	13.9	13.4	13.3	13.2
Other loans to nonfinancial corporations	14.1	12.2	11.8	12.3	13.3	13.3	13.3	13.0	13.2
Households and NPISH	41.5	42.9	44.3	43.8	44.0	43.8	44.8	45.0	44.6
Households and NPISH of which: mortgage loans to total loans	17.9	16.9	16.8	15.8	16.1	15.7	16.0	16.4	16.5
Foreign sector	1.4	2.0	2.6	1.5	1.9	2.2	1.7	1.6	2.5
IFRS provision for NPLs to gross NPLs	67.8	58.1	60.2	61.5	61.4	62.6	62.4	59.0	57.8
IFRS provision of total loans to total gross loans	12.4	6.6	4.5	3.4	3.4	3.4	3.4	3.5	3.5
Earnings and Profitability									
Return on assets	0.7	2.1	2.2	1.8	1.8	1.4	1.4	1.1	1.2
Return on equity	3.3	10.5	11.3	9.8	10.5	8.4	8.2	6.5	7.3
Liquidity									
Customer deposits to total (noninterbank) loans	108.1	106.9	110.6	109.2	106.8	111.7	112.9	116.4	115.7
Foreign-currency-denominated loans to total loans	69.4	67.5	68.5	67.1	68.7	66.7	65.4	64.7	64.5
Average monthly liquidity ratio	2.1	2.0	2.0	2.2	2.2	2.2	2.2	2.2	2.3
Average monthly narrow liquidity ratio	1.7	1.7	1.7	1.8	1.8	1.9	1.9	1.9	2.0
Sensitivity to Market Risk									
Foreign-currency-denominated liabilities to total liabilities	71.1	69.7	69.3	66.6	66.0	63.8	63.0	62.3	62.9
Classified off-balance sheet items to classified balance sheet assets	32.4	36.4	36.8	39.7	37.6	37.1	36.8	36.3	36.3

Source: National Bank of Serbia.

Table 10. Serbia: Indicators for Monitoring Progress Towards SDGs

Goals	2005	2010	2015	Latest available year
Poverty				
Employed population below international poverty line (%)	0.5	0.0	0.0	0.0 3/
Proportion of population living below the national poverty line (%)	…	…	25.9	25.7 1/
Proportion of population covered by social assistance programs (%)	…	11.3	13.4	…
Proportion of total government spending on essential services, education (%)	…	10.1	8.9	9.3 2/
Prevalence of undernourishment (%)	<2.5	<2.5	4.1	4.6 3/
Income Inequality				
GINI coefficient	…	…	40.0	33.3 4/
Health and Education				
Maternal mortality ratio	12	12	13	12 2/
Under-five mortality rate (deaths per 1,000 live births)	8.9	7.6	6.3	5.3 4/
Number of new HIV infections per 1,000 uninfected population (per 1,000 uninfected population)	0.01	0.02	0.02	0.02 4/
Proportion of population using safely managed drinking water services (%)	74.6	74.7	74.7	74.7 2/
Proportion of population using safely managed sanitation services (%)	26.6	25.1	24.4	24.7 2/
Mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease (probability)	27.2	24.6	22.2	22.0 4/
Minimum proficiency in mathematics (%)	…	69.7	71.6	…
Gender parity index for achievement in mathematics (ratio)				
Inclusion				
Number of seats held by women in national parliaments (number)	…	54	85	93 5/
Proportion of women in managerial positions (%)	24.8	32.8	28.6	32.7 4/
Proportion of population with access to electricity (%)	100	100	100	100 4/
Unemployment rate (%)	20.9	19.2	17.7	9.0 5/
Proportion of informal employment in non-agriculture employment (%)	…	8.3	13.6	13.2 4/
Proportion of youth not in education, employment or training (%)	…	21.2	20.4	15.7 4/
Climate				
Carbon dioxide emissions per unit of manufacturing value added (kilogrammes of CO2 per constant 2010 US dollars)	1.2	0.8	0.5	0.6 3/
Global Parnership				
Total official development assistance (gross disbursement) for technical cooperation (millions of 2016 US dollars)	284.3	178.7	179.9	304.6 3/

Source: UN SDG Indicators Global Database; National Authorities

1/ 2016

2/ 2017

3/ 2018

4/ 2019

5/ 2020

Table 11. Serbia: Schedule of Reviews Under the Policy Coordination Instrument, 2021-2023

Program Review	Proposed Date
Board Discussion of the PCI Request	June 21, 2021
First Review	October 1, 2021
Second Review	April 1, 2022
Third Review	October 1, 2022
Fourth Review	April 1, 2023
Fifth Review	October 1, 2023

Annex I. Response to Past Policy Advice

2019 Article IV Recommendations	Policy Actions
Fiscal Policy	
Preserve fiscal sustainability; fiscal space should be prioritized towards productive capital investments and a reduction of the tax burden on labor and businesses.	While fiscal discipline was essentially maintained, the budget deficit and debt have increased in the context of COVID-19 through temporary measures. Healthy levels of public investment have been maintained. No changes to the design of the tax system have been made.
Implement public wage system and public employment reforms.	Both reforms were delayed due to COVID-19. However, the public employment system was improved, with assistance from the World Bank (WB), to increase flexibility. During the transition to a final regime, the Employment Commission will continue to allow the hiring of staff within the institutions' budget limits.
Reintroduce pension indexation through the Swiss indexation formula beginning January 2020.	Completed.
Implement rigorous selection and appraisal procedures to ensure that the investments offer the greatest boost to potential growth.	A Manual for Project Preparation and Appraisal has been prepared, and a single pipeline is being implemented, but implementation capacity remains incomplete.
Prepare a strategy and methodology to properly monitor fiscal risks by June 2020.	This reform has been delayed due to COVID-19 and remains in progress, to be completed by September 2021 (in line with the timeline for WB technical assistance).
Introduce a fiscal rule anchored on debt.	Delayed due to COVID-19.
Monetary and Exchange Rate Policies	
Gradually mop up excess liquidity in the banking system through repo operations; move the NBS repo rate closer to the key policy rate to improve the signaling role of policy rates and further develop the interbank market.	Excess dinar liquidity remained, in line with updated staff advice, in light of the pandemic crisis.
Greater two-way exchange rate movement should be developed gradually over the medium term.	Relative stability of the exchange rate maintained in the context of heightened uncertainty due to the pandemic.
Higher risk weights should be applied to unhedged foreign currency exposures.	A bank survey was completed and new macroprudential measures to limit corporate FX borrowing were prepared, but not yet implemented due to the pandemic.
Financial Sector Policies	

2019 Article IV Recommendations	Policy Actions
Advance the state-owned financial institutions (SOFI) agenda.	Privatization of largest state-owned bank was completed in 2020. The authorities continue to implement the new strategy for Banka Poštanska Štedionica (BPS).
Resolve the remaining portfolio of the bad assets managed by the Deposit Insurance Agency (DIA).	The sale of the first portfolio was completed in June 2019. The sale of the second, larger portfolio of assets was completed in 2021.
Improve capital markets and access to development finance.	The development of a strategy and action plan was delayed due to the pandemic.
Structural Policies	
Ensuring opportunities for skilled workers within Serbia will be critical to limit migration of skilled labor, with efforts aimed at strengthening institutions and improving the business environment.	There has been limited progress, including tax incentives for R&D and return migration.
Press ahead with resolution and reform of the SOE sector.	Implementation has been mixed. A tender to value property and assets of Elektroprivreda Srbije (EPS) was launched in November 2020, and a contract with an appraiser was signed in April 2021 with the aim to complete the valuation by end-November 2021. The privatization tender for Petrohemija has not yet been launched.
Improve governance of the SOE sector.	A comprehensive list of SOEs with at least a 10 percent government stake has been published in October 2019 and government decisions on key reforms were adopted in December 2020. The government adopted of a full ownership policy document in April 2021; a time-bound action plan to implement it has been delayed to June 2021.
Address the outstanding recommendations from the Group of States against corruption (GRECO) fourth evaluation round and concerns about undue influence over the judiciary.	As of November 2020, Serbia has implemented satisfactorily 2 of the 13 recommendations, with 10 recommendations partially implemented and one recommendation not implemented.

Annex II. Conditionality Under the 2018 Policy Coordination Instrument

	Reform Target	Objective	Status
	Fiscal		
1	Approve a government decree defining wage coefficients under the new Public Sector Employee Wage System for local governments, public services, and public administration.	Rationalize pay and improve incentives across public sector.	Not completed
2	Adopt a government decision on a revised public employment framework for 2020.	Improve employment flexibility while containing fiscal pressures.	Dropped, but less comprehensive reform still adopted
3	Prepare methodologies to: (i) monitor fiscal risks from SOEs and natural disasters, and (ii) manage fiscal risks associated with the state-guarantee scheme designed in response to the COVID-19 crisis.	Reduce fiscal risks.	Completed with delay
4	Submit to the National Assembly a draft Law on Charges.	Improve transparency and predictability, reduce parafiscal tax burden on businesses.	Completed with delay
5	Issue a detailed rule book to the 2017 Capital Project Regulation, covering methodology for project appraisal and selection.	Unifies methodology for the project and cost-benefit analysis and raise transparency.	Completed with delay
6	Establish Capital Investment Commission (CIC) and update Capital Project Regulation to (i) clarify roles of MoF, CIC, and other line ministries, (ii) remove the exclusion of IPA-funded projects, and (iii) expand the coverage to government-to-government agreements.	Improve selection, appraisal, and implementation of public infrastructure projects.	Completed with delay
7	Complete consolidation of core STA activities into fewer sites.	Advance reforms of the State Tax Administration.	Completed
8	Reach decision on a preferred approach to the STA IT system upgrade.	Advance reforms of the State Tax Administration.	Completed
	Structural		
9	Adopt a government decision to launch a privatization tender for Petrohemija.	Reduce fiscal risks.	Not completed
10	Launch a tender for the valuation of EPS property and assets.	Improve SOE governance.	Completed with delay
11	Government adoption of an ownership policy document and a time-bound action plan to implement it.	Improve SOE governance.	Not completed, but key decisions adopted
12	Approve amendments to the Law on Inspection Supervision.	Reduce grey economy.	Completed with delay
13	Publication of a comprehensive list of SOEs as of December 31, 2018 (covering all levels of government including consolidated ownership; include information on main economic activity; at least 10 percent government ownership stake).	Improve SOE governance.	Completed
	Financial		
14	Approve a time-bound action plan to resolve part of the DIA portfolio of bad assets by end-2020 through a tendering process implemented in two phases (agreed with the World Bank); and complete the first phase of the sale.	Resolve bad assets and address fiscal risks.	Completed with delay
15	Approve an updated Dinarization Strategy in line with the IMF recommendations.	Strengthen financial stability and increase dinarization.	Completed
16	Submit to the National Assembly amendments to the Law on Public Debt with a view to update legal foundation of debt management.	Strengthen public debt management.	Completed
17	Implement items listed in Serbia's action plan to address the significant AML/CFT weaknesses identified by the FATF.	Remove Serbia from FATF listing and prevent pressures on capital inflows and correspondent banking relationships.	Completed
18	(i) Submit to the National Assembly amendments to the Law on Deposit Insurance Agency and the Law on Deposit Insurance to incorporate the findings of IADI assessment and update parametrization; and (ii) introduce risk-based premia.	Align deposit insurance scheme with international standards.	Completed with delay
19	Launch a privatization tender for Komercijalna Banka.	Reduce state involvement in the financial sector and reduce fiscal risks.	Completed
20	Issue tenders for the second phase of DIA asset sales, in line with the time-bound action plan.	Resolve bad assets.	Completed
21	Sign an updated MOU between the DIA and NBS to reflect new resolution tools given to the NBS and the need for information sharing.	Strengthen financial safety nets.	Completed

Annex III. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Unexpected shifts in the COVID-19 pandemic	**Medium** **Asynchronous progress.** Limited access to, and longer-than-expected deployment of, vaccines in some countries prompt a reassessment of growth prospects. **Prolonged pandemic.** COVID-19 proves harder to eradicate, requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable.	Short term	**High** A prolonged pandemic could lead to setbacks to economic recovery and risks reaching the limits of fiscal space for supporting the economy, negatively affecting companies and individuals.	• Extend fiscal support measures and target to companies and individuals most in need. • Maintain accommodative monetary policy stance and liquidity in the banking system.
	Medium **Faster containment.** Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.	Short term	**High** Domestic and external demand pick up, boosting economic activity, employment, and reducing uncertainty.	• Gradually unwind policy support while ensuring that recovery is well entrenched.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities	**Medium** A reassessment of market fundamentals triggers a widespread risk-off event. Risk asset prices fall sharply and volatility spikes. Higher risk premia generate financing difficulties that extend to sovereigns with excessive public debt.	Short- to medium term	**High** Tighter global financing conditions could push up the cost of borrowing, put stress on leveraged firms and households, lower confidence, and prolong the downturn.	• Maintain a relatively large liquidity buffer and measures to keep domestic markets liquid. • Fiscal discipline and decisive progress on structural reforms should anchor confidence and improve competitiveness.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff' s subjective assessment of the risks surrounding the baseline (" low" is meant to indicate a probability below 10 percent, " medium" a probability between 10 and 30 percent, and " high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Accelerating de-globalization	**Medium** Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation, less trade and lower potential growth.	Short- to medium term	**Medium** Reduced upside from deeper integration into global and European supply chains, reduced trade and FDI, and increased capital flows volatility would adversely impact Serbian economy.	• Allow for greater exchange rate flexibility over the medium-term. • Progress on structural reforms should anchor confidence and improve competitiveness. • Maintain financial stability to weather external shocks.
Domestic policy errors or loss of fiscal discipline	**Medium** Hesitation to deliver on specific structural reforms.	Short- to medium term	**High** Loss of fiscal discipline would undermine market confidence and the restoration of fiscal buffers. Unfinished structural reform agenda would reduce growth prospects, preserve over-reliance on the public sector and large informal economy, and leave unaddressed contingent liabilities.	• Maintain strong fiscal and structural reform policies and strengthen institutions as a foundation for inclusive and sustainable growth. • Address weaknesses in the labor market, enhance SOE governance, and reduce the size of the informal economy.

Annex IV. Chronology of COVID-19 Measures in Serbia

Annex IV. Table 1. Serbia: Summary of Fiscal Response to COVID-19

<table>
<tr><th rowspan="2">Measures</th><th colspan="10">2020</th><th colspan="2">2021</th></tr>
<tr><th>March</th><th>April</th><th>May</th><th>June</th><th>July</th><th>August</th><th>September</th><th>October</th><th>November</th><th>December</th><th>January</th><th>February</th></tr>
<tr><th colspan="13">First wave of measures: 6.9 percent of GDP</th></tr>
<tr><td>Wage increase for public healthcare sector</td><td></td><td colspan="9">0.2 percent of GDP</td><td></td><td></td></tr>
<tr><td>Higher healthcare spending</td><td></td><td colspan="9">1.1 percent of GDP</td><td></td><td></td></tr>
<tr><td>One off payment to pensioners</td><td></td><td>0.1 percent of GDP</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Universal cash transfer</td><td></td><td></td><td>1.3 percent of GDP</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Deferement of labor taxes and SSC</td><td colspan="3">1.8 percent of GDP</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Deferement of CIT</td><td></td><td colspan="9">0.4 percent of GDP</td><td></td><td></td></tr>
<tr><td>Payment of minimum wages</td><td></td><td colspan="3">1.8 percent of GDP</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>New loans to SMEs</td><td></td><td colspan="9">0.2 percent of GDP</td><td></td><td></td></tr>
<tr><td>State Guarantee Scheme for bank loans to SMEs</td><td></td><td colspan="9">1 percent of GDP (guarantee cap)</td><td></td><td></td></tr>
<tr><th colspan="13">Second wave of measures: 1.4 percent of GDP</th></tr>
<tr><td>Minimum wage subsidy for SMEs</td><td></td><td></td><td></td><td></td><td></td><td colspan="2">0.7 percent of GDP</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Deferment of labor taxes and SSC for an additional month</td><td></td><td></td><td></td><td></td><td>0.5 percent of GDP</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>One-off fiscal support to hotels</td><td></td><td></td><td></td><td></td><td></td><td colspan="5">0.02 percent of GDP</td><td></td><td></td></tr>
<tr><td>Bonus to public-sector health workers</td><td></td><td></td><td></td><td></td><td></td><td colspan="5">0.02 percent of GDP</td><td></td><td></td></tr>
<tr><td>One off payment to pensioners</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>0.15 percent of GDP</td><td></td><td></td></tr>
<tr><th colspan="13">Third wave of measures: 4.8 percent of GDP</th></tr>
<tr><td>Higher healthcare spending</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>0.7 percent of GDP</td></tr>
<tr><td>Minimum wage subsidies (additional three months)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>1.2 percent of GDP</td></tr>
<tr><td>Minimum wage for employees in travel and hospitality</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>0.05 percent of GDP</td></tr>
<tr><td>Universal cash transfer (paid in May and December 2021)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>0.7 percent of GDP</td></tr>
<tr><td>Pension bonus (paid in December 2021)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>0.1 percent of GDP</td></tr>
<tr><td>Support for transport sector anc city hotels</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>0.05 percent of GDP</td></tr>
<tr><td>Expansion of the existing State Guarantee Scheme</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>1 percent of GDP (guarantee cap)</td></tr>
<tr><td>New lending scheme to support vulnerable companies</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>1 percent of GDP (guarantee cap)</td></tr>
</table>

Source: Serbian authorities, IMF staff estimates.

