INTERNATIONAL MONETARY FUND

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REPUBLIC OF SERBIA

December 2021

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

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

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 22, 2021, with the officials of Republic of Serbia on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument. Based on information available at the time of these discussions, the staff report was completed on December 3, 2021.

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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Washington, D.C.

PRESS RELEASE

PR21/392

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

FOR IMMEDIATE RELEASE

- Program implementation is on track and the structural reform momentum has been broadly maintained.
- With a robust economic recovery underway, Serbia's real GDP is projected to grow 6.5 percent in 2021 and 4.5 percent in 2022.
- The 2022 budget appropriately supports the economic recovery through high investment while also marking a gradual return to fiscal restraint.

WASHINGTON, DC – **December 20, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the First Review Under the Policy Coordination Instrument (PCI) for the Republic of Serbia.[1] The Executive Board's decision was taken without a meeting.[2]

The PCI was approved on June 18, 2021 (see Press Release No. 21/189) 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.

A strong economic recovery is underway, with Serbia's real GDP growth projected to rebound to 6.5 percent in 2021 and reach 4.5 percent in 2022. GDP exceeded its pre-crisis level by the first quarter of 2021, and economic activity remained robust through the third quarter, supported by household consumption and investment. Swift policy actions—along with low reliance on tourism and other high-contact sectors, and strong growth momentum going into the crisis—have helped limit the pandemic's negative effects on Serbia's economy. However, Serbia remains vulnerable to spillovers from external developments, including a weaker-than-expected recovery in key European trading partners, supply chain disruptions, and rising energy prices globally. The quantitative and reform targets for end-June 2021 were met, as were the reform targets for end-September 2021, though with minor delays. The banking system has remained stable, liquid, and well capitalized.

Headline inflation has been above the 4.5 percent upper limit of the National Bank of Serbia's target band since September, but is expected to revert to the lower half of the inflation tolerance band in the second half of 2022 as the effects from this year's drought wane and energy prices stabilize. In light of the rise in inflation and its uncertain outlook, the monetary authorities tightened monetary conditions in early October.

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

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

The 2022 budget envisages a reduction in the fiscal deficit to 3 percent of GDP, which will help ensure that public debt in percent of GDP resumes a clear downward path, while also continuing to support the recovery through high public investments.

Table 1. Serbia: Selected Economic and Social Indicators, 2018-2024

	2018	2019	2020	2021		2022		2023		2024
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.
				(Percent change, unless otherwise indicated)						
Real sector										
Real GDP	4.5	4.3	-0.9	**6.0**	6.5	**4.5**	4.5	**4.5**	4.5	4.0
Real domestic demand (absorption)	6.5	6.3	-0.9	**5.8**	5.1	**4.5**	4.9	**4.5**	5.1	4.3
Consumer prices (average)	2.0	1.9	1.6	**2.5**	4.0	**2.6**	4.9	**2.6**	3.5	3.0
GDP deflator	2.0	1.9	1.3	**3.0**	7.0	**2.4**	2.5	**2.6**	3.0	3.0
Unemployment rate (in percent) 1/	2.0	2.4	2.4	**2.6**	4.9	**2.9**	4.7	**2.9**	3.8	3.2
Nominal GDP (in billions of dinars)	14.1	11.6	10.0	**...**	...	**...**	...	**...**	...	...
	5,073	5,422	5,502	**5,942**	6,147	**6,389**	6,725	**6,868**	7,295	7,831
				(Percent of GDP)						
General government finances										
Revenue 2/	41.5	42.0	41.0	**41.7**	43.6	**41.4**	41.7	**41.6**	41.7	41.8
Expenditure 2/	40.9	42.2	49.0	**48.7**	48.5	**44.4**	44.7	**43.1**	43.2	42.9
Current 2/	36.4	36.9	42.8	**40.9**	40.3	**37.2**	37.0	**36.5**	36.2	35.9
Capital and net lending	4.1	5.1	6.1	**7.6**	8.1	**6.8**	7.4	**6.5**	6.8	6.8
Amortization of called guarantees	0.4	0.2	0.1	**0.2**	0.1	**0.3**	0.2	**0.1**	0.1	0.2
Fiscal balance 3/	0.6	-0.2	-8.0	**-6.9**	-5.0	**-3.0**	-3.0	**-1.5**	-1.5	-1.1
Primary fiscal balance (cash basis)	2.8	1.8	-6.0	**-5.0**	-3.1	**-1.1**	-1.2	**0.4**	0.3	0.7
Structural primary fiscal balance 4/	2.8	1.5	-4.0	**-0.3**	-3.4	**-1.6**	-1.7	**0.3**	0.2	0.6
Gross debt /5	54.4	52.8	57.9	**60.3**	58.3	**58.9**	56.5	**56.0**	53.9	51.4
				(End of period 12-month change, percent)						
Monetary sector										
Money (M1)	20.1	16.3	36.3	**11.8**	11.4	**8.4**	9.0	**8.0**	8.6	7.9
Broad money (M2)	15.0	8.8	18.4	**9.1**	10.6	**7.8**	8.4	**7.5**	8.1	7.4
Domestic credit to non-government 6/	10.1	9.5	12.0	**5.6**	5.8	**4.6**	5.1	**6.6**	4.3	4.5
				(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	-4.2	**-5.1**	-4.1	**-5.0**	-4.3	**-4.9**	-4.3	-4.8
Exports of goods	35.2	35.7	34.3	**39.3**	39.1	**40.3**	39.2	**40.8**	39.0	39.4
Imports of goods	-47.1	-47.9	-45.4	**-50.4**	-49.5	**-51.0**	-49.5	**-51.3**	-49.3	-49.6
Trade of goods balance	-11.9	-12.2	-11.2	**-11.2**	-10.4	**-10.7**	-10.3	**-10.5**	-10.3	-10.2
Capital and financial account balance	6.7	10.6	5.2	**8.4**	11.1	**6.8**	5.9	**6.3**	6.7	7.1
External debt (percent of GDP) 7/	66.1	65.4	70.4	**70.6**	68.4	**68.0**	64.8	**64.8**	62.1	59.4
of which: Private external debt	30.9	30.8	33.9	**31.8**	31.1	**30.2**	29.0	**28.5**	27.2	25.8
Gross official reserves (in billions of euro)	11.3	13.4	13.5	**15.2**	17.1	**16.1**	18.0	**16.9**	19.5	21.0
(in months of prospective imports)	4.8	6.1	5.2	**5.4**	6.0	**5.4**	5.9	**5.2**	5.9	5.9
(percent of short-term debt)	195.3	408.9	412.3	**463.6**	523.2	**493.1**	551.4	**516.3**	594.8	640.5
(percent of broad money, M2)	52.2	57.7	57.3	**60.3**	65.7	**60.1**	63.6	**58.7**	63.9	64.5
(percent of risk-weighted metric) 8/	111.2	126.1	126.0	**129.0**	139.3	**130.3**	138.7	**129.6**	142.4	146.3
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	7,397	7,700	**8,878**	9,012	**9,629**	9,940	**10,368**	10,904	11,810
Real GDP per capita (percent change)	5.1	4.6	-0.4	**6.4**	6.9	**4.9**	4.9	**4.9**	4.9	4.4
Population (in million)	7.0	7.0	6.9	**6.9**	6.9	**6.9**	6.9	**6.8**	6.8	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 1.1 percent of GDP as of August 15th, 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.

REPUBLIC OF SERBIA

FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT

December 3, 2021

EXECUTIVE SUMMARY

Conjuncture and Outlook. An economic recovery is underway on the heels of the authorities' large and timely policy response. By 1Q2021, GDP exceeded its pre-crisis level and growth in 2021 is expected to reach 6.5 percent, supporting a smaller-than-expected fiscal deficit. Headline inflation increased above the 4.5 percent upper limit of the target band in September and October. Regulated energy prices for consumers are not expected to change until next spring, but electricity prices for corporates are set to increase. A new pandemic wave that started in late-July persists though activity seems to have decoupled from infections. With a gradual normalization of demand and supply conditions, growth is projected to reach 4.5 percent in 2022. Inflation is expected to revert to the lower half of the inflation tolerance band in 2H2022 as the effects from this year's drought wane and energy prices stabilize.