Annex IV. Table 2. Serbia: COVID-19 Measures for the Monetary and Financial Sectors

<table>
<tr><th colspan="10">2020</th><th colspan="2">2021</th></tr>
<tr><th>March</th><th>April</th><th>May</th><th>June</th><th>July</th><th>August</th><th>September</th><th>October</th><th>November</th><th>December</th><th>January</th><th>February</th></tr>
<tr><th colspan="12">Monetary policy measures</th></tr>
<tr><td colspan="12">Key policy rate</td></tr>
<tr><td>Cut by 0.5 pp 1.75 percent</td><td>Cut by 0.25 pp 1.5 percent</td><td></td><td>Cut by 0.25 pp 1.25 percent</td><td></td><td></td><td></td><td></td><td></td><td>Cut by 0.25 pp 1 percent</td><td></td><td></td></tr>
<tr><td>Rate corridor narrowed from ±1.25 pp to ±1.0 pp</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>Rate corridor narrowed from ±1 pp to ±0.9 pp</td><td></td><td></td></tr>
<tr><td colspan="12">Support to dinar liquidity</td></tr>
<tr><td colspan="2">Additional swap auctions, 3-month maturity</td><td></td><td></td><td></td><td></td><td></td><td></td><td colspan="4">Additional swap auctions (weekly basis), 3-month maturity</td></tr>
<tr><td></td><td>Lower interest rate on FX swaps</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Auctions of repo purchase of government securities</td><td></td><td></td><td></td><td></td><td></td><td></td><td colspan="4">Additional auctions of repo purchase of government securities (weekly basis), 3-month maturity</td></tr>
<tr><td></td><td colspan="2">Outright purchase of government securities in the secondary market</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="10">Corporate bonds included in the list of eligible collateral in NBS monetary operations</td></tr>
<tr><td colspan="12">More favorable conditions for Guarantee Scheme loans</td></tr>
<tr><td></td><td></td><td></td><td></td><td colspan="8">Approval of dinar loans under the Guarantee Scheme at lower interest rates (minimum 50 bp reduction is compansated by the NBS through higher remuneratioj rate on allocated required reserves)</td></tr>
<tr><th colspan="12">Additional measures implemented by the National Bank of Serbia</th></tr>
<tr><td colspan="12">Moratorium</td></tr>
<tr><td></td><td colspan="3">Moratorium on debt repayments</td><td></td><td colspan="2">Moratorium on debt repayments</td><td></td><td></td><td colspan="3">Moratorium on debt repayments for debtors unable to settle their liabilities due to the pandemic (extension of the repayment period)</td></tr>
<tr><td colspan="12">Housing loans</td></tr>
<tr><td></td><td></td><td></td><td colspan="9">Reduction of mandatory downpayment for first-time home buyers</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td colspan="7">Reduction of the minimum degreee of completion of a building eligible for financing thhrough bank housing loans</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td colspan="7">Extension of repayment term for housing loans by up to five years</td></tr>
<tr><td colspan="12">Other loans</td></tr>
<tr><td></td><td></td><td></td><td></td><td colspan="8">Extension of repayment term for household loans (except housing) by up to eight years</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td colspan="7">Until end-2021, banks allowed to extend household dinar loans only based on signed statement on employment/pension</td></tr>
<tr><td colspan="12">Precautionary line with the ECB</td></tr>
<tr><td></td><td></td><td></td><td></td><td colspan="8">A precautionary repo line with the ECB established to supply additional euro liquidity to local banks in case of need</td></tr>
</table>

Source: National Bank of Serbia

Annex V. External Sector Assessment

Overall Assessment*. Serbia's external position in 2020 was broadly in line with the level implied by medium-term fundamentals and desirable policies, based on the results of the IMF's EBA-lite current account model.[1] The CA deficit in 2020 was smaller than in 2019 reflecting adjustments in all its components.*

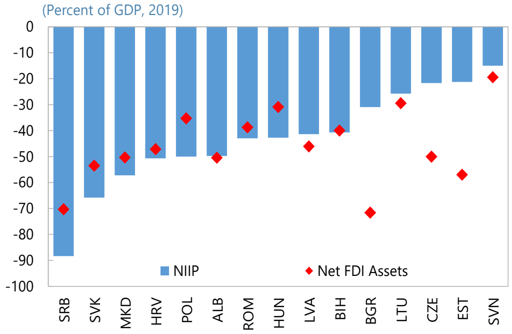
Potential Policy Responses*. Macroeconomic policies should continue to support the economy, addressing the impact of the Coronavirus, and facilitating the recovery. Over the medium term, structural fiscal reforms will be important to rebuild fiscal buffers and anchor fiscal performance. An ambitious structural reform agenda will be needed to underpin high and inclusive growth.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Serbia's net international investment position (NIIP) has remained highly negative. The NIIP increased to -92.6 percent of GDP in 2020 from -88 percent of GDP in 2019, below the -44.1 percent of GDP average of countries in the region. Its structure indicates that FDI inflows contributed much to the buildup of equity within net FDI liabilities—the main IIP component—standing at 82.4 percent of GDP in 2020. Local currency debt held by nonresidents has remained below 5 percent of GDP. In terms of maturity, nearly all net foreign liabilities are long-term.

Net International Investment Position

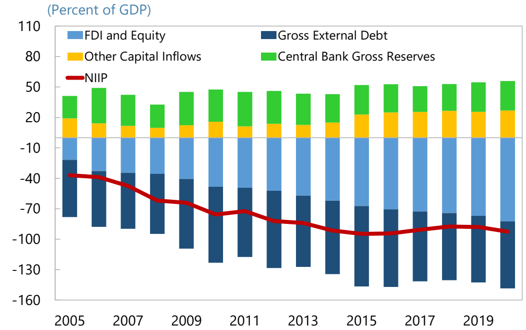
(Percent of GDP, 2019)



Sources: IMF, BOP and IIP Database; IMF, WEO Database; and IMF Staff calculations.

Serbia: Net International Investment Position

(Percent of GDP)



Sources: Country Authorities; and IMF Staff calculations.

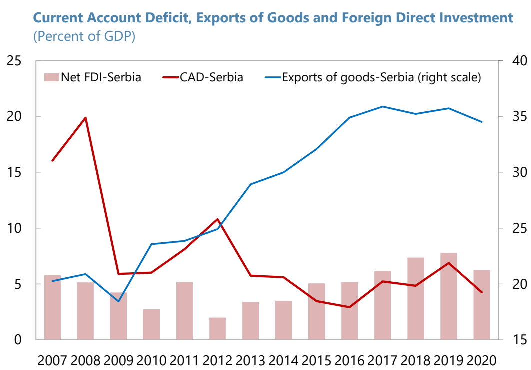
Assessment. Under the current baseline scenario, the NIIP does not deteriorate in net present value terms, that is, the NIIP is sustainable based on this definition. While Serbia's NIIP position mostly reflects past inward FDI, continuous efforts to improve competitiveness could still be beneficial and help improve this position. In staff's view, this could involve further reforms to ease doing business and attract investments in sectors that produce higher-technology goods with higher-skilled labor, including by domestic investors. This would also increase the productivity of the tradable sector. These reforms should be supported by a prudent fiscal policy over the medium term to ensure public savings and preserve wage competitiveness.

2020 (% GDP)	NIIP: -92.6	Gross Assets: 60	Debt Assets: 52.2	Gross Liab.: 152.6	Debt Liab.: 15.1

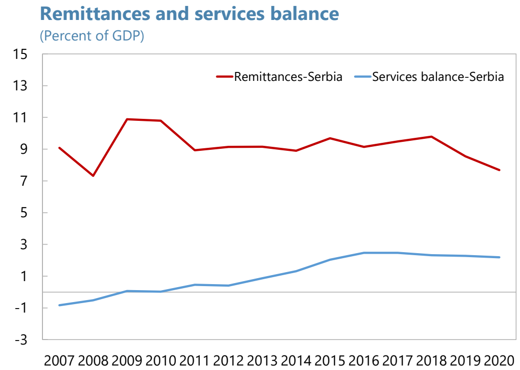
[1] The external sector assessment is based on staff's estimates.

Current Account

Background. The CA deficit narrowed significantly to 4.3 percent of GDP in 2020 (from 6.9 percent in 2019), largely as a result of a sharply lower primary income deficit. From a longer-term perspective, the current account (CA) deficit has substantially narrowed since 2008, when it reached 19.9 percent of GDP. While this has mainly been driven by a continuous increase in exports of goods, other factors, including the improving services balance over the last 6 years, also contributed.



Sources: IMF, WEO database; and IMF staff calculations.



Sources: IMF, WEO database; and IMF staff calculations.

Assessment. Taking into account the impact of the pandemic, IMF's EBA-lite current account model suggests that the current account position was broadly in line with the level implied by fundamentals and desirable policies. In particular, the sharply lower primary income deficit, which decreased by 43.3 percent, reflected lower profits earned by foreign companies during 2020, which declined by 44.8 percent, against the background of Serbia's large net liability FDI position. Compared with the past 5-year average, the income deficit in terms of GDP was 2.2 percentage points smaller in 2020. This affected the CA temporarily but was not adequately captured in the cyclical components of the CA model. Including an adjustor to compensate for this factor, the adjusted current account deficit was 5.5 percent of GDP. The current account norm was estimated at -5.9 percent of GDP, indicating a current account gap of 0.4 percent of GDP. The Covid-19 adjustor, -0.5 percent, reflected the temporary effects on the CA of tourism, 0.08 percent, and of the oil trade shock, -0.59 percent. Policy gaps contribute 3.5 percentage points to the model-estimated current account gap and the remainder reflects unidentified country-specific factors and/or regression residuals.

Serbia: Model Estimates for 2020 (in percent of GDP)

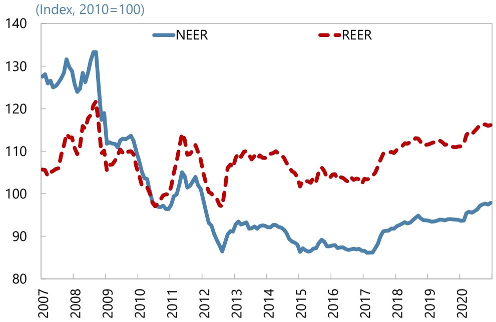
	CA model	REER model
CA-Actual	**-4.3**	
Cyclical contributions (from model) (-)	0.3	
COVID-19 adjustor (+) 1/	-0.6	
Primary income adjustor (+)	-1.1	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.7	
Adjusted CA	**-5.5**	
CA Norm (from model) 2/	**-5.9**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-5.9**	
CA Gap	**0.4**	**-6.9**
o/w Relative policy gap	3.5	
Elasticity	-0.38	
REER Gap (in percent)	**-0.9**	**18.1**

1/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

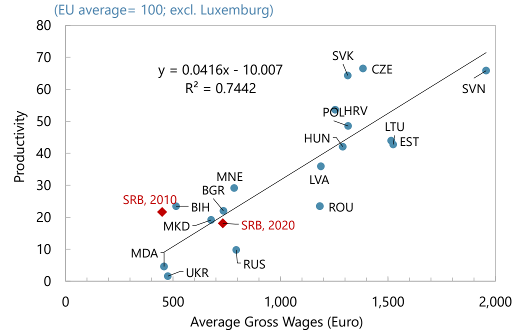
Background. The dinar's nominal and real effective exchange rate indexes appreciated on average by 2½ percent and 2.7 percent respectively during 2020. At end-December 2020, the real effective exchange rate was 4.6 percent stronger than the end-2019 level, and 8.2 percent above the post-global financial crisis average.

Serbia: Nominal and Real Effective Exchange Rate
(Index, 2010=100)



Source: IMF, INS database.

Wages and Labor Productivity, 2020
(EU average= 100; excl. Luxemburg)

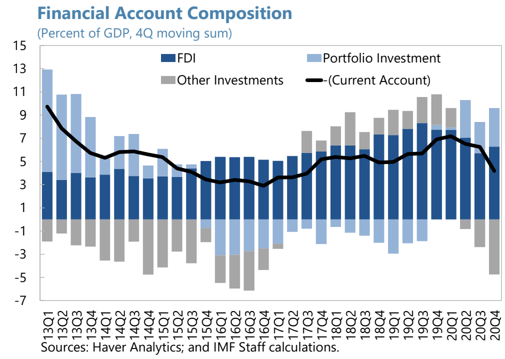


Sources: Haver Analytics; IMF, World Economic Outlook; and IMF staff calculations.

Assessment. Assuming an elasticity of -0.38, the IMF staff CA gap of 0.4 percent of GDP implies a REER gap of 0.9 percent. IMF's EBA-lite Index-Real Effective Exchange Rate model, however, suggests the need for a more depreciated exchange rate. These contrasting results highlight the uncertainty induced by the pandemic shock, as in results for other countries. Since 2015 the increase in real wages have exceeded productivity growth, creating pressures for the REER to appreciate. Considering the model results, competitiveness indicators, macroeconomic context, and NIIP level, the REER gap is assessed to be in the range [-0.9, 18.1], which illustrates the ambiguity of this analysis in 2020.

Capital and Financial Accounts: Flows and Policy Measures

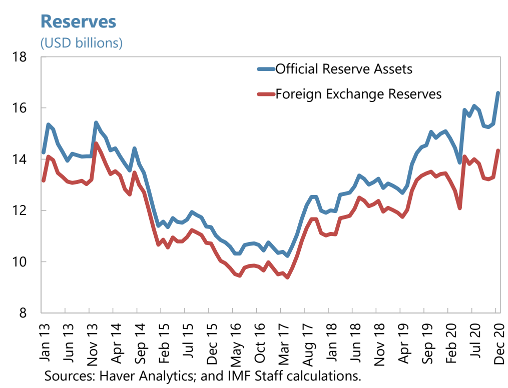
Background. Net FDI and portfolio inflows dominate the financial account. Since 2015, net FDI inflows have consistently exceeded the current account deficit, rising to historically high levels (reaching 7.8 and declining to 6.2 percent of GDP in 2019 and 2020, respectively). Serbia successfully placed two Eurobonds in 2020, totaling EUR 3 billion (6.3 percent of GDP). There are no CFMs.



Assessment. While over the medium term, the current account deficit is expected to remain in line with historical levels, and fully covered by FDI, risks exist from decelerating FDI and portfolio investment inflows, driven by the future course of the pandemic and related economic disruptions in Serbia and its trading partners.

FX Intervention and Reserves Level

Background. Foreign exchange reserves remained stable over 2020, supported by Eurobond issuances, and stood at EUR 13.5 billion, or 5.4 months of prospective imports at year-end. Following substantial net sales in the first half of 2020, the Central bank's foreign exchange interventions moderated as nonresident investors returned and switched to net purchases in November and December. Recently, interventions returned to small net sales in January 2021, in line with the seasonal pattern.



Assessment. Serbia has an adequate international reserve position, with official reserves within the recommended bounds of the IMF reserve adequacy metric. Specifically, gross reserves at end-2020 corresponded to 126 percent of the ARA metric (assuming the current stabilized de-facto exchange-rate classification).

Annex VI. Debt Sustainability Analysis

Public debt increased in 2020 due primarily to the large financing needs created by the economic support package in response to the COVID-19 pandemic. Going forward, under the baseline public debt is projected to increase marginally as a share of GDP in 2021 and gradually decline thereafter. Risk factors stem from the possible loss of fiscal discipline, negative growth shocks, and exchange rate volatility.

1. **While starting from a higher base, the profile of public debt in percent of GDP remains benign.** The unprecedented fiscal financing needs caused by the pandemic, combined with the growth shock, drove public debt 5.6 percentage points higher in 2020, to 58.4 percent of GDP, while contingent liabilities were broadly unchanged, at around 3 percent of GDP.[1] In 2021, under the baseline, public debt is projected to increase marginally to around 60 percent of GDP, and decline gradually thereafter. The DSA baseline is in line with staff's macroeconomic projections. Real GDP is expected to rebound by 6 percent in 2021, while the fiscal deficit is projected at 6.9 percent of GDP, from 8.1 percent in 2020. Gross financing needs in 2021 are estimated at 12.2 percent of GDP, fully covered by issuance on domestic and international markets (8.7 percent of GDP), project loans and budget support from IFIs (2.4 percent of GDP), and deposits drawdown (1.2 percent of GDP). Over the medium term, the output gap is expected to gradually close, inflation to remain within the tolerance band of the NBS, and the fiscal deficit to narrow towards 1 percent of GDP.

2. **Vulnerabilities remain concentrated in the large shares of foreign currency debt and debt held by non-residents, but mitigating factors apply.** Compared to the last DSA, the main sources of risk remain broadly unchanged. Market perception risks have abated, reflecting lower risk premia across EMs compared to last year. Conversely, external financing needs continue to be elevated, just above the 15 percent threshold for EM economies. Debt held by-non-residents exceeds 60 percent, and the share of debt denominated in foreign currency stands at 69 percent (49 percent is in euro). Nonetheless, the large share of multilateral and institutional creditors to whom external debt is owned, the long average maturity of outstanding debt, and the fixed interest rate structure represent important mitigating factors.[2] The heat matrix points to risks from the change in short-term debt. However, this reflects the resumed issuance of short-term paper in 2020, which had not happened over a number of years. Risks from this practice are contained given that the amount remains small at 0.5 percent of GDP.

3. **Macro-fiscal stress tests highlight risks from lack of fiscal discipline, low growth, and a weakening of the exchange rate.** Over the medium-term, the positive outlook for both the debt profile and financing needs hinges on strong fiscal outcomes, and a return to sustained growth. Conversely, under the historical scenario debt remains on an increasing trajectory and financing

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[1] Public debt includes general government debt, and public guarantees covering SOEs, local governments, and other entities. Public guarantees on banks loans to SMEs are not included and estimated at 0.85 percent of GDP as of end-April.

[2] The residual maturity is above 2 years for more than 70 percent of dinar-denominated debt, and 60 percent of euro-denominated debt. The share of debt with fixed interest rate is about 86 percent.

needs are significantly higher than under the baseline.[3] The set of macroeconomic stress tests also underscores the importance of a return to fiscal discipline and sustained economic growth. The stress tests indicate that the currency depreciation shock would create quickly rising debt levels and financing needs, given the large share of foreign currency-denominated debt. In contrast, the interest rate shock would have only moderate effects, in light of the favorable interest rate structure. The calibrated contingent liabilities shock increases gross financing needs by about 4 percent of GDP in 2022. Only under the combined macroeconomic shock, public debt in percent of GDP reaches 70 percent.

4. Forecast errors are in line with other market access countries, and the projected fiscal stance is realistic. Large forecast errors for real GDP growth in some years are explained by sharp output contractions amid the global financial crisis in 2009, and by severe weather shocks with negative repercussions for agricultural output and energy production in 2012 and 2014. However, growth has typically been higher than projected since 2015, during the program years. Forecast errors in primary balance projections have been positive in recent years, reflecting better fiscal outcomes than budgeted, while those for inflation are in line with comparator countries. The DSA assumes a fiscal multiplier of 0.5, approximately in the middle of the range of values found in the literature, and appropriate for economies that are smaller and more open. The projected 3-year average level of the cyclically adjusted primary balance remains comfortably below the top quartile of the distribution. The planned fiscal adjustment over any three years during the projection horizon exceeds 3 percent of GDP, following the large pandemic-deficit in 2020 to help cushion the adverse effects of the COVID-19 crisis.

[3] The historical scenario sets real GDP growth, the primary balance, and the real interest rate at their historical averages.

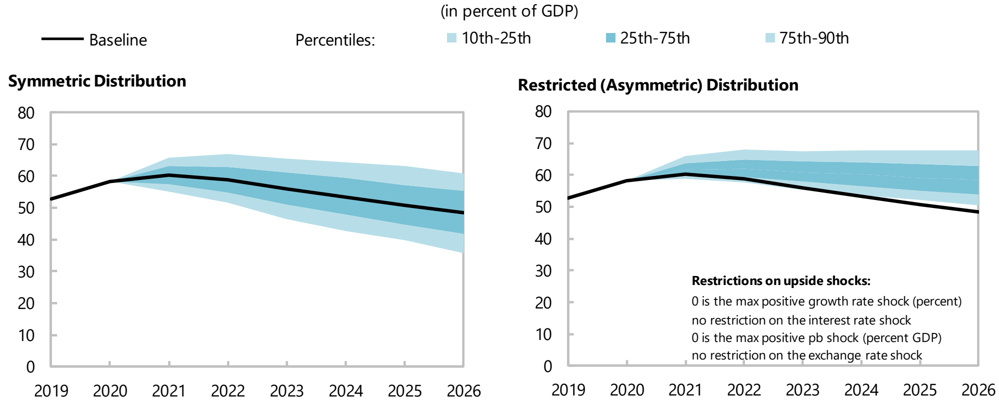
Annex VI. Figure 1. Serbia: Public Sector Debt Sustainability Analysis (DSA) – Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

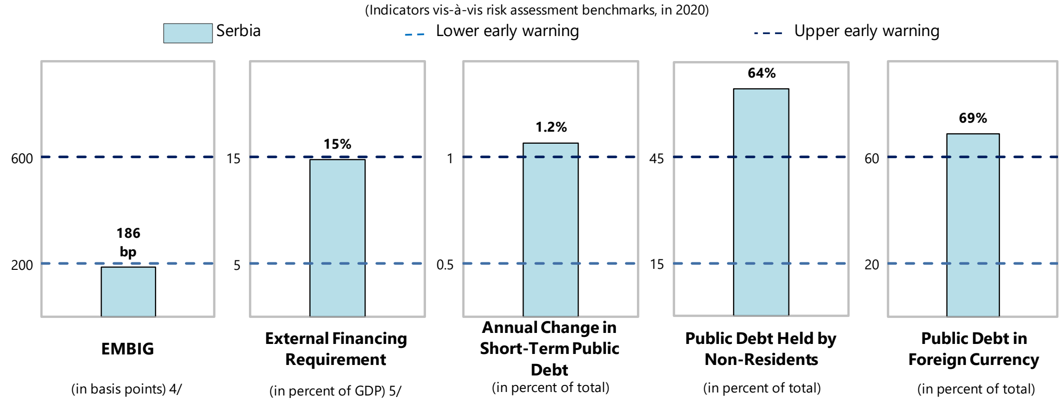
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

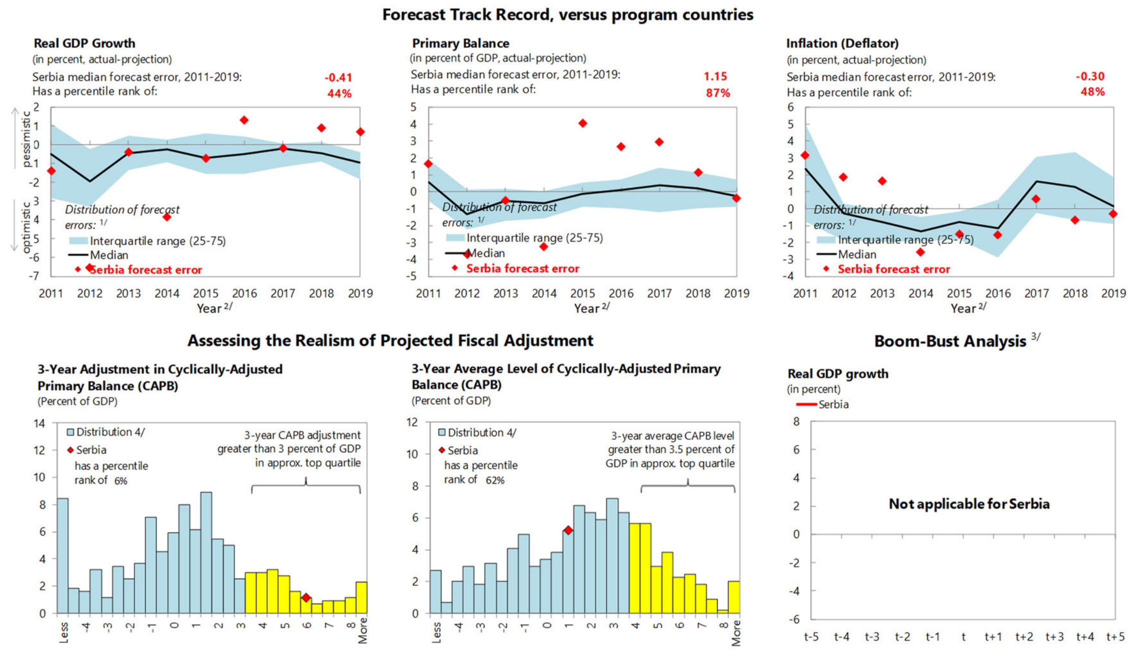
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 03-Feb-21 through 04-May-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex VI. Figure 2. Serbia: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Serbia, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex VI. Figure 3. Serbia: Public DSA – Baseline Scenario

(in percent of GDP, unless otherwise indicated)

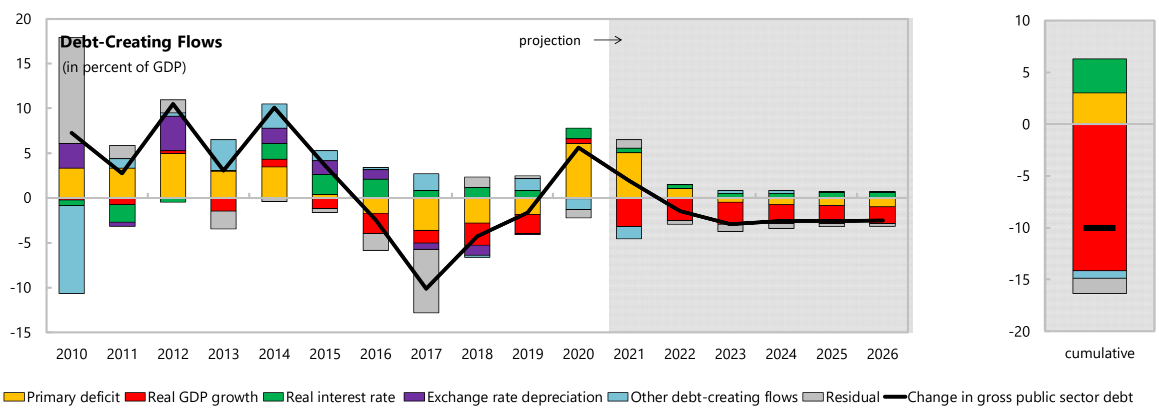
Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of May 04, 2021	
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026		
Nominal gross public debt	57.5	52.8	58.4	60.3	58.9	56.0	53.4	50.8	48.4	Sovereign Spreads	
Of which: guarantees	6.2	3.2	3.1	2.6	2.4	2.3	2.1	2.0	1.8	EMBIG (bp) 3/	192
Public gross financing needs	12.9	10.7	15.0	12.6	9.5	8.3	7.3	5.4	5.4	5Y CDS (bp)	108

										Ratings	Foreign	Local
Real GDP growth (in percent)	1.7	4.2	-1.0	6.0	4.5	4.5	4.0	4.0	4.0			
Inflation (GDP deflator, in percent)	4.1	2.4	1.8	2.6	2.9	2.9	3.0	3.0	3.1	Moody's	Ba2	Ba2
Nominal GDP growth (in percent)	5.8	6.8	0.8	8.7	7.5	7.5	7.1	7.2	7.2	S&Ps	BB+	BB+
Effective interest rate (in percent) [4/]	4.7	4.2	4.1	3.8	3.8	4.0	4.1	4.4	4.6	Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing
Change in gross public sector debt	2.3	-1.6	5.6	1.9	-1.4	-2.9	-2.6	-2.6	-2.5	-10.0	primary
Identified debt-creating flows	1.8	-1.9	6.5	1.0	-1.0	-2.1	-2.0	-2.2	-2.2	-8.5	balance [9/]
Primary deficit	1.2	-1.8	6.1	5.0	1.1	-0.5	-0.8	-0.9	-1.0	3.0	-1.2
Primary (noninterest) revenue and grants	39.5	42.1	41.3	41.7	41.4	41.6	41.4	41.5	41.5	249.1	
Primary (noninterest) expenditure	40.6	40.3	47.4	46.8	42.4	41.1	40.7	40.6	40.5	252.1	
Automatic debt dynamics [5/]	0.6	-1.4	1.6	-2.6	-2.1	-1.9	-1.6	-1.4	-1.3	-10.9	
Interest rate/growth differential [6/]	-0.4	-1.3	1.7	-2.6	-2.1	-1.9	-1.6	-1.4	-1.3	-10.9	
Of which: real interest rate	0.6	0.9	1.2	0.6	0.4	0.5	0.5	0.6	0.6	3.3	
Of which: real GDP growth	-0.9	-2.2	0.5	-3.2	-2.5	-2.5	-2.1	-2.0	-1.9	-14.2	
Exchange rate depreciation [7/]	1.0	-0.1	-0.1	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.1	1.3	-1.2	-1.4	0.0	0.3	0.3	0.0	0.0	-0.7	
Privatization/Drawdown of Deposits (+ reduces financing need)	-0.8	0.9	-1.6	-1.3	0.0	0.3	0.3	0.0	0.0	-0.7	
Contingent liabilities	0.9	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.5	0.3	-0.9	0.9	-0.4	-0.8	-0.5	-0.3	-0.3	-1.5	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as Government guarantees.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

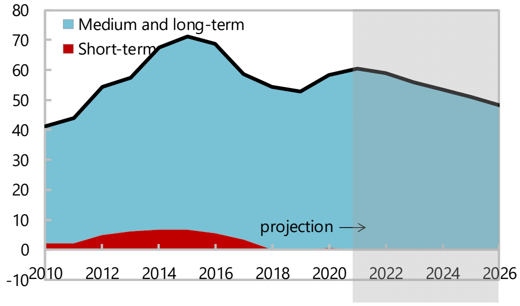
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex VI. Figure 4. Serbia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