Program Performance. All quantitative targets for end-June were met and a prior action on the approval of the 2022 budget has been implemented. The end-June reform target (RT) on an action plan to implement the new ownership and governance strategy for state-owned enterprises (SOEs) was met. In addition, all of the actions under the end-September RTs—relating to GFSM fiscal accounts; an inventory of state aid schemes and secondary legislation on state aid; fiscal risks methodology with related procedures; and a capital market development strategy with a time-bound action plan—were completed with a short delay. Staff recommends completion of the first review under the Policy Coordination Instrument.

Policy Recommendations.

- **Fiscal Policy.** The 2022 budget appropriately phases out crisis-era support measures and marks a gradual return to fiscal restraint. It: (i) envisages a reduction of the fiscal deficit to 3 percent of GDP; (ii) contains moderate public sector wage and pension increases; and (iii) maintains high capital spending. Any public support to contain energy price increases should be transparent, non-discriminatory, based on objective criteria, and not entail fiscal risks.
- **Monetary and Financial Sector Policies.** The authorities have appropriately and cautiously started tightening monetary conditions through liquidity management instruments, while keeping the policy rate unchanged. Although the drivers of higher inflation appear temporary and second-round effects limited, the National Bank of

Serbia should stand ready to act promptly as needed to keep inflation expectations anchored. Financial and liquidity risks should continue to be closely monitored.

- **Structural Reforms.** The introduction of a new fiscal-rules framework planned in 2022 should preserve fiscal sustainability. Other structural reforms—including those aimed at reforming SOEs, greening the economy, and supporting capital markets development—should foster stronger and more sustainable growth over the medium term.

Risks. Risks to the outlook are broadly balanced: while a solid domestic recovery should continue supported by private consumption and public investments, there is elevated uncertainty stemming from a weaker-than-expected recovery in key European trading partners, renewed COVID-19 infections, supply chain disruptions and rising energy prices globally.

Approved By
Laura Papi (EUR)
Maria Gonzalez (SPR)

Discussions were held remotely and in person during October 11-22, 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), Yulia Ustyugova (resident representative), Desanka Obradović and Marko Paunović (local economists). Vuk Djoković (OED) attended some discussions. HQ support was provided by Aniko Madaraszova and Zeju Zhu (both EUR).

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ANNEX

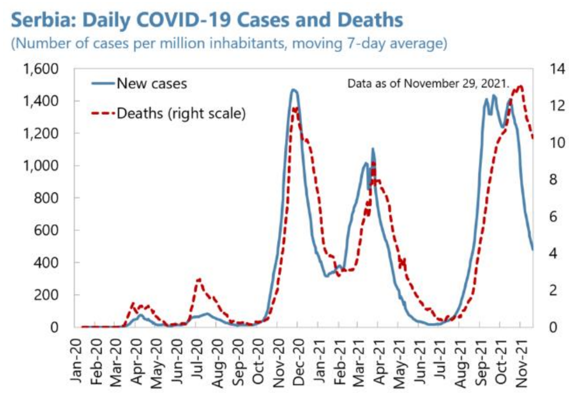
APPENDIX

RECENT DEVELOPMENTS

1. **Serbia navigated several waves of the pandemic relatively well, although the most recent wave of infections persists.** Serbia entered the COVID-19 crisis with sound macroeconomic fundamentals. In response to the pandemic, the authorities implemented a sizeable policy package and embarked on one of the fastest COVID-19 vaccine rollouts in Europe. However, infections have risen sharply again since late July. To encourage stronger vaccine uptake, in October, the authorities introduced COVID-19 passes for indoor establishments in the evenings.

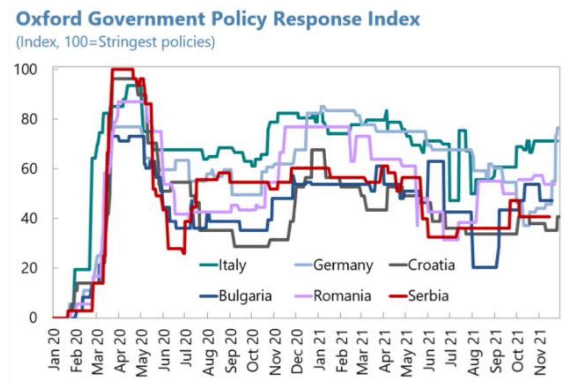
Text Figure 1. COVID-19 Evolution in Serbia

A new wave of infections started in late July.



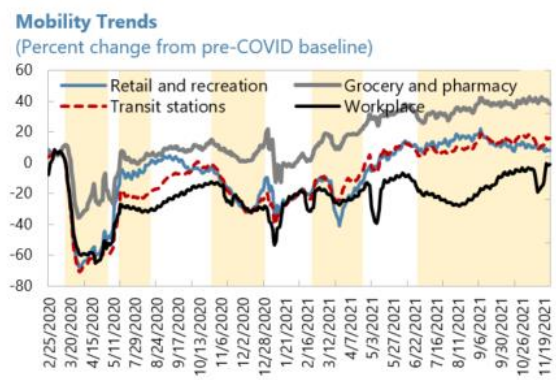
Sources: Johns Hopkins University; Haver Analytics; and IMF Staff calculations.

Restrictive measures remain comparatively moderate.



Source: Blavatnik School of Government, University of Oxford

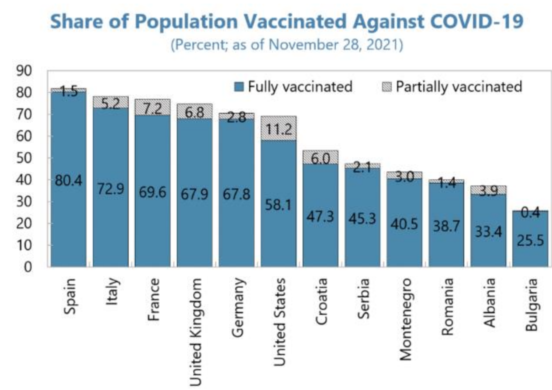
Most mobility indicators have returned to pre-pandemic levels, despite recent waves of infections. Mobility and economic indicators seem to be delinked from infections, as elsewhere in Europe.



Source: Google COVID-19 Mobility Reports.

Note: Shaded areas represent pandemic waves.

The share of vaccinated population at around 50 percent is among the largest in emerging Europe, but lags behind advanced economies. The share of vaccinated population increased by 9 pp since mid-June as of November 28.



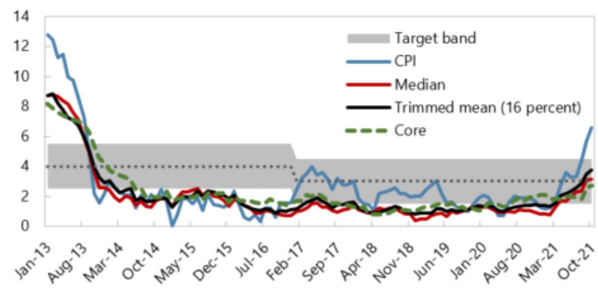
Sources: Our World in Data, Haver, and IMF Staff Calculations.

2. **The economic recovery is continuing, accompanied by a rise in inflation.** Stronger-than-expected activity in 1H2021, driven by investments and private consumption, lifted real GDP above its pre-crisis level, making significant scarring from the pandemic unlikely. Growth in 3Q2021 reached 7.7 percent yoy and points towards a continued recovery. Inflation increased further to

5.7 percent yoy in September and 6.6 percent yoy in October (from 4.3 percent yoy in August) above the 1.5-4.5 percent target band, largely reflecting higher prices of unprocessed food due to drought and higher energy prices. However, at 2.7 percent, core inflation remained below the midpoint of the target band and inflation expectations remained anchored (Figure 4). A trimmed-mean measure of inflation (which excludes components that show the most extreme monthly price changes) and median inflation have outpaced core inflation in recent months but stayed within the target band. Average net wages increased by 10.5 percent yoy by August, broadly aligned with past trends and productivity growth in real terms. An increase in the minimum wage of 9.4 percent will take effect from January 1, 2021.