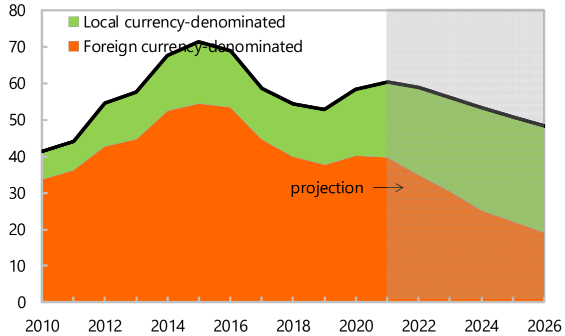
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

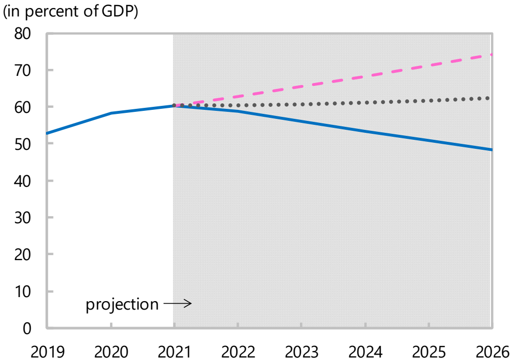


Alternative Scenarios

Baseline Historical Constant Primary Balance

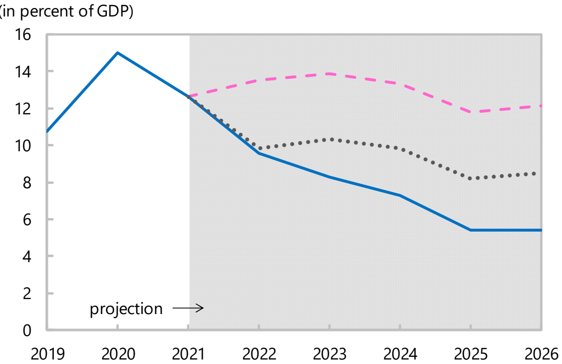
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

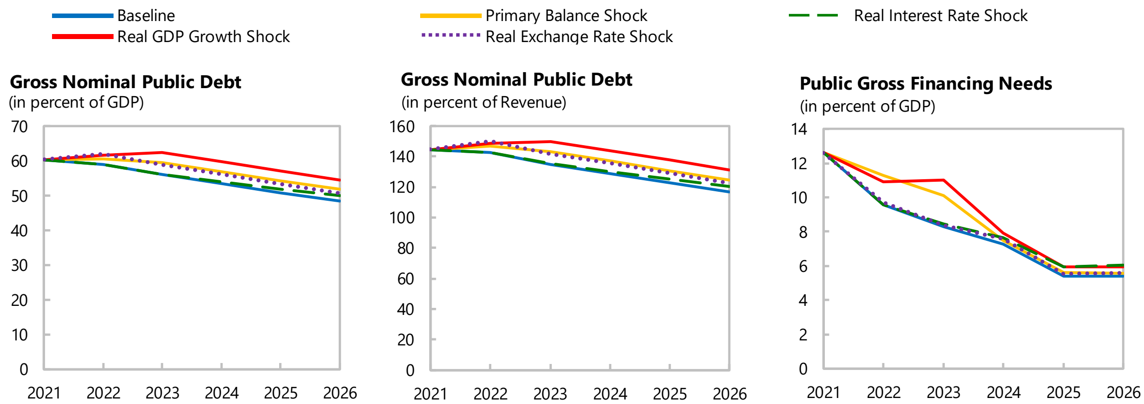
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	6.0	4.5	4.5	4.0	4.0	4.0
Inflation	2.6	2.9	2.9	3.0	3.0	3.1
Primary Balance	-5.0	-1.1	0.5	0.8	0.9	1.0
Effective interest rate	3.8	3.8	4.0	4.1	4.4	4.6
Constant Primary Balance Scenario						
Real GDP growth	6.0	4.5	4.5	4.0	4.0	4.0
Inflation	2.6	2.9	2.9	3.0	3.0	3.1
Primary Balance	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Effective interest rate	3.8	3.8	3.9	4.0	4.2	4.3

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	6.0	1.8	1.8	1.8	1.8	1.8
Inflation	2.6	2.9	2.9	3.0	3.0	3.1
Primary Balance	-5.0	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	3.8	3.8	4.0	4.1	4.4	4.5

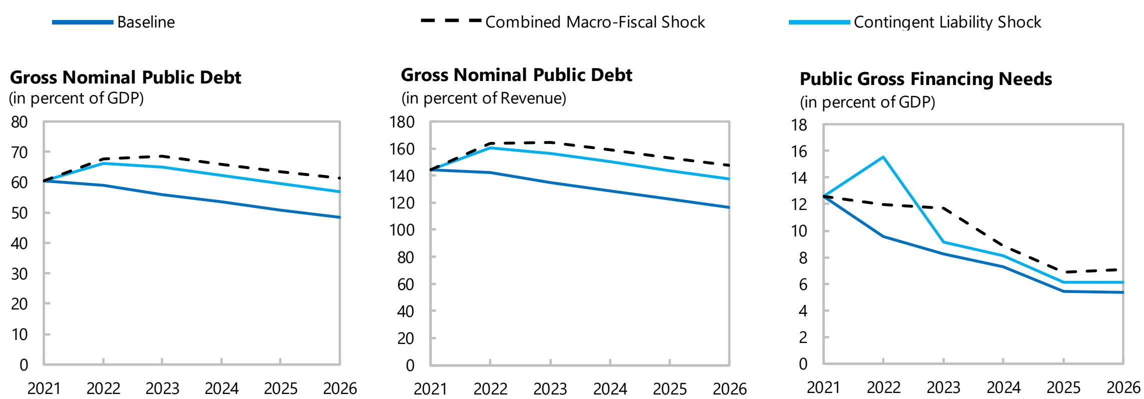
Source: IMF staff.

Annex VI. Figure 5. Serbia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	6.0	4.5	4.5	4.0	4.0	4.0
Inflation	2.6	2.9	2.9	3.0	3.0	3.1
Primary balance	-5.0	-2.8	-1.3	0.8	0.9	1.0
Effective interest rate	3.8	3.8	4.0	4.2	4.5	4.6
Real Interest Rate Shock						
Real GDP growth	6.0	4.5	4.5	4.0	4.0	4.0
Inflation	2.6	2.9	2.9	3.0	3.0	3.1
Primary balance	-5.0	-1.1	0.5	0.8	0.9	1.0
Effective interest rate	3.8	3.8	4.3	4.8	5.4	5.8
Combined Shock						
Real GDP growth	6.0	2.3	2.3	4.0	4.0	4.0
Inflation	2.6	2.4	2.3	3.0	3.0	3.1
Primary balance	-5.0	-2.8	-1.8	0.8	0.9	1.0
Effective interest rate	3.8	4.0	4.2	4.7	5.3	5.6

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	6.0	2.3	2.3	4.0	4.0	4.0
Inflation	2.6	2.4	2.3	3.0	3.0	3.1
Primary balance	-5.0	-2.2	-1.8	0.8	0.9	1.0
Effective interest rate	3.8	3.8	4.0	4.2	4.5	4.6
Real Exchange Rate Shock						
Real GDP growth	6.0	4.5	4.5	4.0	4.0	4.0
Inflation	2.6	6.5	2.9	3.0	3.0	3.1
Primary balance	-5.0	-1.1	0.5	0.8	0.9	1.0
Effective interest rate	3.8	4.0	3.9	4.0	4.3	4.4
Contingent Liability Shock						
Real GDP growth	6.0	2.3	2.3	4.0	4.0	4.0
Inflation	2.6	2.4	2.3	3.0	3.0	3.1
Primary balance	-5.0	-6.6	0.5	0.8	0.9	1.0
Effective interest rate	3.8	4.1	4.2	4.3	4.6	4.7

Source: IMF staff.

Annex VII. External Debt Sustainability Analysis

Serbia's external debt is assessed to be sustainable over the medium term, although the COVID-19 pandemic temporarily influenced its path adversely relative to pre-pandemic projections. In addition, external debt dynamics are particularly sensitive to real exchange rate shocks, given that external debt is mainly denominated in foreign currencies. Thus, it is essential to continue with prudent fiscal policies and structural reforms.

1. **Total external debt is expected to resume its gradual decline started in 2015, albeit moderated by the effects of the COVID-19 pandemic.** With a sustained private sector deleveraging that took place over 2010-2015 coming to a halt, public sector deleveraging took over during the 2016-2018 period. The current landscape is influenced by COVID-19: after steadily declining since 2015, the external-debt-to-GDP ratio increased to 70.9 in 2020, is projected to remain broadly stable in 2021, and gradually decline in the following years, reaching 55.4 percent by 2026. In this context, gross financing needs are expected to be around 13 percent of GDP in 2021, and decline over the medium term, with external debt financing 81 percent of those needs in 2021 and gradually declining to finance 47 percent of the needs in 2026.

Annex VII. Table 1. Serbia: External Debt Sustainability Framework, 2014-2026

(in percent of GDP, unless otherwise stated)

	Actual									Projections						
	2014	2015	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt	72.4	79.3	76.4	68.8	66.1	65.5	70.9			**70.6**	**68.0**	**64.8**	**60.9**	**58.1**	**55.4**	**-9.2**
Change in external debt	2.0	7.0	-2.9	-7.6	-2.7	-0.6	5.4			-0.3	-2.6	-3.1	-4.0	-2.8	-2.7	
Identified external debt-creating flows (4+8+9)	0.9	15.2	-4.2	-6.9	-11.2	-1.7	-3.9			-4.8	-4.2	-4.1	-3.5	-3.2	-3.2	
Current account deficit, excluding interest payments	3.3	0.9	0.3	3.1	3.3	5.5	2.8			3.7	4.0	4.1	4.5	4.5	4.6	
Deficit in balance of goods and services	10.3	8.2	6.0	7.7	9.5	10.0	8.9			8.9	8.6	8.3	7.8	7.9	7.8	
Exports	40.7	44.0	47.3	49.3	49.3	50.8	47.8			52.6	53.9	54.7	55.8	56.3	57.1	
Imports	51.0	52.2	53.3	57.0	58.9	60.8	56.7			61.5	62.5	63.0	63.5	64.2	64.9	
Net non-debt creating capital inflows (negative)	-3.5	-4.9	-5.1	-6.1	-7.3	-7.5	-6.3			-6.2	-6.2	-6.1	-6.1	-6.0	-6.0	
Automatic debt dynamics 1/	1.1	19.2	0.6	-3.9	-7.2	0.3	-0.4			-2.3	-2.0	-2.0	-1.8	-1.7	-1.8	
Contribution from nominal interest rate	2.2	2.7	2.6	2.1	1.6	1.4	1.4			1.4	1.0	0.8	0.6	0.5	0.4	
Contribution from real GDP growth	-2.0	1.4	-2.6	-1.5	-2.7	-2.8	0.6			-3.7	-2.9	-2.9	-2.4	-2.3	-2.2	
Contribution from price and exchange rate changes 2/	0.8	15.1	0.6	-4.6	-6.1	1.7	-2.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.1	-8.2	1.3	-0.7	8.5	1.1	9.2			4.6	1.5	0.9	-0.5	0.4	0.5	
External debt-to-exports ratio (in percent)	177.7	180.3	161.7	139.7	133.9	128.9	148.4			134.3	126.1	118.5	109.1	103.2	97.1	
Gross external financing need (in billions of US dollars) 4/	7.2	5.7	5.6	7.7	8.1	8.4	8.9			8.0	8.6	8.7	9.5	8.2	8.3	
in percent of GDP	15.4	14.3	13.8	17.3	15.9	16.3	16.8	10-Year	10-Year	13.1	13.0	12.2	12.5	10.1	9.6	
Scenario with key variables at their historical averages 5/										**70.6**	**73.2**	**74.6**	**74.6**	**75.5**	**76.6**	**-5.2**
								Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline								Average	Deviation							
Real GDP growth (in percent)	2.9	-1.6	3.3	2.1	4.5	4.2	-1.0	1.8	2.2	6.0	4.5	4.5	4.0	4.0	4.0	
GDP deflator in US dollars (change in percent)	-1.2	-17.3	-0.7	6.3	9.7	-2.5	3.9	1.2	10.2	9.1	3.4	2.6	2.8	2.7	2.7	
Nominal external interest rate (in percent)	3.2	3.0	3.3	3.0	2.6	2.1	2.3	2.9	0.5	2.3	1.5	1.3	1.0	1.0	0.7	
Growth of exports (US dollar terms, in percent)	3.4	-8.9	10.2	13.1	14.8	4.6	-3.2	7.2	11.7	27.4	10.7	8.8	8.9	7.8	8.3	
Growth of imports (US dollar terms, in percent)	1.6	-13.8	4.8	16.1	18.5	5.0	-4.1	5.1	11.1	25.5	9.7	8.1	7.8	7.9	8.0	
Current account balance, excluding interest payments	-3.3	-0.9	-0.3	-3.1	-3.3	-5.5	-2.8	-3.7	2.4	-3.7	-4.0	-4.1	-4.5	-4.5	-4.6	
Net non-debt creating capital inflows	3.5	4.9	5.1	6.1	7.3	7.5	6.3	5.1	1.8	6.2	6.2	6.1	6.1	6.0	6.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

2. Structure of total external debt. As of end-2020, about 82 percent of Serbia's external debt was long term debt, with 45 percent issued by the public sector and 37 percent by the private sector, while about 18 percent is short term debt (on a remaining maturity basis), with 4 percent issued by the public sector and 14 percent by the private sector. In addition, about 40 percent of Serbia's external debt is held by official creditors and 60 percent by private creditors, including Eurobonds issuances, accounting for 15 percent of total external debt, and banks and other financial institutions, accounting for the remaining 44 percent. Also, local currency debt held by nonresidents has remained below 5 percent of GDP.

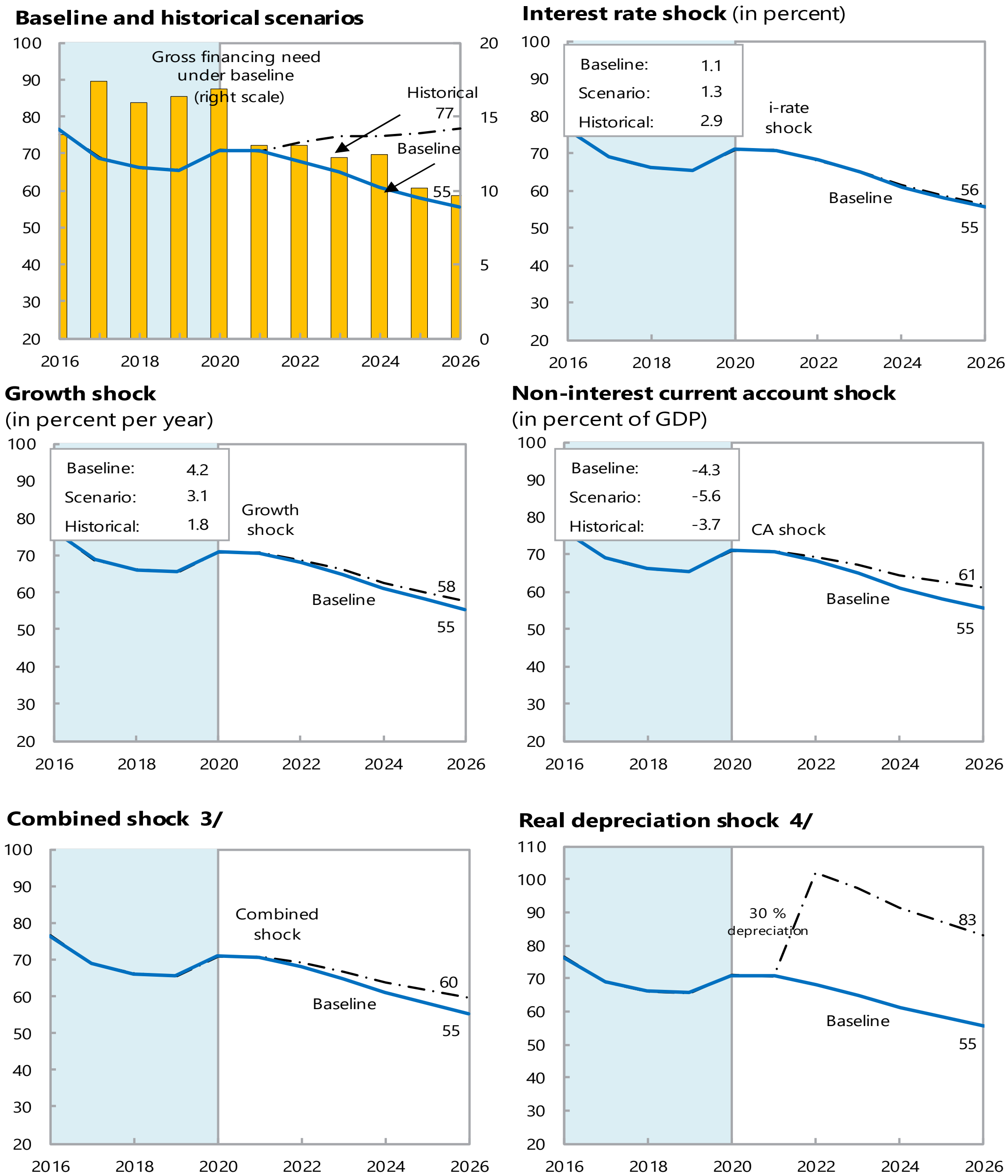
3. **The projected paths for economic growth, the current account, and net FDI inflows are the main factors driving the dynamics of Serbia's external-debt-to-GDP ratio.** Economic activity declined by -1.0 percent in 2020, putting upward pressure on the external-debt-to-GDP ratio, but growth is expected to recover and peak at 6 percent in 2021, before converging to its potential rate of 4 percent by 2023. The current account deficit narrowed significantly to -4.3 percent of GDP in 2020 (from -6.9 percent in 2019), largely due to a sharp decline in the primary income deficit, and lower imports from reduced domestic activity and a temporary drop in net FDI inflows. As the pandemic crisis recedes, the current account deficit is projected to increase in 2021 to -5.1 percent in 2021 and stabilize around -5 percent in later years. This, and the recovery in economic activity, will help keep external-debt-to-GDP on a declining path through 2026. Net FDI inflows, which were at historically high levels both in 2018 and 2019, declined to 6.2 percent of GDP in 2020, and are expected remain broadly around this level until 2026.

4. The external debt path is particularly sensitive to possible real exchange rate depreciation shocks. As shown among the shock scenarios, a 30 percent real depreciation of the dinar in 2020 would cause the external debt-to-GDP ratio to exceed 100 percent in 2022 and to stabilize at 83 percent by 2026. However, the large share of multilateral and institutional creditors to whom external debt is owned, the long average maturity of outstanding debt, and the prevalent fixed interest rate structure are important factors mitigating this vulnerability.

5. **It is essential to continue with prudent fiscal policy and further enhance structural reforms.** When the COVID-19 crisis is over, it will be crucial to go back to the strong fiscal performance Serbia experienced during 2019 and preceding years. This should include completing the fiscal-structural agenda which was being implemented in the context of successive Fund-supported programs. Regarding competitiveness, higher productivity and higher value-added investment would facilitate further convergence and resilience against shocks, including the potential exchange rate depreciation shock described above.

Annex VII. Figure 1. Serbia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2021.

Appendix I. Program Statement

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

Belgrade, June 3, 2021

Dear Ms. Georgieva:

Serbia has weathered the COVID-19 crisis relatively well so far. Owing to prudent macroeconomic and financial policies prior to the pandemic, Serbia had sufficient policy space when the crisis hit to respond with a strong support package. This substantial policy response helped mitigate the economic and social impact of the shock. Following a severe output contraction in the second quarter of 2020, the economy rebounded quickly and the annual real GDP contraction in 2020 amounted to 1 percent—one of the smallest in Europe. With Serbia's vaccine rollout among the fastest in Europe, we expect the economic recovery to continue in 2021. However, significant risks persist, especially due to the uncertainty about the future course of the pandemic, both in Serbia and in its key trading partners. After a sharp spike at end-2020, infections rose again in late-February and March, triggering new containment measures.

Our economic program supported by the Policy Coordination Instrument (PCI) that expired in January 2021 was instrumental in implementing policies that supported businesses and households through the crisis. The program also helped advance our structural reform agenda, albeit with delays in some areas mostly due to the pandemic.

The Government of the Republic of Serbia requests approval of a new macroeconomic and structural reform program supported by a PCI for the period June 2021-December 2023. To support this request, this Program Statement (PS) outlines the government's objectives and sets out the economic policies that the Government and the National Bank of Serbia (NBS) intend to implement under the new program. The new PCI is intended to sustain the economic recovery, maintain macroeconomic and financial stability, and advance an ambitious structural reform agenda necessary to put Serbia on a faster and more sustainable income convergence path.

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

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

In line with our commitment to transparency, we wish to make this letter available to the public, along with the PS and TMU, as well as the IMF staff report on the request for a PCI. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official website of the Serbian government.

Sincerely,

/s/
Ana Brnabić
Prime Minister

/s/
Jorgovanka Tabaković
Governor of the National Bank of Serbia

/s/
Siniša Mali
Minister of Finance

Attachment: Technical Memorandum of Understanding

Program Statement

1. **This program statement sets out our economic program for the next 30 months.** The program aims to (i) maintain macroeconomic stability, most notably by advancing a structural fiscal reform agenda to safeguard fiscal sustainability; (ii) enhance the resilience of the financial sector, including by further promoting dinarization and the development of capital markets; and (iii) implement a comprehensive structural and institutional reform agenda, to foster high, green, inclusive, and sustainable growth over the medium term.

2. **Serbia has weathered the COVID-19 crisis relatively well.** Our strong policy response has aimed at supporting households and businesses, preserving jobs, and enhancing public healthcare, and has helped mitigate the economic and social effects of the pandemic. Real output contracted by 1 percent in 2020, one of the smallest declines in Europe. The implementation of the crisis measures, together with the decline in fiscal revenues, has increased the fiscal deficit in 2020. Public debt has also increased but is expected to stabilize at around 60 percent of GDP in 2021 and revert to a downward trajectory over the medium term. Formal employment has remained broadly stable through the crisis, inflation has remained low and the exchange rate stable. The banking system remains liquid, well capitalized, with low non-performing loan (NPL) rates, and robust credit growth—supported by financial policy measures.

3. **A PCI-supported program that expired in January 2021 helped advance our structural reform agenda, albeit with delays in some areas due to the pandemic.** During the pandemic, we have prioritized key structural reforms, taking into account existing constraints. We have made progress in reforming tax administration, strengthening public financial management, enhancing SOEs corporate governance, and privatization—including of the largest state-owned bank.

4. **However, further structural and institutional reforms are needed to ensure a stronger, greener, and more inclusive growth over the medium term.** Sustaining the economic recovery remains a key policy priority, amid high uncertainty about the course of the pandemic and its delayed effects on firms, banks, and households. Over the medium term, structural fiscal reforms will be instrumental to rebuild buffers and anchor fiscal performance. A comprehensive structural and institutional reform agenda will be needed to foster high, green and inclusive growth. The goals of the program are compatible with our aspirations to join the EU, and strong program implementation will allow Serbia to accelerate convergence towards EU-income levels.

Recent Economic Developments and Outlook

5. **Supported by a substantial policy response, Serbia's economy suffered a relatively mild contraction in 2020.** The economy rebounded following a sharp output drop in the second quarter of 2020, with real GDP growth in 2020 estimated at around -1 percent. High-frequency indicators point to a continued recovery in the first quarter of 2021.

6. Real GDP is projected to rebound in 2021, while inflation is expected to remain low and stable. On the back of one of the fastest COVID-19 vaccine rollouts in Europe, and supported by continued accommodative policies, the recovery is set to continue in 2021.

- **Real GDP growth** is projected to reach 6 percent in 2021, before converging to around 4 percent over the medium term. Full implementation of our structural reform agenda will support the growth potential.

- **Inflation** stood at 2.8 percent in April, after moving around the lower bound of the inflation target band in the first quarter. Within a one-year horizon, inflation is projected to hover around the central target point on the back of a temporary increase in commodity prices, before moving to around 2 percent later in 2022. Over the medium term, inflation is projected to gradually converge to 3 percent.

- **The current account deficit** is projected at around 5 percent of GDP in 2021 and to decline to around 4 percent of GDP over the medium term. These deficits are expected to continue to be fully financed by net FDI. External financing will continue to consist mostly of FDI, and bilateral and infrastructure project loans.

Economic Policies

A. Fiscal Policies

7. To mitigate the impact of the COVID-19 crisis, we deployed a large fiscal package in 2020. The total cost of adopted fiscal measures amounted to about 9 percent of GDP in 2020. Measures included increased healthcare spending, deferment of corporate income taxes, labor taxes and social security contributions for private companies, wage subsidies, a one-off payment to pensioners, new loans to MSMEs from the Development Fund, and universal cash transfers. Moreover, a state guarantee scheme for bank loans to SMEs was introduced, for loans of up to EUR 2 billion, with a maximum cost to the budget of EUR 480 million. The fiscal deficit reached 8.1 percent of GDP in 2020, while public debt remained below 60 percent of GDP.

8. In early 2021, we announced a new round of measures to support business and households. The new measures, with an estimated total cost of about 2.5 percent of GDP, include:

i. Wage subsidies, including payment of ½ of minimum wages for all enterprenuers and employees in SMEs and large companies for three months (RSD 69.8 billion);

ii. Additional payments for employees in travel, hospitality and art (RSD 4.4 billion);

iii. Support for transportation sector (RSD 2.6 billion) and city hotels (RSD 1.3 billion);

iv. A universal cash transfers of EUR 60 to each citizen over 18 years old, paid in two installments of EUR 30 each—in May and November (RSD 31.2 billion);

v. A one-off payment of EUR 50 to all pensioners in September (RSD 10 billion);

vi. A cash transfer of EUR 60 to all pensioners in May and November (RSD 12 billion);

vii. A one-off financial assistance of EUR 60 to all the unemployed, paid in June (RSD 4.3 billion);

viii. A one-off payment of EUR 25 to all vaccinated citizens (RSD 9 billion).

We are also expanding the existing state guaranteed bank loans to SMEs by EUR 500 million (1 percent of GDP) and setting up a new EUR 500 million scheme for vulnerable companies.

9. The 2021 fiscal stance continues to support the economic recovery. The general government deficit reached 8.1 percent of GDP and public debt 58.2 percent of GDP in 2020. In 2021, following the adoption of the revised budget the general government deficit is projected at 6.9 percent of GDP (compared to 3 percent of GDP in the original 2021 budget). The upward revision of the projected deficit is largely explained by the cost of the new support measures (about 2.5 percent of GDP), higher planned public investment (about 1.8 percent of GDP), and additional current spending (mostly related to the health sector), which outweigh the upward revision of public revenues (about 1 percent of GDP). Public debt is projected to reach close to 60 percent of GDP by end-2021.

10. We will maintain strong fiscal discipline over the medium term. We are committed to narrow the fiscal deficit further in 2022 and aim at adopting a new fiscal rule to become effective in 2023, with a small overall deficit as a ceiling (see paragraph 13 below). This stance will imply a reduction of public debt to less than 45 percent percent of GDP over the medium term, thereby restoring the fiscal buffer. We will maintain high levels of capital spending, while containing current spending. Specifically, going forward we will ensure a gradual reduction of the public sector wage bill as a percent of GDP.

11. We will aim to contain fiscal risks and will prepare contingency measures as needed. We will closely monitor revenue and expenditure risks related to the pandemic and its economic impact—in particular, risks stemming from troubled SOEs, local governments, and state-guaranteed loans. We will maintain adequate liquidity buffers and will not accumulate public sector external debt payment arrears (continuous target). We will also refrain from accumulating domestic payment arrears (quantitative target). Our efforts to contain public spending will continue to be monitored through a ceiling on current primary spending of the Republican budget, excluding capital spending and interest payments (quantitative target).

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

State Audit Institution. Any financial support to public enterprises will be delivered in a transparent manner and channeled through the government budget.

B. Structural Fiscal Policies

13. Medium-term fiscal discipline will be anchored by the adoption of a new set of fiscal rules.

- In consultation with Fund staff, we will adopt a new deficit-based fiscal rule anchored on public debt **(end-June 2022 reform target)**. The new system will: (i) offer a more transparent and credible operational annual ceiling for the overall general government fiscal deficit (at a low level and depending on the level of public debt (including restitution bonds) compared with preset debt thresholds); (ii) improve accountability; and (iii) retain a strong role of the Fiscal Council. We will maintain a close collaboration with the IMF to define key elements of the new rules, such as the debt thresholds, escape clauses, possible cyclical adjustment, correction mechanisms, and the accountability framework. The new fiscal rule will become effective with the 2023 budget.

- To ensure a rules-based pension system, we will continue to index pensions based on the formula that became effective in 2020 and will refrain from any ad-hoc pension increases. Pension indexation will automatically be suspended should the pension bill exceed 11 percent of GDP.

14. We remain committed to modernize tax administration, to strengthening revenue collection and improve the business environment. Our reform efforts are supported by IMF technical assistance (TA) and based on the Tax Administration Diagnostic Assessment Tool review. We have prepared a new Transformation Program Action Plan (TPAP) for the period 2021-25, which provides strategic guidance and an action plan to create a modern tax administration utilizing electronic business processes, improved taxpayer services, and a risk-based approach to compliance. We will explore options to further reduce the fiscal burden on labor and improve the progressivity and efficiency of the personal income tax system.

- The next phase of reforms is supported by a World Bank Tax Administration Modernization Project, focusing on: (i) the improvement of the Serbian Tax Administration (STA) organization and operations, which include business process re-engineering; and (ii) the ICT system and record management modernization, including the implementation of an e-fiscalization system management.

- A tender for procuring a new commercial-off-the shelf-system (COTS) system will be launched upon adoption of the new business model, which is expected to be completed by the end of 2021. This new system will facilitate an effective implementation of key reform activities, including the modernization of business processes.

- We have hired an external consultant to review the STA's existing business processes, which will guide the business process re-engineering.

- To help ensure that the STA has adequate capacity to fulfill its tasks, we will aim at reducing staffing shortages, including by enhancing hiring processes.

- The STA will continue to process the VAT refunds within the deadlines prescribed by the law (15/45 days for exporters and others, respectively), but it will strive to refund VAT earlier to low-risk taxpayers.

- Following the recent adoption of the Law on Origin of Assets, we are setting up—with Fund TA support—a dedicated unit to analyze the level of noncompliance of high net worth individuals, including by applying indirect audit methods, and start implementing a response strategy.

15. We have introduced changes to the general government employment framework and will implement a reform of the wage system.

- **General government employment framework**

    - The public employment framework in place until 2020 was governed by the budget system law, which regulated hiring decisions through the Employment Commission. This system, which included local public enterprises, helped to reduce public employment, but also resulted in reliance on fixed-term and contractual positions and staffing shortages in some areas.

    - Over the medium term, we plan to replace the existing framework with a new system based on personnel planning for all public sector entities. The new system should ensure medium-term workforce planning by all public sector institutions as well as alignment with budgetary constraints.

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

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

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

- **Public wage system reform**

  - The 2016 Law on the Public Sector Employees Wage System sets the stage for a new system where employees are granted equal pay for equal work across the public sector, in a more transparent and systematic manner. Secondary legislation for employees in local governments, public agencies, and public services (health, education, culture, and social protection) was approved in December 2017.

  - A new Law on Salaries of Civil Servants and General Service Employees, as well as amendments to the job catalogue for public services and other organizations in the public sector, have been delayed and are expected to be adopted during 2021. This has also delayed the adoption of the decree specifying the coefficients under the new wage system. We remain committed to implement the new system and make it effective as of 2022. We will assess the adequacy of the wage coefficients under the new system, both before its introduction and while it is in force, to ensure that wages are consistent with market conditions for the various categories of employees.