Measures of Inflation

(Percent, Y/Y)



Source: National Bank of Serbia; Statistical Office of Serbia; and IMF Staff calculations.

3. **Fiscal performance through 3Q2021 was strong, boosted by high tax revenues.** The general government recorded a deficit of 1.1 percent of GDP during January-September, 3.2 percentage points lower than projected. Expenditures were 1.2 percent of GDP below projections as a result of lower current expenditures. Revenues increased by 23 percent yoy and were above projections by 2 percent of GDP, with strong VAT tax receipts and social security contributions. In September, Serbia issued an inaugural 7-year green bond and a 15-year Eurobond for EUR 1.75 billion, in total, at yields of 1.26 and 2.3 percent, respectively. The government's financing for 2021 was largely secured by October.

Serbia: General Government Fiscal Operations, RSD billion

	January - September 2021		
	Prog. /1	Act.	Diff.
Total revenue	**1,847.4**	**1,969.3**	**121.9**
Tax revenue	1,657.5	1,764.5	107.0
of which: VAT	439.3	473.9	34.6
of which: Social security contributions	602.9	623.9	21.1
of which: Excises	241.5	243.7	2.2
Non-tax revenue	171.7	184.8	13.1
Capital revenue	3.3	8.1	4.7
Grants	14.8	11.9	-2.9
Total expenditure	**2,110.7**	**2,034.3**	**-76.4**
Current expenditure	1,820.6	1,752.8	-67.8
Capital expenditure	269.4	264.5	-4.9
Net lending	14.5	11.6	-2.9
Amortization of activated guarantees	6.2	5.4	-0.8
Fiscal balance	**-263.3**	**-65.0**	**198.3**
Memo:			
Wage bill	461.0	466.4	5.4
Primary current expenditure of the Republican budget	916.0	853.9	-62.1
General government debt (percent of GDP)	61.7	57.3	-4.38

Sources: Ministry of Finance, IMF staff calculations.
1/ Programmed as of the program request.

4. **The external position has strengthened, supported by recovering exports and robust FDI inflows.** Despite strong import growth in August reflecting higher energy and commodity prices, the current account was stronger than expected through August, on account of high exports (including of IT services) and low FDI-related income outflows, and a recovery in remittances. Net FDI for the same period reached 4.6 percent of annual GDP, comfortably above the current account deficit of 2.1 percent of GDP. The exchange rate has been kept stable in the face of modest appreciation pressures (Figure 3). Gross international reserves in 2021 have increased with the SDR allocation of USD 895 million, and solid FX inflows, including from the Eurobond issuances (Figure 2). The authorities intend to use the SDR allocation (in part or in total) as part of the fiscal financing mix in 2022, as also done in 2009 (PS ¶8).

5. The 2022 general elections dominate the political context. Risks of reform delays and spending pressures could rise with presidential, parliamentary, and local elections in Belgrade expected in April next year. At the same time, the elections are not expected to alter the orientation of the reforms nor broader program support. The dialogue between Serbia and Kosovo has stalled after the signing of an economic normalization agreement in September 2020.

OUTLOOK AND RISKS

6. The baseline scenario assumes continued but weakening growth in 4Q2021, with limited virus abatement measures amidst continued high infections, and a sustained momentum from domestic demand in 2022 (Tables 1-9)**.**

- **Real GDP** growth is projected at 6.5 percent in 2021, supported primarily by strong private consumption (driven by the recovery of employment to pre-pandemic levels, sustained real wage growth and the final installments of the universal cash transfer paid in November and December) and sizeable public investments. Only a small output gap and a minor rise in unemployment since the start of the pandemic are estimated to remain. After 2021, growth is projected to reach 4.5 percent in the next two years as demand and supply conditions gradually normalize, before converging to its potential of 4 percent.

- **Inflation** is projected to average 4 percent in 2021, buoyed by base effects, and higher fuel and food prices. Inflation is expected to revert to the lower half of the inflation tolerance band in 2H2022 as the effects from this year's drought wane and energy prices stabilize, but be around 5 percent on average in 2022. Over the medium-term, inflation is expected to return gradually to the lower half of the inflation band.

- **The current account deficit** is projected to decline to 4.1 percent of GDP in 2021, with reserves rising to EUR 15.9 billion by end-2021 (5.6 months of prospective imports).

7. Risks to the outlook are broadly balanced. The future course of the pandemic is uncertain due to virus variants and vaccine hesitancy, concurrently with the start of the winter season. Serbia remains vulnerable to spillovers from external developments, including weaker-than-expected recovery in key European trading partners. And tighter global financing conditions could push up borrowing costs. Conversely, a stronger than anticipated recovery in private domestic demand and execution of public investment projects provide upside risks to growth. The authorities perceived risks as tilted to the upside, with growth in 2021 likely to exceed 6.5 percent, given that most domestic activities have adapted to the pandemic and with a rebound in external demand as containment measures in European countries are further relaxed. They noted that downward risks were mainly related to external supply bottlenecks and rising energy prices, although energy supply was buttressed by broad self-sufficiency in power generation (mostly centered on coal) and the completion of regional gas transmission networks.

PROGRAM AND POLICY DISCUSSIONS

A. Fiscal Policy

8. **The planned reduction in the 2021 fiscal deficit is welcome and reflects the economic ongoing recovery** (Annex Table 1). Following the first 2021 supplementary budget—which raised the deficit from 3 to 7 percent of GDP to buttress the economic recovery--a second supplementary budget was adopted in October moderating the deficit to 5 percent of GDP. The improved fiscal outlook results from higher projected revenue collection (by 3. percent of GDP), reflecting the stronger-than anticipated recovery, with strong growth of consumption (boosting VAT collection) and wage income in the formal sector (boosting income taxes and social security contributions). The new supplementary budget also increased the allocations for: (a) capital expenditures on infrastructure and healthcare (0.8 percent of GDP), (ii) health-care-related wage compensation (0.2 percent of GDP), and (iii) already-announced support measures (0.4 percent of GDP for a one-off payment to vaccinated citizens and an additional round of the universal cash grant). Staff appreciated that most of the revenue overperformance would be saved, with the spending increases focused on pandemic-related needs.

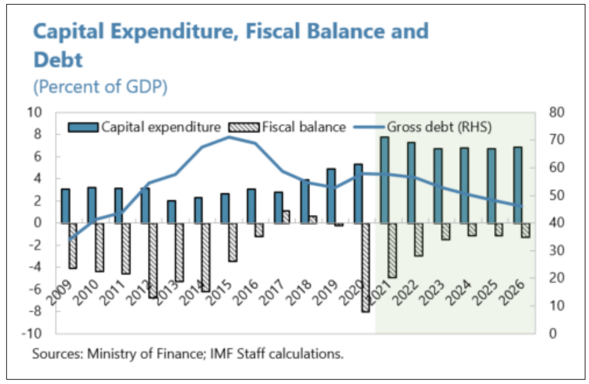
9. **The mission emphasized the importance of scrutiny of fiscal risks and strong oversight of the use of public funds.** The authorities concurred and reiterated their commitment to ensuring transparency and accountability of pandemic-related spending, including through the ex-post audit by the State Audit Institution (PS ¶11).[1] Staff also underscored that local governments' finances and possible contingent liabilities from SOEs should be monitored closely.

10. **The authorities and the mission agreed on the key parameters of the 2022 budget.** As private demand is expected to recover strongly under the baseline forecast, the authorities have let crisis-related one-off support measures deployed in 2021 expire. At the same time, to secure the recovery as well as medium-term growth, there is a strong case for boosting public investment. The latter can be accommodated within the previously agreed reduction in the fiscal deficit to 3 percent of GDP. This deficit level will ensure that public debt in percent of GDP resumes a clear downward path. A draft budget along these lines was approved by Parliament in November (**prior action**).

- **Public investment.** Several projects in the transport and healthcare sectors are planned for 2021, and the ratio of public capital expenditures to GDP is projected to remain above 7 percent in 2022. The authorities and the mission agreed on the importance of further expanding investments in green technologies and digitalization, to lay the foundations for more sustainable growth. The authorities pointed, in particular, to large investments in sewage and waste facilities, as well as other projects that will be financed with the proceeds from the green bond (e.g. rail and subway networks). Staff also stressed the need to ensure that all projects, regardless of the

[1] The ex-post audit of implementation of the 2020 Government Budget of Republic of Serbia was published on Serbia's State Audit Institution website (link to the report in Serbian).

source of financing, are subject to rigorous assessments in line with the 2019 public investment management framework.



- **Health care.** The 2022 budget allocates approximately 6 percent of GDP for health care expenditures, maintaining the pandemic-related increase seen in 2020 and 2021 (6.6 and 6.1 percent of GDP respectively).

- **Public sector wages and pensions.** To make room for higher public investment and to ensure that the wage bill as a percent of GDP is projected to decline after increasing in three consecutive years, the authorities plan to limit public sector wage increases to 7.3 percent or less, on average. Given the ongoing COVID-19 pandemic, the increased allocation for wage costs in health care is maintained in the 2022 budget. Pension increases will follow the agreed pension indexation formula plus an already-announced one-off pension bonus (RSD 20,000). The mission noted that the latter helped offset the rise in inflation, but advised that additional ad-hoc payments should be avoided.

- **Reducing the tax wedge on labor.** The threshold for non-taxable personal income will increase from RSD 18,300 to RSD 19,300 as of January 1, 2022. As a result, the tax wedge will fall for the third consecutive year (by 0.1 percent). A reduction in pension contributions by 0.5 percentage points would reduce the tax wedge further.

- **Contingencies** were included in the budget for the activation of government guarantees on banks' loans to SMEs, consistent with a 6 percent loss rate, as the bulk of potential called guarantees would materialize in 2022.

- **Energy costs.** The authorities' budget plans, thus far, do not include provisions to compensate for higher energy prices. On the one hand, gas and electricity prices for consumers are regulated and will not be increased through the 2021/22 heating season. Given approximate self-sufficiency in electricity and existing gas reserves, as well as a recent six-months gas import contract with Russia at a favorable price, this should not entail substantial fiscal risk. On the other hand, tariffs for corporates are market-based and are set to increase strongly, as in other countries. The authorities noted that the possible need for corporate support would in part depend on negotiations for a new long-term contract for gas imports from Russia. Consistent with staff advice that potential support to businesses should be limited scale, be transparent, non-discriminatory, based on objective criteria, and not entail fiscal risks (through their impact on SOEs), the authorities committed to abide by EU state aid rules. They also, concurred that any cushioning should be temporary, and that increases in costs and in regional market prices should be passed through eventually. While recognizing the need for cost recovery, the mission underscored the importance of considering the distributional impact of higher energy prices, and the authorities confirmed that recent amendments to the Law on Energy cover vulnerable consumers who receive subsidies for electricity, heat, or gas, to protect them from large price increases. The mission also underscored that efforts to promote energy efficiency should continue.

11. Although there has been progress in some areas, important fiscal-structural reforms remain to be implemented.

- **Fiscal rule.** The authorities confirmed their commitment to adopting a new fiscal-rules framework during 2022 in collaboration with Fund staff (**end-June 2022 RT**). The new deficit-based fiscal rule should: (i) offer a more transparent and credible operational annual ceiling for the overall general government fiscal deficit; (ii) improve accountability; and (iii) retain a strong role of the Fiscal Council (PS ¶12). Staff confirmed that a small fiscal deficit anchored to the level of public debt constitutes an appropriate framework to put public debt on a downward path, and underscored that defining key elements properly will be important, including debt thresholds, escape clauses, and correction mechanisms.

- **Tax administration.** Serbia's Tax Administration (STA) has continued to make progress in auditing, compliance risks management, the large taxpayer unit, and addressing unexplained wealth (PS ¶13). A new model of 'fiscalization'—with data from fiscal cash registers available to the STA in real time—is being introduced. And an electronic invoice exchange system will be fully operational by early 2023. The reforms have been supported by the World Bank and Fund TA. A new commercial-off-the shelf (COTS) information system will be critical to support the new business processes and will be tendered next year (**new end-June 2022 RT**). Staff and the authorities agreed that recruitment of additional STA staff remains a priority.

- **Fiscal risks.** A methodology to properly monitor and manage specific fiscal risks was adopted, together with the procedures that are required for effective fiscal risks monitoring and management (**end-September 2021 RT**). The methodology was prepared with support from the World Bank, and covers fiscal risks stemming from (i) SOEs; (ii) local governments; (iii) litigation; and (iv) natural disasters (PS ¶18). After recent personnel departures, additional positions in the department were created and should be filled by early 2022.

- **State aid.** An inventory of state aid schemes, including the corresponding amounts, was published and the necessary secondary legislation to make the Law on State Aid Control effective and aligned with the relevant EU acquis was assisted by World Bank TA and adopted (**end-September 2021 RT**, PS ¶20).

- **Public investment management.** Development of a Public Investment Management System (PIMIS) is progressing and expected to be completed by end-2022 (PS ¶17). Efforts to hire much needed personnel, build capacity and enhance coordination of the Public Investment Management Unit (PIMU) with other departments continue.

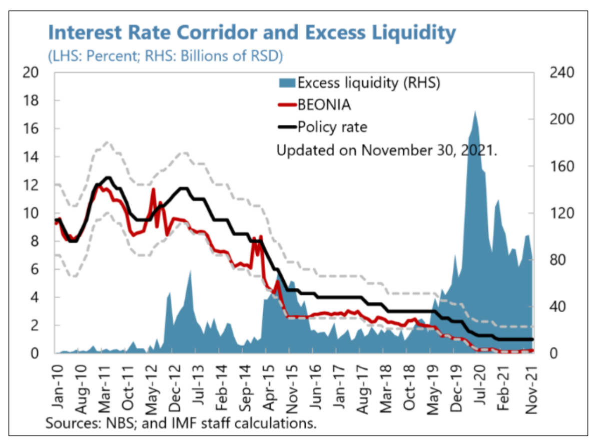
- **Procurement.** A new public procurement system was introduced in July 2020, with support from the EU and the World Bank (PS ¶19). Procurement transactions in the public sector are by now conducted using the e-procurement portal, well ahead of the planned end-2022 deadline. At the same time, Government-to-Government projects and infrastructure projects of 'special importance for the Republic of Serbia' can be exempted from public procurement rules. Going forward, the authorities committed to report all exempted procurements annually and publicly, including the legal basis for those exemptions. They also planned to ensure alignment of the procurement framework with the EU acquis.

- **Social protection.** The authorities noted their ongoing efforts to upgrade the social cards system during 2022 and prepare plans to enhance the coverage of the social protection system (PS ¶34). Staff emphasized that increased utilization and funding of means-tested social assistance programs and well-targeted benefits will be essential to weather future crises better and protect the most vulnerable.

- **Public wages.** The authorities decided to postpone the implementation of the public wage system reform to 2025 to re-examine key parameters of the new system, including intra- and intersectoral adequacy of the new wage coefficients, and its financial implications (PS ¶15). In the meantime, a new central electronic public wage and employment registry (*Iskra)* has been developed for increased efficiency, transparency and accountability in personnel and wage management. The first phase of a new payroll information system should be operational in 2022 (**new end-April 2022 RT**), and the system should cover most of the public sector (excluding military, security and higher education institutions) by end-2023, which will be critical for preparing the delayed wage reform.