16. We aim at further strengthening our public investment management (PIM) framework.

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

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

- We continue to develop working practices in the Ministry of Finance's (MOF) PIM Unit, including processes, information flows and working relationships to operationalize the new system, and to ensure strong central oversight and compliance with all PIM requirements.

- We will continue to build human resource capacity within the PIM Unit and strengthen coordination and information flows within the MOF departments.

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

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

- In June, we will adopt a new PFM reform program for 2021-25 (and a related action plan for the same period), incorporating the findings of the World Bank's Public Expenditure and Financial Accountability (PEFA) assessment, and inputs from SIGMA/OECD and the European Commission. Key measures include: improving capacities for budget planning and PIM; efficient collection and management of budget funds; enhancing budget discipline and more efficient management of EU funds; improving the implementation of the public sector internal control system; strengthening the regulation and the application of international accounting standards for the public sector and strengthening the external scrutiny of public funds.

- We will continue to strengthen the role and capacity of the Fiscal Risks Monitoring Department (FRMD) at the MOF. We will finalize and adopt a methodology to properly monitor and manage fiscal risks, prepared with support of the World Bank, covering fiscal risks stemming from (i) SOEs; (ii) local governments; (iii) litigation; and (iv) natural disasters. In addition, we will adopt the by-laws required for an effective implementation of the new methodology and frameworks to monitor fiscal risks **(end-September 2021 reform target)**. These bylaws will describe roles and responsibilities in the process of monitoring and management fiscal risks, main fiscal risk reports, and their use and consideration in decision making processes. We have also developed, with IMF TA support, a methodology for managing fiscal risks associated with the state-guarantee schemes designed in response to the COVID-19 crisis.

- The new Law on Public Procurement became effective in July 2020. The law, prepared with support from the EU, helps to ensure alignment with the EU acquis and enhance competition and transparency. We will ensure that all procurement transactions in the public sector are conducted using the e-procurement portal. Supported by this system, we aim to increase the number of bids per procedure.

- We will strengthen state aid controls and enhance transparency, building on the 2019 legislation prepared with support of the EU and the World Bank. We have also appointed an independent and well-resourced State Aid Commission. Further improvements include the publication of an inventory of state aid schemes, including the corresponding amounts, and the adoption of all the necessary secondary legislation to make the Law on State Aid Control effective and aligned with the relevant EU acquis **(end-September 2021 reform target).** Furthermore, we will adopt an action plan to align state aid with EU rules, including tax expenditures.

- We will strengthen medium-term budgeting systems. We will continue to ensure a strict adherence to the budget calendar and transparency of the budget process. In this regard, we published the 2019 financial statement in December 2020. We will publish our fiscal strategy for 2022 in June 2021.

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

- To prevent arrears to public enterprises, we will continue the publication of monthly reporting of overdue receivables to Srbijagas and EPS of their top-20 debtors on the companies' websites.

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

C. Monetary and Exchange Rate Policies

18. Inflation has remained low. During 2021Q1, headline inflation has hovered around the lower bound of the inflation target range, before moving to 2.8 percent in April on the back of vegetable and oil price increases, as well as last year's low base. Core inflation has remained below 2 percent. Inflation expectations remain well-anchored, with one-year ahead inflation expectations of the financial and corporate sectors at around 2 percent.

19. We have maintained an expansionary monetary stance to support lending and economic activity during the COVID-19 pandemic.

- We implemented four key policy rate cuts in 2020, reducing it from 2.25 percent to 1 percent. We also narrowed the interest rate corridor from ±1.25pp to ±0.9pp relative to the key policy rate.

- We provided liquidity (both in dinars and euros) to banks through additional and regular EUR/RSD swap auctions as well as repo purchase auctions at lowered, preferential rates in local currencies, and conducted outright purchases of dinar government securities at market rates (amounting to RSD 97 billion), which helped ensure stability on the government bond (primary and secondary) market.

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

- Since September 2020, we purchased RSD 27.6 billion of corporate bonds from domestic banks in secondary markets. These purchases helped to support the development of this segment of Serbia's capital markets and provide an alternative source of financing to corporates, thus supporting firms through the economic recovery.

- In July 2020, we introduced measures to make dinar loans more attractive under the state guarantee scheme introduced in response to the COVID-19 crisis. Specifically, we increased the remuneration (by 0.50 percentage points relative to the standard remuneration rate on allocated required reserves in dinars, which equals 0.10 percent) to eligible banks. This preferential remuneration rate has been available for banks approving dinar loans under the state guarantee schemes at an interest rate that is at least 0.50 percentage points lower than the ceiling interest rate envisaged by the first and second schemes (1M BELIBOR+2.5 percentage points and 1M/3M BELIBOR +2.75 percentage points, respectively).

- We have extended by 9 months the repo line arrangement with the ECB to address possible euro liquidity needs of Serbian financial institutions in the presence of potential market disruption due to the COVID-19 shock. Under this repo line, the ECB provides euro liquidity (up to EUR 1 billion) to the NBS in exchange for adequate euro-denominated collateral. The maximum maturity of each drawing is three months, and the repo line will remain in place until end-March 2022.

20. The current inflation targeting framework remains appropriate for maintaining stable inflation and protecting the economy against external shocks. We remain committed to the objective of keeping inflation within the tolerance band (3 percent ±1½ percentage points). Inflation developments will continue to be monitored via a consultation clause with consultation bands set around the central projection (Table 1).

21. We aim to maintain relative stability of the exchange rate, especially during the crisis period. Foreign exchange interventions will continue to be used to smooth excessive short-term exchange rate volatility, while considering the implications for financial sector and price stability. In the context of heightened uncertainty due to the pandemic, we intervened in the FX market with a net sale of EUR 1.45 billion during 2020, with additional net sales of EUR 50 million in January-April 2021. We assess the current level of gross international reserves as adequate and comfortable for precautionary purposes.

22. Promoting dinarization remains an important medium-term objective. The dinarization strategy adopted in 2012—and updated in 2018—is based on three pillars: (i) maintaining overall macroeconomic stability; (ii) creating favorable conditions for developing the dinar bond market; and (iii) promoting hedging instruments.

- Several measures to foster dinarization remain in place, such as higher reserve requirements on FX deposits, mandatory down-payment ratios for FX loans, and systemic risk buffers. We will continue to communicate to the public the risks of unhedged FX borrowing, the need for prudent management of FX risks, the availability of hedging instruments, and the benefits of dinar savings.

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

- In March 2021, deposit and credit dinarization reached 38.3 percent and 37.9 percent, respectively. Over the past few years, we have also increased the share of public debt in local currency, which reached 30.5 percent at the central government level (30.2 percent at the general government level), in March.

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

- Once the uncertainty associated to the COVID-19 pandemic dissipates, we will consider additional measures to (i) further develop local and foreign currency derivative markets, and (ii) encourage prudent pricing of credit risks of unhedged foreign currency borrowing.

- We will continue to strengthen public debt management. We aim to make possible the settlement of Serbian government securities through Euroclear effective in 2022, to expand the investor base, reduce transaction costs, and improve liquidity. The due diligence has been finalized, and we have hired external consultants to align IT systems and legal practices with Euroclear standards. We also plan to establish a primary dealer system and develop an adequate supervisory framework. However, implementation of these plans, as well as a Market Maker Agreement, have been delayed by the COVID-19 crisis. The necessary changes to the Public Debt Law and the Law on Capital Market will be approved. To this end, a working group comprising representatives of the PDA, MOF, prospective primary dealers, and other relevant institutions has been established and a pilot will be effective in 2022.

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

D. Financial Sector Policies

25. We implemented several financial sector measures in response to the pandemic.

- We initially introduced a 3-months moratorium (April-June 2020) relieving debtors of repayment of their obligations under loan and lease agreements. This was followed by the introduction of a new 2-month moratorium, relieving debtors of repaying their liabilities during August and September, as well as those obligations that were due in July but were not settled. In December 2020, we adopted new measures to support debtors (corporates and households) affected by the pandemic. These measures envisage rescheduling and refinancing of bank loans and a six-month grace period with extension of repayment terms. The period for borrowers to request rescheduling expired in end-April 2021.

- In June 2020, we relaxed the loan-to-value (LTV) cap for first-time home buyers' mortgage loans in foreign currency, increasing the limit from 80 percent to 90 percent.

- We have kept the countercyclical buffer rate (CCyB) at 0 percent, given persisting global uncertainty caused by the pandemic and considering that the estimated credit-to-GDP level, while increasing, is still below its long-term trend. Meanwhile, the systemic risk buffer has been kept at 3 percent of total FX and FX-indexed loans to corporates and households, to limit the risks stemming from the still high level of financial euroization.

26. We will continue to strengthen financial sector regulatory and supervisory frameworks, to fully align them with international standards. We continue to enhance the prudential framework for banks and insurance companies to ensure full compliance with international standards and EU requirements. We will further harmonize our financial legal framework with EU Acquis taking into account the specificities of the Serbian financial market.

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

- We have further aligned the deposit insurance scheme with EU directives. In October 2019, we amended the Law on Deposit Insurance to address the findings and recommendations of the IADI core principles assessment. These amendments allowed for the introduction of risk-based premia, established backstop funding, and modified the basis for the computation of deposit insurance premiums and targets from eligible to insured deposits, while extending the deadline to reach the target fund level to 2030. In collaboration with the NBS, the DIA adopted a methodology for implementation of a risk-based premium assessment model in October 2020. We aim to introduce risk-based premiums in 2022.

- In response to the pandemic, the DIA limit to invest in foreign currency government securities (of up to 25 percent of its portfolio) was temporarily lifted. In this context, the DIA has increased its holding of government securities from 25 percent to about 47 percent of its foreign currency investment portfolio by end-September 2020. The DIA reverted to the previous exposure limit in May 2021, 12 months after the expiration of the state of emergency.

28. NPL ratios have remained at very low levels but will be monitored closely. As of end-February, the NPL ratio was at 3.8 percent. While the COVID-19 crisis may negatively impact NPLs, such impact should be mitigated by the comprehensive measures to support firms and households deployed by the NBS and the government. We will continue to closely monitor NPLs trends, including after the expiration of the moratorium of bank loan repayments and the fiscal measures to support companies.

29. We will continue our efforts to contain NPLs. Our NPL resolution strategy focuses on measures to prevent accumulation of new NPLs, further improve bankruptcy frameworks, while broadening the scope to include the export credit agency (AOFI), the Development Fund (DF), and the bad assets managed by the Deposit Insurance Agency (DIA) on behalf of the State and the bankruptcy estates of banks in liquidation. We have been resolving the DIA portfolio of bad assets through a tendering process implemented in two phases. In June 2019, the first phase of the sale was completed. The sale of the second, larger portfolio (of EUR 1.8 billion) was completed in April 2021. By end-July, we will develop—with support of external consultants—a time-bound plan to resolve the residual assets of the DIA portfolio.

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

- The privatization of Komercijalna Bank was completed in December 2020.
- We will continue to implement the new strategy for Banka Poštanska Štedionica (BPS). The strategy focuses on (i) the bank's commercial reorientation towards retail banking, entrepreneurs, micro-enterprises and small enterprises, (ii) improvements of the bank's internal organization, corporate governance and risk management, and (iii) enhancement of its IT infrastructure.
    - In April 2020, we amended the government conclusion on BPS to (i) allow the bank to lend to medium-size companies through the state guarantee scheme introduced in response to the COVID-19 crisis, (ii) eliminate the loan-size limit for private enterprises, (iii) introduce the possibility of lending to municipalities and local governments (while requiring MOF consent for any loan over RSD 20 million), and (iv) and abolish the cap on exposure to SOEs.
    - We will continue to closely monitor risks related to new lending to medium-size companies, SOEs and local governments, including in the context of the state guarantee scheme.
    - We are implementing the new Business Plan for 2020–22, adopted in June 2020 to reflect: (a) the significant organic growth of total assets in 2019; (b) changed operational circumstances due to the COVID-19 pandemic; and (c) the recent amendments of the government conclusion on BPS.

    - Preparations for the procurement of a new core banking system are ongoing. The procurement will be undertaken after the merger between BPS and MTS bank, expected to be completed by end-June 2021.

- We will prepare a plan for the future of Srpska Banka by end-September 2021.

- The Development Fund and AOFI have continued to implement (i) the supervisory boards' decisions recognizing losses on their credit portfolios and (ii) the government conclusion to restrict the institutions' exposures to SOEs, enhance risk management frameworks, prevent further deterioration in asset quality, and resolve impaired assets.

31. We are developing strategies for capital market deepening and development finance. Serbia's capital markets remain underdeveloped with limited stock-market activity, nascent domestic bond market volumes, and a very small corporate bond market. Alternative sources of financing such as private equity or venture capital, are negligible.

- A diagnostic assessment, prepared with the World Bank support, focused on developing capital markets and diversifying sources of long-term financing. A working group, chaired by the Minister of Finance, has prepared a strategic outline of the main objectives, priority areas and measures, which has served as a guide for the development of a strategy and an action plan to enhance Serbia's capital markets. This outline consists of 35 action items organized under four "pillars": (i) needed regulatory reforms; (ii) institution building; (iii) providing focused stimuli; and (iv) outreach and education for issuers and investors.

- With support of external consultants hired under an EBRD project, we have prioritized those action items with a view to finalize and adopt the new strategy and a related time-bound action plan to implement it **(end-September 2021 reform target)**.

- A working group for Development Finance has been formed, led by the Ministry of Economy and with support from the World Bank. Preparation of a strategic document for development finance and an action plan to implement it has been delayed due to the COVID-19 crisis and is expected to be completed by September-2021. This strategy will not include the creation of a development bank.

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

- We continue our regular reporting under the EU agenda, both as part of negotiating chapters (e.g. Chapters 24 and 4) and sub-committees of monitoring the implementation of the Stabilization and Association Agreement. We continue reporting to MONEYVAL under the enhanced follow-up reporting process. The most recent report was submitted by end-March 2021, requesting an upgrade to our ratings on the outstanding four FATF Recommendations, rated as partially compliant.

- We are implementing the action plan related to the 2020-24 National Strategy Against Money Laundering and the Financing of Terrorism. To monitor the timely implementation and to report to the AML/CFT Coordination Body, we appointed coordinators for each of the four strategic specific objectives in March 2021.

- A new national risk-assessment update will be completed in 2021. With this aim, in March 2021 a Working Group was established.

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

- In December 2020, we adopted a new Law on Digital Assets and amendments to the AML/CFT law, updating the legal framework concerning digital assets in full compliance with FATF updated Recommendation 15.

- Good progress has been made in terms of prosecution, with several persons convicted for money laundering in 2020.

E. Structural Policies

33. We will enhance the existing social protection programs to protect vulnerable groups, reduce inequality, and fight poverty. We are developing a Social Cards Registry, envisaging a single, centralized, and electronic record with up-to-date data on the socio-economic status of individuals and persons related to them. The new system will improve the consistency and efficiency of social protection programs. Furthermore, we will prepare plans to enhance the coverage of the social protection system to protect households against poverty, using the new database.

34. We will develop a comprehensive agenda for green growth, to support the economic recovery and ensure a more sustainable and environmental-friendly development. The recent adoption of the Law on Climate Change sets the scene for the development of a low-carbon development strategy and prescribes the need for consistency across national strategies, general and sectoral, and plans and policies that affect green-house gas emissions. The Law on Amendments and Supplements to the Law on Energy envisages the adoption of a National Energy and Climate Plan (NECP), which is currently under preparation. In the context of this evolving agenda, we are prioritizing green investments, including in renewable energy, and we will consider carbon pricing mechanisms once the overarching goals and principles have been designed. This agenda will complement our priority to strengthen and prioritize regulations, legislation, and public investments to tackle environmental pollution. We are also planning the issuance by the government of the first green bonds in Serbia, to finance green projects and support the green-growth agenda.