- **Fiscal statistics.** With Fund TA, GFSM-based fiscal accounts have been prepared and published on the national summary data page (NSDP) (**end-September RT**, PS ¶41). The mission welcomed the authorities' efforts and noted the need to ensure continued monthly reporting.

B. Monetary and Financial Sector Policies



12. In light of the rise in inflation and its uncertain outlook, the monetary authorities appropriately tightened monetary conditions in early October. While the drivers of higher inflation so far appear temporary and second-round effects limited, the National Bank of Serbia (NBS) raised the average repo rate.[2] Staff supported this step, as a signal that the NBS stands ready to act to keep inflation expectations anchored. The authorities noted that if needed, they would adjust money market rates further, either within the current corridor around the key policy rate or by adjusting the policy rate. Staff advised to continue closely monitoring inflation developments as well as financial and liquidity risks, and be ready to act if needed.

[2] The key policy rate remains at 1 percent, with an interest rate corridor of ±0.9pp.

13. Extraordinary measures introduced during the pandemic are being gradually phased out. Reverse repo auctions to inject liquidity were phased out in early October, after FX swap auctions were discontinued in March, and no further outright purchases of government and corporate bonds took place during 2021, as liquidity in the banking sector is ample and the bond market stable (Table 10 and Figure 3). A measure allowing loan rescheduling and refinancing under favorable terms for pandemic-affected borrowers expired in October. In view of the ongoing economic recovery and growth in lending, staff suggested to consider phasing out the remaining measures that were adopted during the pandemic, in particular incentives for housing loans. The authorities intended to review these measures and, if appropriate, discontinue them after 2021. The planned deduction from banks' capital in case of high FX lending—postponed during the pandemic to support the provision of credit—should be implemented in July 2022.

14. While financial stability has been preserved, monitoring risks in the banking sector remains critical. The banking system has remained stable, liquid and well-capitalized (Table 10). Domestic credit growth declined to 6.6 percent yoy in August, largely reflecting base effects. NPLs have remained stable at 3.5 percent at end-August and are not expected to increase further, given that the pandemic-related moratorium covers only a small portion of the stock of outstanding loans.

- The authorities and staff welcomed the recent ruling of the Supreme Court of Cassation affirming the legality of the loan fees charged by banks, that have been challenged in more than 200,000 lawsuits since 2018. However, the implementation of this interpretation by the courts remains to be confirmed, and ongoing lawsuits could entail substantial legal costs for banks.

- Staff emphasized the need to monitor the expansion plans of BPS, (the largest state-owned bank) which had increased lending to SMEs, SOEs and local governments, and had recently acquired the subsidiary Komercijalna Banka Banja Luka. The authorities noted that BPS was following the approved business plan, that its lending activity remained within the limits set by the government, and financial soundness indicators were satisfactory.

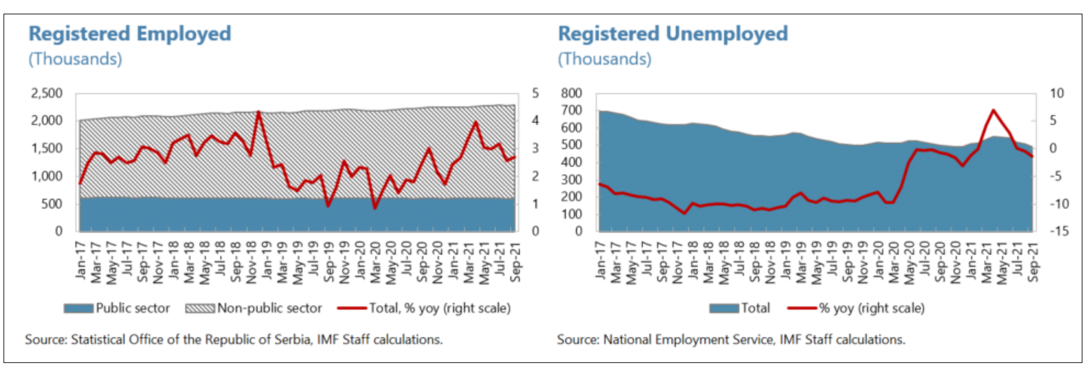
15. The exchange rate has been kept stable relative to the Euro, in the face of appreciation pressures. At end-June, three dinar-denominated government bonds were included in JP Morgan EM indexes, prompting further portfolio inflows. By October, the NBS had made net foreign exchange purchases of EUR 960 million since the start of the year. Staff restated the case for allowing more exchange rate flexibility once the pandemic is over, while recognizing the merit of maintaining exchange rate stability through the pandemic to maintain confidence. The authorities reaffirmed their view that exchange rate stability was essential to macroeconomic stability, that the current appreciation pressures might wane, and that increased exchange rate volatility could have an adverse impact on confidence, inflation, FX-denominated debt and the dinarization strategy.

16. The authorities continue enhancing financial safety nets. The Deposit Insurance Agency (DIA) plans to introduce risk-based premiums in 2022 following the adoption of a methodology for the implementation of a risk-based premium assessment model in October 2020 (PS ¶29). The DIA also plans to sell the residual bad assets within its portfolio through a third tender in early 2022 aiming to complete it by end-2022.

17. The authorities have adopted their Capital Market Development Strategy to enhance Serbia's capital markets, diversify sources of long-term financing and advance dinarization (end-September 2021 RT). Key actions of the strategy, designed by the authorities in consultation with the EBRD, include: (i) adoption of a revised capital market law; (ii) development of a comprehensive web-based information platform.; (iii) establishment of a capital market unit to support market participants and monitor the implementation of the strategy; (iv) an analysis of tax regulations to lower hurdles for capital market transactions, (v) creation of a pipeline of IPOs to jumpstart the equity market, (vi) improvement of the framework for corporate bonds and subsequent development of a framework for covered bonds (PS ¶32). Most of these actions are targeted to be completed during 2022 and 2023. A time-bound action plan to implement the strategy was approved in early December. Staff supported, in particular, the authorities' intention to analyze the portfolio of state-owned companies, in order to assess their preparedness for participation in the capital markets.

C. Structural Policies

18. Labor market indicators seem to be improving, but addressing shortages of skilled labor should remain a priority. In 2Q2021, (survey-based) unemployment fell, participation rates continued to improve, and employment increased largely due to higher informal employment as demand for seasonal workers increased in the summer (Figure 7). Monthly data for 3Q2021 shows that registered employment held fairly steady, while registered unemployment continued to fall even as temporary labor subsidies and layoff restrictions expired. The authorities did not see major risks to the labor market going forward, pointing out that unemployment and out-of-labor-force rates have returned to pre-pandemic levels. To address the adverse impact of skilled labor emigration, the authorities have adopted an economic migration strategy encouraging the return of professionals, the law on gender equality to improve opportunities for women in the labor market, and an industrial policy strategy to support investment in and use of R&D. Furthermore, their Employment Strategy for the next three years, includes the extension of the existing policy aimed at boosting youth unemployment ("My First Salary" program).



19. Staff underscored the importance of advancing the SOE reform agenda, including on corporate governance (PS ¶40)**.** With EBRD support, the authorities adopted a time-bound action plan to implement the new ownership and governance strategy for SOEs (**end-June 2021 RT**). Staff noted that the development of a centralized SOE database, and the adoption of a ministerial act 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 (**end-December 2022 RT**). The authorities signaled their intention to reduce the number of acting SOE directors, including for the large energy companies.

- **Petrohemija.** A tender for a strategic partnership for the state-owned petrochemical company was launched in early-September. The authorities confirmed their intention to finalize the process by end-2021. Staff noted that completing this process would be a milestone in the privatization process and reduce fiscal risks.

- **Elektroprivreda Srbije (EPS).** The authorities noted that the process of changing the legal status of the state-owned power utility company to a joint stock company was on track (**end-November 2022 RT**). The only remaining action was the appraisal of EPS' assets and properties, which they planned to complete by end-2021.

- **Srbijagas.** Staff encouraged the authorities to complete the operational unbundling of Srbijagas in line with the Government Conclusion and to convert the company into a joint-stock company.

- **Others.** The authorities remained committed to implementing the action plan for closing several unviable Resavica coal mines while cushioning the social impact in the vulnerable region. They intended to continue exploring options for potential strategic options for the MSK chemical company.

20. Efforts to transition to a greener economy should gather momentum (PS ¶35)**.** Staff welcomed the authorities' intention to adopt a low carbon strategy by end-2021, well ahead of the March 2023 deadline. The authorities noted that they were in the process of harmonizing legislation relevant for green investments with the EU framework, including the Law on Nature Protection and the Law on Waste Management. The authorities plan to continue relying on existing coal plants within the next two decades given the imperative of ensuring power supply, but they were committed to shift new investments to gas and renewable sources.[3] Capital projects related to improving air quality and efficient waste management are ongoing, boosted by proceeds from the green bond, which will also be used for investments in energy and public transport. Staff concurred with the authorities on the importance of a transparent allocation of these proceeds, as well as reporting on the execution and impact of related investments (PS¶ 35).

21. Staff highlighted the need for sustained improvement in the effectiveness of the AML/CFT and anti-corruption frameworks. The authorities have continued to implement the National AML-CFT Strategy (2020-24), noting important progress in recent months in the area of risk

[3] See also CR 21/132 (Box 2).

assessment and in addressing technical deficiencies identified in Moneyval's AML-CFT assessment. They also noted that they were drafting an anti-corruption strategy (as suggested by the European Commission) and that they had addressed all outstanding Council of Europe's Group of States against Corruption (GRECO) recommendations and looked forward to a positive assessment by end-2021. Reforms aimed at making the judiciary more independent, efficient and accountable are ongoing, with intentions to upgrade the judicial IT system.

PROGRAM MODALITIES

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

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

- **The end-June reform target (RT) was met.** The authorities adopted a time-bound action plan to implement the new ownership and governance strategy for state-owned enterprises (SOEs).

- **The upper inflation band under the Inflation Consultation Clause was breached in September** (PS ¶ 21 and Table 1b). The authorities have consulted with staff on the drivers behind inflation, staff considered that tightening monetary conditions by raising the average repo rate was appropriate.

- **The prior action has been met.** The 2022 budget consistent with the program's objectives (¶10) was adopted by the government in early November and passed by the National Assembly in late November].

- **The actions under the end-September RTs have been completed, albeit with some delays.** An inventory of state aid schemes was published on the Commission for State Aid website by end-September. The GFSM-compliant fiscal accounts were published on the national data summary page (NSDP) in mid-October. On October 21, the government adopted (i) the secondary legislation on state aid, (ii) the fiscal risks methodology with related procedures and processes,[4] and (iii) a capital market development strategy. A time-bound action plan for capital market development was adopted in early December.

- **Staff is proposing two additional RTs** (PS Table 2)**.** First, in collaboration with FAD and World Bank TA providers, an **end-June 2022** deadline was set for tendering a new information system for the Tax Administration (PS ¶15). Second, by **end-April 2022** the first phase of a new payroll

[4] The procedures and processes were adopted through a formal government decision, published in the official Gazette, rather in the form of bylaws, given that the latter would have required a basis in legislation, which does not exist.

information system should be operational, which will be critical for preparing the delayed wage system reform (PS ¶13).

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

STAFF APPRAISAL

24. The economy continues to recover from the pandemic, amid lingering uncertainty. The trifecta of swift policy actions, low reliance on tourism and other high-contact sectors, and strong growth momentum going into the crisis helped to limit the pandemic's negative effects on Serbia's economy. GDP exceeded its pre-crisis level by 1Q2021 and growth is expected to be strong this year and next, reducing risks of scarring.

25. While the rise in public investment continues to underpin the economic expansion, domestic and external headwinds also remain significant. The diffusion of virus variants and stalling vaccinations led to a resurgence in COVID-19 cases ahead of winter. However, mobility and economic indicators seem to have delinked from infections more recently. Near-term growth prospects in key European trading partners have weakened somewhat, as supply bottlenecks and higher energy prices are threatening the recovery in many industries. Solid gas reserves and an energy sector reliant on domestically mined coal reduces Serbia's vulnerability to supply risks. Yet, higher energy prices nonetheless pose risks for inflation and demand.

26. Throughout the pandemic, fiscal policy appropriately continued to support households and businesses, while monetary policy maintained ample liquidity. In 2020 and 2021, several rounds of fiscal support and the loan guarantee scheme helped underpin the recovery, prevent bankruptcies and protect employment. Targeted measures for hard hit sectors—including transport and hospitality—provided additional relief. Monetary policy was loosened, abundant liquidity provided through open market operations and safeguards established with the ECB, while macroprudential measures were relaxed, and the exchange rate stabilized to preempt confidence risks.

27. As the recovery continues to take hold, fiscal policy support should be further reduced in 2022, conditional on domestic and external developments. Staff supports a reduction of the fiscal deficit to 3 percent of GDP in 2022, while pensions should increase in line with the existing indexation formula and public-sector wage increases be limited, which would help moderate the wage bill-to-GDP ratio. If needed, any additional support measures should target the most vulnerable individuals and firms. Public spending on productive capital investment projects should continue, including in green infrastructure, environmental protection and digital technologies, to build forward better. Possible measures to cushion adverse long-term effects of sudden energy price hikes on businesses should be limited in time and scale, transparent, and non-discriminatory.

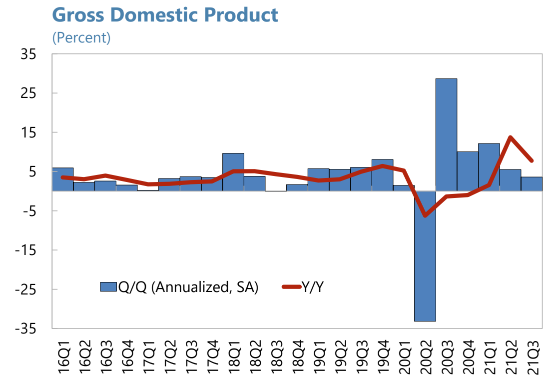
28. Staff supports the tightening in monetary conditions. The NBS has started tightening the monetary policy stance by raising the average repo rate, but without changing the policy rate. Staff welcomes this step, in the current environment of higher inflation rates in Serbia and across countries, as a signal that the NBS stands ready to act as needed, which should help keep inflation expectations anchored. If inflation is more persistent, additional tightening would be warranted. Consideration should also be given to resetting macroprudential tools that were relaxed at the onset of the crisis. Staff recognizes the merit of maintaining exchange rate stability through the pandemic to maintain confidence; gradually allowing more exchange rate flexibility once the pandemic is over could be beneficial.

29. Efforts to further advance structural reforms should persist. Progress has been made in privatizing Petrohemija, improving fiscal reporting, strengthening fiscal risk management, and enhancing state aid control. Staff considers the planned adoption of a new fiscal-rules framework a key anchor for putting public debt on a downward path and helping sustain investors' confidence. Reforming Serbia's large and inefficient SOEs remains critical, to strengthen governance and reduce fiscal risks. Commitments to improve procurement practices further, guided by EU rules, are welcome and should be followed through. 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 can support medium-term growth.

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

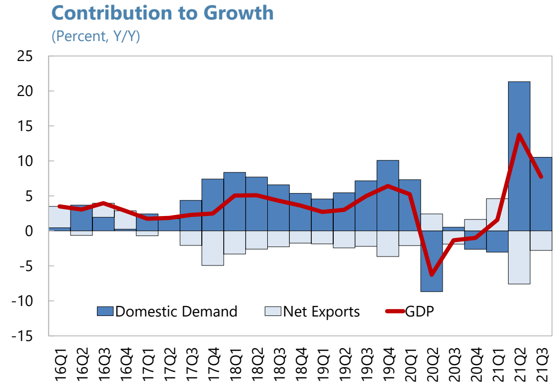
Figure 1. Serbia: Real Sector Developments

Growth continued its recovery through 1H2021….