35. We will continue to implement structural reforms to improve the business environment and support higher private sector-led growth. Our focus is on policies to improve the investment climate, strengthen rule of law, fight corruption, reduce informality, and enhance corporate governance of public and state-owned enterprises.

36. We are implementing measures to fight the grey economy. We continue to implement the Action Plan on the National Program for Countering the Grey Economy. Our priorities have included improvements in the inspection system, modernization of the tax administration, strengthening of incentives for voluntary compliance, and improving the business environment to encourage entrepreneurship and innovation. We are enhancing coordination across inspections through an e-inspection system, which provides a horizontal e-platform facilitating full implementation of a risk-based approach to inspection oversight. We will expand the scope of fiscalization, building on the new law, including through adoption of appropriate bylaws, training of employees in STA, as well as processing and analysis of data collected from fiscal cash registers. We will also expand the Law on Simplified Seasonal Employment in Specific Industries—which currently defines rights and obligations in the context of seasonal work and allows simplified registration of seasonal workers in agriculture—to additional sectors and activities with occasional, temporary or seasonal character, including domestic work, construction, and tourism and catering.

37. We will continue restructuring large public utilities companies to enhance efficiency and contain fiscal costs and risks. We remain fully committed to implement the corporate and financial restructuring in these companies over the medium term. We will closely monitor and tackle fiscal risks from these companies.

- **Elektroprivreda Srbije (EPS).** We will change the legal status of EPS to a joint stock company **(end-November 2022 reform target)**, in line with the ongoing corporate restructuring process and financial consolidation, aiming to improve the viability of the company and ensure its professional management. With this aim, we plan to complete the valuation of the company's properties and assets by end-2021.

- **Srbijagas.** The operational unbundling of the company will be completed in line with the Government Conclusion. We have phased out Srbijagas' reliance on government support for servicing debt incurred in the period 2008-2012 and are committed not to provide further support going forward.

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

- Negotiations with potential investors regarding Petrohemija have continued. A privatization advisor has been hired, and we intend to launch a privatization tender by end-June, with a view to complete the privatization by end-2021.

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

- We remain committed to the privatization of Lasta. The process has been delayed due to the pandemic, and a new timeline will be set by end-June 2021.

- We will implement a time-bound action plan for Resavica mines, developed with the assistance of the World Bank, that foresees the closure of four unviable mines, while developing a voluntary social program and labor optimization plan. We will ensure sufficient resources in the budget to transparently support Resavica through subsidies and to prevent further accumulation of arrears to EPS.

39. We continue to resolve enterprises in the portfolio of the former Privatization Agency through either privatization or bankruptcy, in accordance with the revised Privatization Law. By March 2021, more than 310 companies entered bankruptcy, and 68 were privatized since end-2014. About 36,000 employees from 357 companies have received severance payments. 76 companies with nearly 28,000 employees remain.

40. We have developed a new ownership and governance strategy for SOEs. On April 1, 2021 we adopted a state-ownership policy for SOEs (SOP) consistent with the core principles embodied in the OECD Guidelines on Corporate Governance of State-Owned Enterprises, prepared with the EBRD support. This SOP identifies ownership rationales and high-level objectives of the State's ownership; develops criteria for classification of SOEs; designs the framework for setting objectives and targets for SOEs and for monitoring their achievement; and reviews the Legal and regulatory framework for corporate governance of SOEs. The SOP complements ongoing efforts to better monitor and tackle fiscal risks and enhance efficiency.

41. The next step will be to adopt a time-bound action plan to implement this SOE strategy (end-June 2021 reform target). Key actions under the action plan will include: (i) developing the KPI framework for SOEs, including general, sectoral and tailored KPIs; (ii) establishing a process for monitoring the implementation of SOEs' strategy and business programs by the Ministry of Economy; and (iii) establishing composition and tenure guidelines for SOEs' supervisory boards/board of directors. We will (i) develop a centralized and updated database with a registry of all SOEs and their assets and (ii) establish mechanisms and criteria for reviewing and approving key decisions of SOEs by the Ministry of Economy, which will serve as a good basis for future amendments to the legislative framework **(end-December 2021 reform target)**. Advancing reforms in this area requires the adoption of a new law on ownership management for state-owned enterprises **(end-December 2022 reform target)**. We will also adopt a dividend policy that fits with our long-run views of the key PEs and SOEs. We will make efforts to promptly resolve the excessive reliance on acting directors in state-owned companies.

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

- In December 2020, the Ministry of Finance started to submit monthly fiscal accounts to the European Department of the IMF using the templates in line with the GFSM 2014 framework, developed with the assistance of IMF TA.

- In January 2021, the Serbian Statistical Agency (SORS) submitted cash budgetary general government data per GFSM 2014 to the IMF GFS Yearbook publication, for the period 2013-2019. This provides revenue and expenditure data for the central and local government budgetary units and social security funds. SORS developed sophisticated automation procedures to compile these data on a unit-by-unit-basis or by groups of units, as relevant, which will make ongoing (high frequency) data compilation and submission sustainable.

- We remain committed to comprehensive, timely, and automatic data sharing across relevant compiling agencies (including MOF, SORS and NBS) for statistical purposes. With regard to this, NBS and SORS will coordinate to compile and disseminate annual cash financing data consistent with the GFSM 2014 compliant revenue and expenditure data now published. Meanwhile, coordinated and phased work will continue to migrate all annual fiscal statistics to an accrual (or modified cash) basis.

- In accordance with international dissemination best practices, MOF will compile and SORS will publish on the national summary data page (NSDP) monthly GFSM 2014 compliant fiscal accounts covering the central and local government, social security funds, and the consolidated general government, and quarterly debt data covering central and general government debt, and government guaranteed debt by creditor **(end-September 2021 reform target)**. SORS will continue reporting data per GFSM 2014 to the IMF GFS Yearbook publication.

Program Monitoring

43. Progress in the implementation of the policies under this program will be monitored through quantitative targets (QTs)—including an inflation consultation clause, continuous targets (CTs) and reform targets (RTs). These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding. The first review is scheduled to be completed by October 1, 2021, the second review by April 1, 2022, the third review by October 1, 2022, the fourth review by April 1, 2023, and the fifth review by October 1, 2023.

Table 1a. Serbia: Quantitative Program Targets 1/

	2021			2022	
	end-Jun.	end-Sep.	end-Dec.	end-Mar.	end-Jun.
	Prog. QT	IT 7/	Prog. QT	IT 7/	Prog. QT
I. Quantitative Targets (QT)					
1 Ceiling on the general government fiscal deficit 2/ 3/ (in billions of dinars)	175.5	263.3	412.2	84.6	131.6
2 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 2/	621.5	916.0	1256.0	260.3	534.0
3 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 4/	1.0	1.0	1.0	1.0	1.0
II. Continuous Targets					
4 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros)	0.0	0.0	0.0	0.0	0.0
III. Inflation consultation band (quarterly) 5/					
Upper band limit (1.5 percent above center point)	4.5	4.5	4.5	4.5	4.0
End of period inflation, center point 6/	*3.0*	*3.0*	*3.0*	*3.0*	*2.5*
Lower band limit (1.5 percent below center point)	1.5	1.5	1.5	1.5	1.0

1/ As defined in the Program Statement and the Technical Memorandum of Understanding.
2/ Cumulative since the beginning of a calendar year.
3/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees.
4/ Cumulative change since the start of the year.
5/ Staff level consultation is required upon breach of the band limits.
6/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Serbian Statistics Office.
7/ Indicative targets are not monitored as part of program conditionality.

Table 1b. Serbia: Standard Continuous Targets

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

Not to introduce or modify multiple currency practices.

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

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

Table 2. Serbia: Reform Targets

	Reform Targets	Target Date	Objective
	Fiscal		
1	Publish monthly GFSM 2014 compliant fiscal accounts on the national data summary page (NSDP), covering central government, local government, social security funds, and the consolidated general government, and quarterly debt data covering central and general government debt, and government guaranteed debt by creditor.	End-September 2021	IMF TA has been provided since 2016, but implementation is taking longer than expected. Finalizing this reform will be important to improve fiscal reporting and provide basis for implementation of future reforms, including fiscal rules.
2	Publish an inventory of state aid schemes, including the corresponding amounts; and adopt all necessary secondary legislation for making the Law on State Aid Control effective and aligned with the relevant EU acquis.	End-September 2021	This reform would empower the State Aid Commission to better control state aid in Serbia. It would also be critical to enhance fiscal transparency.
3	Adopt a methodology to monitor fiscal risks, covering fiscal risks stemming from (i) SOEs; (ii) local governments; (iii) litigation; and (iv) natural disasters; and adopt the by-laws required for an effective implementation of the new methodology and frameworks.	End-September 2021	Given Serbia's past experiences with fiscal risks, it is critical to build resilience in this area. This reform would strengthen the capacity for the authorities to monitor and manage fiscal risks.
4	In consultation with Fund staff, adopt the new deficit-based fiscal rule anchored on public debt.	End-June 2022	A new, credible fiscal rule will be critical to rebuild fiscal space, maintain fiscal discipline, and anchor fiscal sustainability.
	Other		
5	Adopt the new strategy for capital market development and a related time-bound action plan to implement it.	End-September 2021	The strategy and action plan, prepared with EBRD support, will pave the way for further reforms to deepen capital markets. Future reform targets will be guided by measures envisaged in these documents.
6	Adopt a time-bound action plan to implement the new ownership and governance strategy for SOEs.	End-June 2021	The action plan, prepared with EBRD support, will guide the implementation of the SOE strategy adopted in April 2021.
7	Develop a centralized and updated database with a registry of all SOEs and their assets; and establish mechanisms and criteria for reviewing and approving key decisions of SOEs by the Ministry of Economy.	End-December 2021	These actions will lay the ground for further reforms in this area and will serve as a good basis for future amendments to the legislative framework.
8	Adopt a new law on ownership management for SOEs.	End-December 2022	Adopting this law is critical to advance reforms aimed at strenthning SOE governance and management.
9	Change the legal status of Elektroprivreda Srbije (EPS) to a joint stock company.	End-November 2022	This target is line with the ongoing corporate restructuring process and financial consolidation of EPS, aiming to improve the viability of the company and ensure its professional management.

Attachment I. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program. To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on May 7, 2021, except as noted below. Reviews will assess quantitative targets as of specified test dates. Specifically, the first review will assess end-June 2021 test date, the second review will assess end-December 2021 test date and the third review will assess end-June 2022 test date.

A. Fiscal Conditionality

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

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

Adjustors

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

Cumulative Programmed Revenues of the General Government from Dividends, Debt Recovery Receipts, and Debt Issuance at a Premium[1]

(In billions of dinars)

	End-Jun. 2021	End-Sep. 2021	End-Dec. 2021	End-Mar. 2022	End-Jun. 2022
Programmed cumulative dividends	17.1	17.1	17.1	17.1	17.1
Programmed cumulative debt recovery receipts	2.5	2.5	4	4	4
Programmed cumulative debt issuance at a premium	0	0	6	6	6
Programmed concession and PPP receipts recorded above the line	0	0	0	0	0

[1] Cumulative numbers are calculated from the start 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]
(In billions of dinars)

	End-Jun. 2021	End-Sep. 2021	End-Dec. 2021	End-Mar. 2022	End-Jun. 2022
Programmed cumulative ear-marked grants receipts	9.3	13.9	17.6	5.5	9.3
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0

[1] Cumulative numbers are calculated from the start of each calendar year.

4. Domestic arrears. For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include a quantitative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶2 above, except local governments; (ii) the Development Fund, and (iii) AOFI. Arrears to be covered include outstanding payments on wages and pensions; social security contributions; obligations to banks and other private companies and suppliers; as well as arrears to other government bodies. This quantitative target will be measured as the change in the stock of domestic arrears relative to the stock at December 31, 2020, which stood at RSD 2.6 billion.

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

B. Ceiling on External Debt Service Arrears

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

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

C. Inflation Consultation Mechanism

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

9. Breaching the inflation consultation band limits (specified in Program Statement, Table 1) at the end of a quarter would trigger discussions with IMF staff on the reasons for the deviation and the proposed policy response.

D. Reporting

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

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

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

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

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

15. New short-term external debt (maturities less than one year) contracted or guaranteed by the general government, the Development Fund, and AOFI will be submitted within four weeks of the end of each month.

16. Receivables of the top 20 debtors to Srbijagas and EPS will be submitted in the agreed-upon templates within 30 calendar days after the end of each month as well as published on the company websites.

Data Reporting for Quantitative Targets		
Reporting Agency	Type of Data	Timing
Statistical Office and NBS	CPI inflation	Within four weeks of the end of the month
Ministry of Finance	Fiscal deficit of the consolidated general government	Within 35 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 35 days of the end of the month
Ministry of Finance	External debt payment arrears by general government, Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Gross accumulation of domestic payment arrears by the general government (without local government, the Development Fund, and AOFI)	Within 45 days of the end of the quarter
Ministry of Finance	Earmarked grants and receipts from small-scale disposal of assets	Within four weeks of the end of the quarter

INTERNATIONAL MONETARY FUND

REPUBLIC OF SERIA

June 3, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND REQUEST FOR A 30-MONTH POLICY COORDINATION INSTRUMENT—INFORMATIONAL ANNEX

Prepared By

European Department
(in consultation with other departments)

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FUND RELATIONS

(as of March 31, 2021)

Membership Status

Joined December 14, 1992 (succeeding to membership of the former Socialist Federal Republic of Yugoslavia); accepted Article VIII on May 15, 2002. Serbia continues the membership in the Fund of the former state union of Serbia and Montenegro—previously the Federal Republic of Yugoslavia—since July 2006.

General Resources Account

	SDR Million	Percent Quota
Quota	654.80	100.00
Fund Holdings of Currency	608.04	92.86
Reserve Position	46.78	7.14

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	445.04	100.00
Holdings	9.11	2.05

Outstanding Purchases and Loans

None.

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Feb 23, 2015	Feb 22, 2018	935.40	0.00
Stand-By	Sep 29, 2011	Mar 28, 2013	935.40	0.00
Stand-By	Jan 16, 2009	Apr 15, 2011	2,619.12	1,367.74
EFF	May 14, 2002	Feb. 28, 2006	650.00	650.00

Projected Payments to the Fund

	Forthcoming (SDR Million)				
	2021	2022	2023	2024	2025
Principal					
Charges / Interest	0.18	0.22	0.22	0.22	0.22
Total	0.18	0.22	0.22	0.22	0.22

Implementation of HIPC Initiative

Not applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI)

Not applicable.

Safeguards Assessment

Not applicable.

Exchange Arrangement

Serbia accepted the obligations under Article VIII, Sections 2, 3, and 4, on May 15, 2002, and maintains a system free of restrictions on payments and transfers for current international transactions, except with respect to blocked pre-1991 foreign currency savings deposits (IMF Country Report No. 02/105). The de jure exchange rate arrangement is a floating system since January 1, 2001. According to the 2009 Monetary Policy Program, the National Bank of Serbia (NBS) implements a managed floating exchange rate regime. The de facto exchange rate arrangement was reclassified to “stabilized” from “crawl-like” (effective March 2, 2018).

Last Article IV Consultation

Concluded on July 22, 2019 (IMF Country Report No. 19/238).

FSAP Participation

Serbia participated in the Financial Sector Assessment Program in 2005, and the Executive Board discussed the Financial System Stability Assessment in February 2006 (IMF Country Report No. 06/96). An update under the Financial Sector Assessment Program was conducted in 2009 and the Executive Board discussed the Financial System Stability Assessment in March 2010 (IMF Country Report No. 10/147).