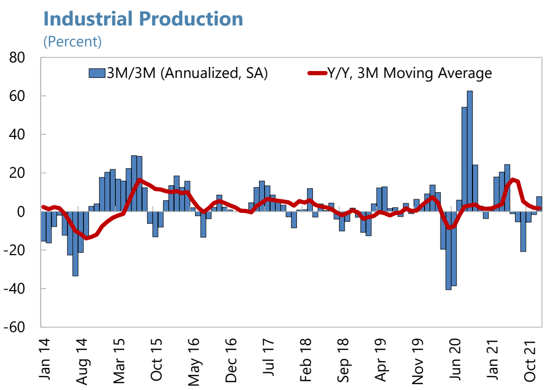
Sources: Haver Analytics; SORS; and IMF Staff calculations

….helped by a pick-up in domestic demand in 2Q2021.



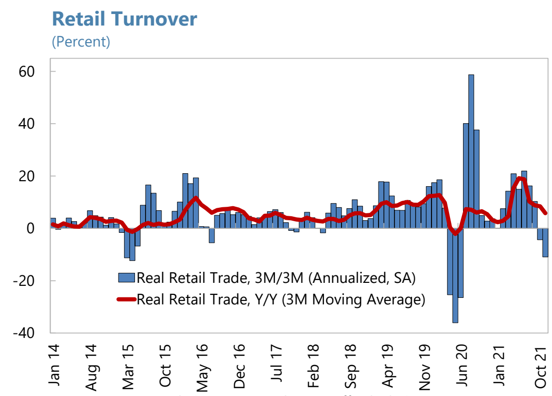
Sources: Haver Analytics; SORS; and IMF Staff calculations

Industrial production has been volatile, with a slowdown since May ….



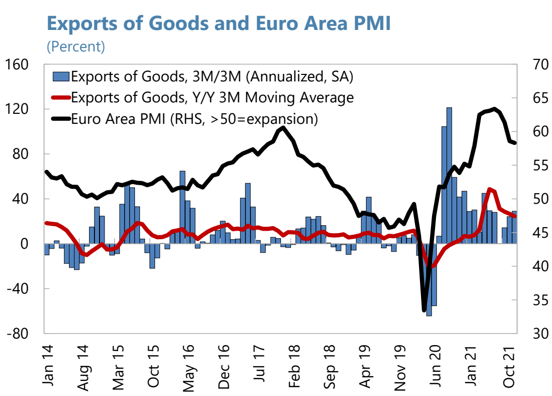
Sources: Haver Analytics; SORS; and IMF Staff calculations

….while retail sales have also slowed somewhat….



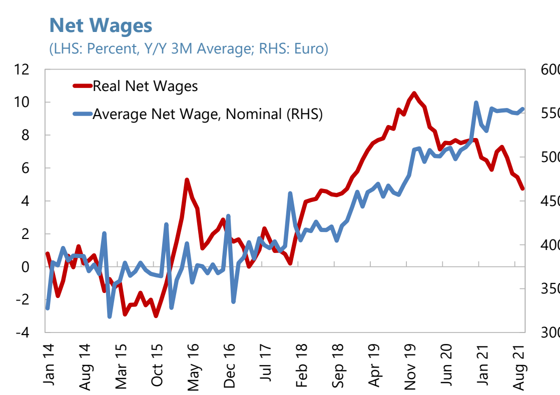
Sources: Haver Analytics; SORS; and IMF Staff calculations

….along with export growth.



Sources: Haver Analytics; SORS; and IMF Staff calculations

Net wage growth stabilized in recent months.



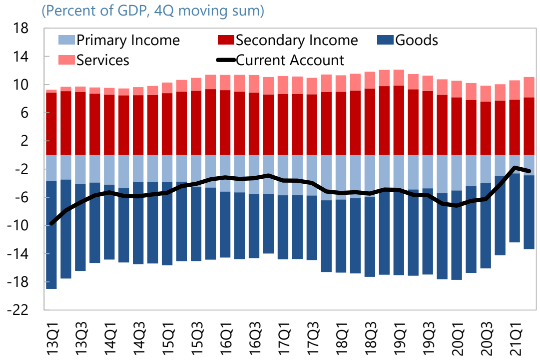
Sources: Haver Analytics; SORS; and IMF Staff calculations

Figure 2. Serbia: Balance of Payments and NIR

The current account deficit narrowed in 2Q2021….

Current Account Balance

(Percent of GDP, 4Q moving sum)

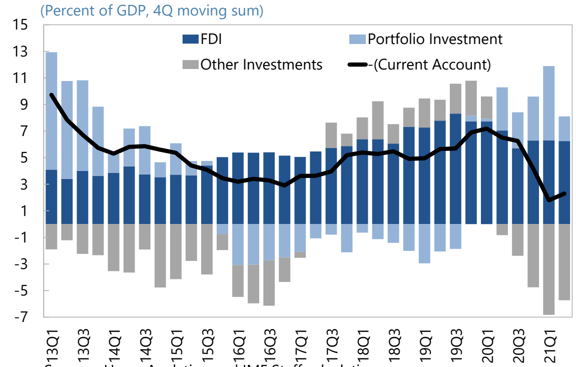


Sources: Haver Analytics; and IMF Staff calculations

….but remained comfortably covered by FDI.

Financial Account Composition

(Percent of GDP, 4Q moving sum)

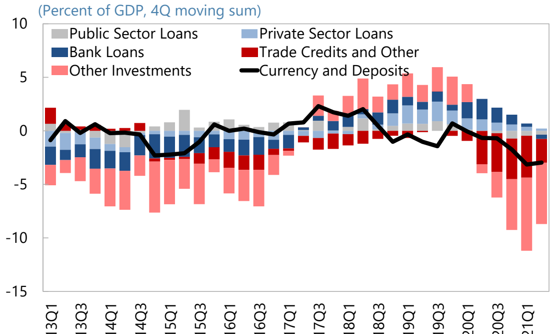


Sources: Haver Analytics; and IMF Staff calculations

Other investments continue to be driven by trade credits and loans.

Other Investments 1/

(Percent of GDP, 4Q moving sum)



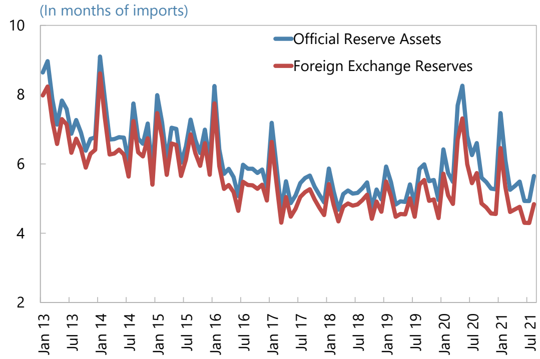
Sources: Haver Analytics; and IMF Staff calculations

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

International reserves increased further, supported by the SDR allocation and Eurobond issuance.

Reserves

(In months of imports)

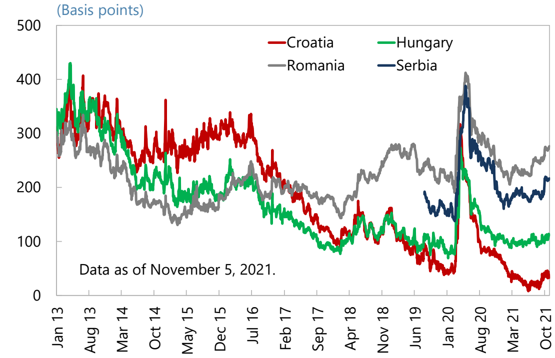


Sources: Haver Analytics; and IMF Staff calculations

Figure 3. Serbia: Financial and Exchange Rate Developments

EMBI spreads remain stable....