Technical Assistance since Last Article IV consultation (July 2019)[1]

Department	Timing	Purpose
MCM	July 2019	Primary Dealer System
STA	September 2019	Government Finance Statistics
FAD	September 2019	Tax Administration Transformation
FAD	November 2019	Strengthening Fiscal Risks Analysis
FAD	April 2020	Developing Capacity of PIM Unit
FAD	June 2020	Tax Administration Desk Diagnostics
FAD	August 2020	Fiscal Risks from COVID-19 Guarantee Scheme
STA	September 2020	Government Finance Statistics
FAD	November 2020	Establishing an Unexplained Wealth Team
FAD	January 2021	Unexplained Wealth Compliance Unit
STA	February 2021	Government Finance Statistics
FAD	February 2021	Implementing an Unexplained Wealth Audit Capacity
FAD	March 2021	Follow-up Fiscal Risks from COVID-19 Guarantee Scheme

In addition, technical assistance was available through resident advisors covering tax administration, public financial management, and government finance statistics.

Resident Representative

Mr. Sebastian Sosa took his position as Resident Representative in July 2016.

[1] The list does not include visits by regional advisors.

COLLABORATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

As of March 31, 2021, Serbia has collaborations with the World Bank Group, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank, and the Council of Europe Development Bank.

International Financial Institution	Hyperlink
The World Bank Group	https://www.worldbank.org/en/country/serbia/overview#4
The European Bank for Reconstruction and Development (EBRD)	https://www.ebrd.com/serbia.html
The European Investment Bank	https://www.eib.org/en/projects/regions/enlargement/the-western-balkans/serbia/index.htm
Council of Europe Development Bank	https://coebank.org/en/about/member-countries/serbia/

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General

Data provision is broadly adequate for surveillance with some key data shortcomings in the government finance statistics.

National Accounts

The real sector data are compiled by the Statistical Office of the Republic of Serbia (SORS). The GDP data are compiled using expenditure and production methods. National accounts statistics of the Republic of Serbia are based on conceptual framework of the 2008 SNA/ESA 2010. Data on GDP and its components are disseminated at current prices, previous year's prices in absolute values (RSD millions), and as chain-linked volume measures (reference year 2010). Quarter-to-quarter growth rates are derived from seasonally adjusted data. Annual and quarterly data are available from 1995 onwards.

Procedures for the compilation of annual GDP estimates by production are in line with internationally recommended practices. Production account estimates are compiled with an adequate methodology and at very detailed levels.

Sources and method for the compilation of GDP by expenditures are in general, adequate.

Reconciliation between the independent annual GDP estimates based on the production and expenditure approaches is being made at an aggregate level, although the original differences are not significant. There are no reliable independent estimates of changes in inventories and net acquisition of valuables on a quarterly basis. These components are estimated as the residual between quarterly GDP by the production approach, which is considered more reliable, and the remaining components of GDP by expenditure.

The SORS recently revised GDP data going back to 2005. This is part of an ongoing project to enhance the national accounts compilation process and produce more robust and accurate GDP estimates.

Price Statistics

The SORS compiles and disseminates monthly indices for consumer prices, producer prices, industrial production, as well as unit-value indices for imports and exports. Concepts and methods used to compile the CPI, as well as other price statistics, attempt to reflect international standards and best practices.

External Sector Statistics

Balance of payments statistics are compiled by the NBS and reported to STA for re-dissemination in the IFS and the Balance of Payments Statistics Yearbook. Since April 2014, BOP data have been compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6). The first BPM6 data were introduced in 2014 starting with Q1 2007 (balance of payments) and Q4 2013 (IIP).

Recent country reports as part of an European Project for the improvement of ESS in Balkan countries (2019-2021) indicate that Serbia compiles a full set of ESS data, including monthly BOP and quarterly IIP, as well as more detailed breakdowns, such as foreign direct investment, trade statistics, and cross-border securities statistics among others. Improvements to NBS' database management system have also been noted, including launching of a new, modern web site. Work on further improving the quality of ESS is ongoing, including on direct reporting for trade credit, manufacturing and trade in services.

Government Finance Statistics

Monthly fiscal data are compiled and published by the Ministry of Finance on a cash basis, broadly following the methodology of the Manual on Government Finance Statistics 1986 (GFSM 86). The sector coverage is not fully in line with the definitions of central and general government in the IMF GFSM 2014 Manual, mainly because it excludes extrabudgetary units. Principal data sources are the Republican Treasury and budgetary execution reports, local government, social security funds, the Road Fund, and the 'Koridori' Fund. Since 2001, Serbia has made efforts to bring the existing budget reporting system in line with the GFSM 2001, and since 2018, GFSM 2014 methodology. The MOF, with technical assistance from the IMF Statistics Department, is implementing an updated bridge from the chart of accounts to the GFSM 2014 classification, bringing the presentation in line with the GFSM 2014 framework, including financing items, as well as improving reconciliation and consolidation methods. The work to upgrade its IMF fiscal surveillance reporting to the GFSM 2014 framework is now well advanced, and it is expected that GFSM 2014 based monthly reporting will commence in mid-2021.

In January 2021, SORS resumed reporting of annual revenue and expenditure data for the budgetary general government to the GFS Yearbook of the IMF Statistics Department. The data are cash-based and use the same data sources as used in the monthly fiscal reporting.

SORS and NBS are working on a wider GFS implementation project, with technical assistance from the IMF Statistics Department and Eurostat, to prepare comprehensive GFS data conforming to ESA 2010 and GFSM 2014 for official statistics reporting to Eurostat and the IMF Statistics Department. This includes the comprehensive classification of general government units (completed), including accrual estimates, ensuring internal accounting consistency within the GFS framework, aligning with the national accounts, and developing COFOG data.

Since January 2019, NBS is reporting budgetary central government debt data on loans and securities to the World Bank/IMF Quarterly Public Sector Debt Database. Although source data are available, NBS has not committed to expand reporting to cover all debt instruments and to the public sector nor even general government.

Monetary and Financial Statistics

Monetary and financial statistics are compiled by the NBS, broadly following the methodology set forth in the Monetary and Financial Statistics Manual, 2000 (MFSM), and meeting the GDDS recommendations with respect to periodicity and timeliness for financial sector data. Monetary data are reported to the Fund using Standardized Report Forms beginning December 2013.

The coverage of monetary statistics includes the central bank and the other depository corporations (ODCs) and could be improved by including remaining ODCs (including banks in liquidation) and other financial corporations.

Serbia reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Serbia has yet to compile and submit to STA Financial Soundness Indicators for publication on the IMF website.

II. Data Standards and Quality

Serbia implemented the recommendations of the enhanced General Data Dissemination System (e-GDDS) and launched the National Summary Data Page on June 8, 2018. Its metadata were posted on the IMF Data Dissemination Bulletin Board on May 1, 2009.

ROSC report on Fiscal Transparency was published in May 2009.

Table of Common Indicators Required for Surveillance

(As of May 27, 2021)

	Date of latest observation	Date received	Frequency of data [4]	Frequency of reporting [4]	Frequency of publication [4]
Exchange rates	May 26, 2021	May 27, 2021	D and M	D and M	D and M
International reserve assets and reserve liabilities of the monetary authorities [1]	May 26, 2021	May 27, 2021	D	D	M
Reserve/base money	May 26, 2021	May 27, 2021	D and M	W and M	W and M
Broad money	April 2021	May 25, 2021	M	M	M
Central bank balance sheet	April 2021	May 25, 2021	M	M	M
Consolidated balance sheet of the banking system	April 2021	May 25, 2021	M	M	M
Interest rates [2]	May 26, 2021	May 27, 2021	D	D	D
Consumer price index	April 2021	May 10, 2021	M	M	M
Revenue, expenditure, balance and composition of financing – general government	March 2021	May 4, 2021	M	M	M
Revenue, expenditure, balance and composition of financing – central government	March 2021	May 4, 2021	M	M	M
Stocks of central government and central government-guaranteed debt [3]	March 2021	May 4, 2021	M	M	M
External current account balance	March 2021	May 19, 2021	M	M	M
Exports and imports of goods and services	March 2021	May 19, 2021	M	M	M
GDP/GNP	2020, Q4	March 1, 2021	Q	Q	Q
Gross external debt	February 2021	March 31, 2021	M	M	M
International investment position [5]	February 2021	March 31, 2021	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Including currency and maturity composition.

[4] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Semi-annually (SA), Annually (A), Irregular (I), or Not Available (NA).

[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by Mr. Piotr Trabinski, Executive Director for the Republic of Serbia and Mr. Vuk Djokovic, Advisor to the Executive Director
June 18, 2021

On behalf of the Serbian authorities, we would like to thank management and staff for supporting the request for a 30-month Policy Coordination Instrument. The arrangement with the Fund is instrumental in underpinning and strengthening macroeconomic management and helping keep Serbia's fiscal path and structural reforms on track. We also thank staff for their insightful report and the thorough analyses of macroeconomic and financial sector developments. The Serbian authorities very much appreciate staff's strong engagement as well as the constructive policy dialogue. Under the PCI, the overarching goal of safeguarding macroeconomic and financial stability will be complemented by realistic and achievable fiscal adjustment and debt reduction. At the same time, the program builds on the already strong pre-crisis reform momentum, underpinned by the recently concluded 2018 PCI, and envisages an ambitious, yet essential set of reforms, including further strengthening fiscal frameworks, enhancing resilience of the financial sector and advancing the structural reform agenda to boost growth potential and accelerate convergence.

Response to the COVID-19 Crisis

The authorities' response to the Covid-19 crisis was resolute, timely, and effective. Serbia entered the pandemic on the back of a strong growth momentum and utilized its large policy buffers built over time to successfully address the crisis and lay the ground for a strong recovery. Bolstered by sizable economic support measures in 2020, totaling to about 12.9 percent of GDP, Serbia managed to avoid a dramatic collapse of activity and recorded an output contraction of about 1 percent of GDP, among the lowest in Europe. In Q12021, output surpassed pre-crisis levels. The resolute policy intervention provided needed support to companies and households to withstand the impact of the crisis while upholding employment, disposable incomes, and domestic demand. The pre-crisis public debt level was moderate, at about 53 percent of GDP, and did not constrain the authorities' high outlays to effectively contain the contraction. The available fiscal space also allowed the government to continue all public investment projects as planned.

Key fiscal measures included the deferral of labor taxes and social security contributions, the deferral of CIT payments, payment of minimum wages to companies aimed at preserving employment, direct loans to the SMEs and state guarantee scheme to banks for loans to SMEs, as well as one-off direct transfers to pensioners. At the same time, the National Bank of Serbia (NBS) implemented a range of measures to support liquidity and incomes, including a time-bound debt service suspension for households and corporates, the purchase of government securities to ensure domestic government bond market liquidity, additional FX swaps auctions, and other measures. Those actions helped cushion the immediate impact of the shock. Buoyed by successful containment measures, economic activity rebounded in the second half or 2020.

Driven by third and fourth waves of pandemic and the need to bolster the nascent recovery, the support to the economy continued in 2021 in a better targeted and scaled-down fashion. The support package for 2021 amounts to about 4.5 percent of GDP, underpinned by a supplementary budget approved in April. Key measures include direct subsidies to companies in the sectors most affected by pandemic and to vulnerable households, guaranteed lending, and increases in public investments.

Outlook and Risks

The growth outlook for Serbia has improved since the beginning of the year. Growth projections were revised upwards from 5 to 6 percent for 2021, driven by an increase in domestic demand, higher exports, and the expected recovery of key trading partners. Better than expected outturns in Q12021, as well as new anti-crisis measures, and higher public investments all point towards a robust recovery. The renewed activity is driving an increase in employment. In Q1, registered employment grew by 2.8 percent yoy, driven by private sector hiring. Registered unemployment declined in 2020, while the data for the first quarter of 2021 indicates a gradual return of the inactive population to the labor market, as both registered employment as well as unemployment are rising.

The positive growth outlook is backed by strong progress on vaccinations and declining Covid-19 incidence. Serbia is among the best performing countries in Europe regarding the vaccine rollout, which, paired with the phasing out of containment measures, has bolstered confidence and activity. Further on, the authorities expect potential economic scarring to be attenuated by massive public support to companies and households over the crisis, as well as by the relatively fast pace of the recovery, which helped safeguard productive capacity and employment. The improved risk outlook, Serbia's increased resilience, and its benign debt risk profile were validated in March by the rating agency Moody's, which increased Serbia credit rating by one notch from Ba3 to Ba2. As noted by the credit agency, key factors supporting such a decision pertained to increased resilience, a positive economic outlook, low and stable inflation, and reduced external imbalances. The agency also noted the diversified economy and reduced fiscal risks.

Fiscal Policy

The government's medium-term fiscal strategy for the period 2022-2024, adopted in May, outlines a credible future path of fiscal policy, consistent with program objectives. Following an increase in the budget deficit and public debt over the Covid-19 crisis, the strategy envisages a gradual consolidation of public finances going forward. The general government deficit would decline from about 7 percent of GDP in 2021 to 3 percent in 2022, and to about 1 percent in 2024. The planned adjustment would revert the crisis-induced increase in public debt, from 60 percent this year to about 55 percent in 2024.

The fiscal adjustment will be achieved primarily by reducing the share of current expenditures in GDP, including by moderating the growth of public wages and pensions, and cutting subsidies and other current expenditures, while maintaining a relatively high level of public investments of about 6 percent of GDP. At the same time, the authorities do not plan to increase taxes. Moreover, if revenues overperform the targets, the authorities plan to reduce the tax burden on labor.

In 2020 the authorities adopted pension indexation in line with the Swiss formula, linking pension growth to inflation and average wage growth. This led to countercyclical pension increases in 2020 and 2021, as the formula tracks economic activity with certain delay. As a result of the pension indexation rule, the growth of public pensions is projected to be below the growth of nominal GDP going forward, thus allowing for a gradual decline of pension expenses towards the targeted share of GDP of about 10 percent. At the same time, the pension rule includes a cap for annual public pension expenses at 11 percent of GDP.

To ensure the stability and sustainability of public finances over the long run, the authorities plan to introduce a new set of fiscal rules. Back in 2010, Serbia adopted a legislation defining fiscal rules. However, those were inefficient in containing higher deficits and debt surges. In coordination with the Fund, the authorities will design and adopt a new deficit-based fiscal rule and implement it with the 2023 budget. At the same time, the new fiscal rule will improve accountability and retain the central role of the Fiscal Council.

With the support of the World Bank, the authorities are developing a public investment management information system (PIMIS) that will support the full operationalization of the PIM reforms initiated under the 2018 PCI. These reforms are pivotal for streamlining and further improving the efficiency of public investments.

Monetary Policy and Financial Sector

The monetary policy stance remains accommodative, consistent with the negative output gap, low inflationary pressures, and the need to support the recovery. Since the inception of the crisis, the NBS cut the reference rate from 2.25 to 1 percent. In 2020, inflation remained close to the lower bound of the inflation corridor and inched closer towards the target of 3 percent in April and May. Inflation expectations of the corporate and banking sector remain well-anchored below the inflation target. The financial sector remains well capitalized, liquid, and profitable. The NPLs remained at a historical low of 3.9 percent in March, although impairment provisioning has increased recently. Credit activity, buoyed by recent policy measures, remains strong, growing at about 7 percent in March. The recent survey of the banking sector points to an easing of credit standards, which will further support the healthy provision of credit to the economy. Advancing the dinarization agenda remains the authorities' key policy objective over the medium-term. Credit dinarization reached 37.9 percent in March, fostered by macroprudential and monetary measures, including lower funding costs, higher reserve requirements on FX deposits, and higher mandatory down payment ratios for FX loans.

Structural Policies

In order to clarify the role of state ownership in the economy and set the basis for improving governance and transparency, Serbia adopted an ownership and governance strategy for SOE. The strategy clarifies issues related to state ownership, governance, international standards and best practices, and will guide the authorities' further SOE reforms. Moreover, the strategy will support the ongoing efforts to better monitor and control fiscal risks. In November, Serbia signed a Declaration on the Green Agenda for the Western Balkans. The agenda primarily focuses on decarbonization and reducing pollution, but also on establishing a circular economy, sustainable agriculture, and preserving biodiversity, and thus sets an important milestone towards greening the economy.