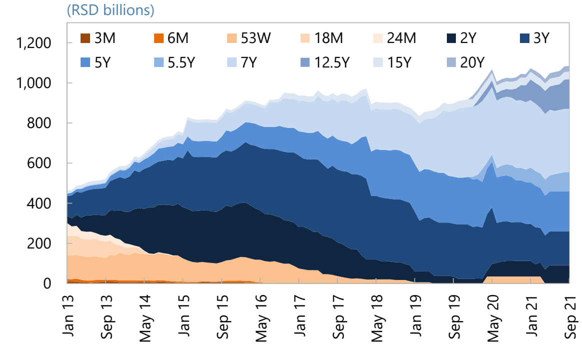
Sovereign Risk - Euro EMBIG Spreads
(Basis points)



Source: Bloomberg

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

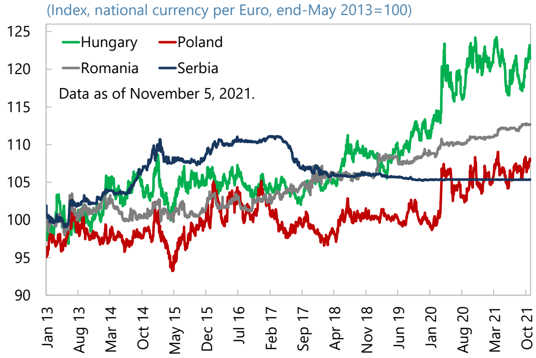
Domestic Debt Stock 1/
(RSD billions)



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

The exchange rate against the euro has been kept stable....

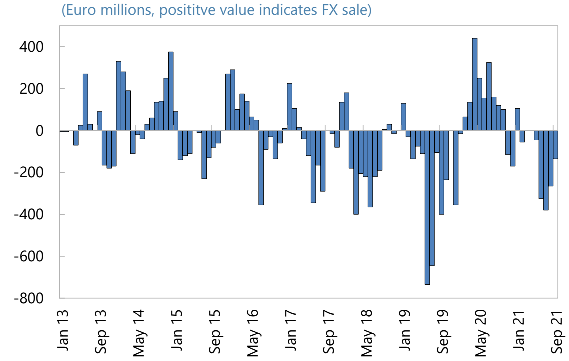
Exchange Rates in the Region
(Index, national currency per Euro, end-May 2013=100)



Sources: Bloomberg

....while the NBS foreign exchange purchases picked up in June.

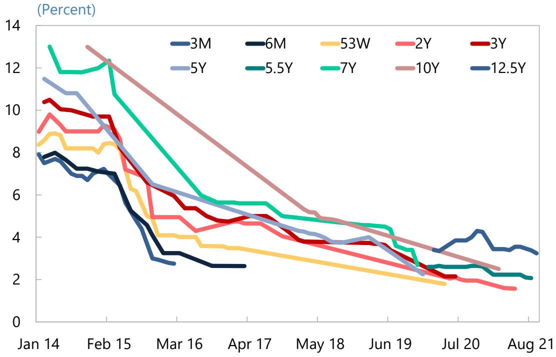
FX Interventions by NBS
(Euro millions, posititve value indicates FX sale)



Source: National Bank of Serbia

Yields for dinar-denominated securities remain low...

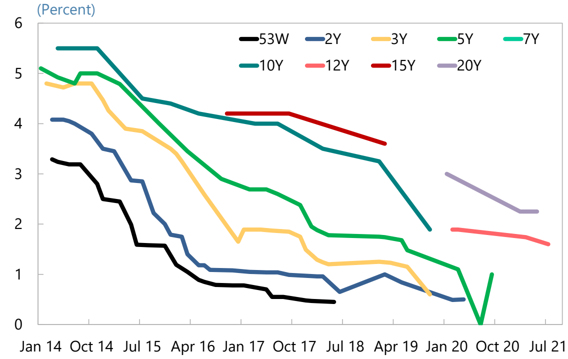
Yields on Dinar-Denominated Domestic Securities
(Percent)



Source: National Bank of Serbia

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

Yields on Euro-Denominated Domestic Securities
(Percent)

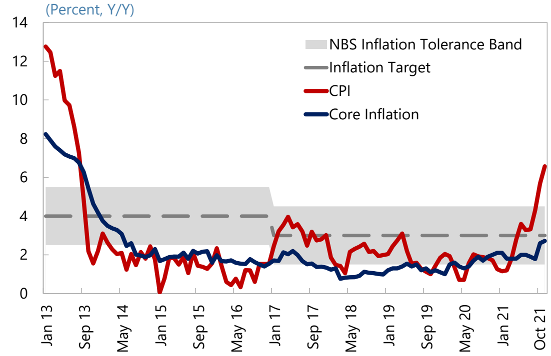


Source: National Bank of Serbia

Figure 4. Serbia: Inflation and Monetary Policy

Inflation moved outside the target band....

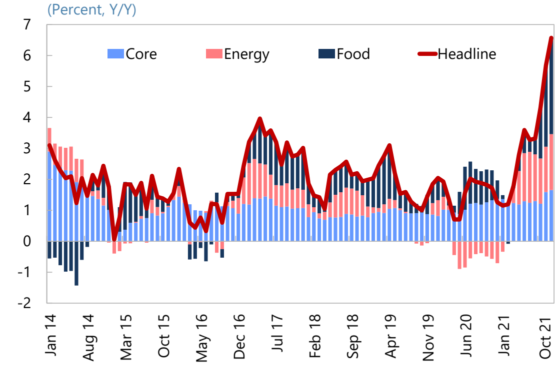
Inflation
(Percent, Y/Y)



Source: National Bank of Serbia; and IMF Staff calculations

....driven by higher energy and food prices.

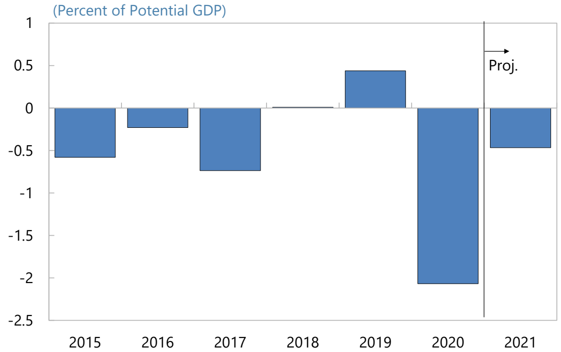
Contribution to Annual Inflation
(Percent, Y/Y)



Source: SORS

The output gap is expected to narrow substantially in 2021.

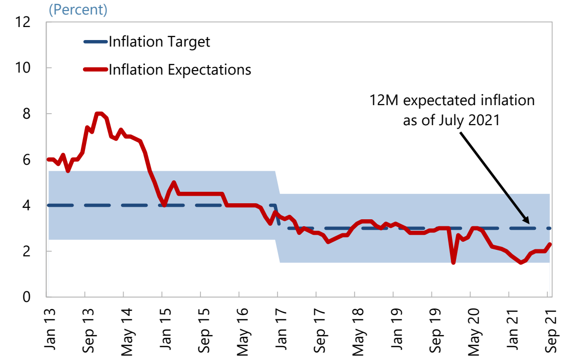
Output Gap
(Percent of Potential GDP)



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

Inflations expectations remain well-anchored.

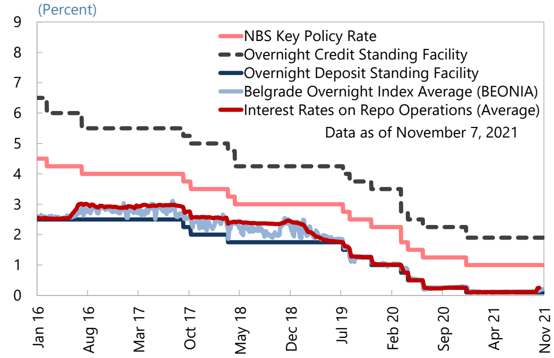
One-Year-Ahead Inflation Expectations
(Percent)



Sources: Bloomberg; SORS; and IMF Staff projections

The repo rate was raised in October, but the key policy rate has remained on hold since December 2020....

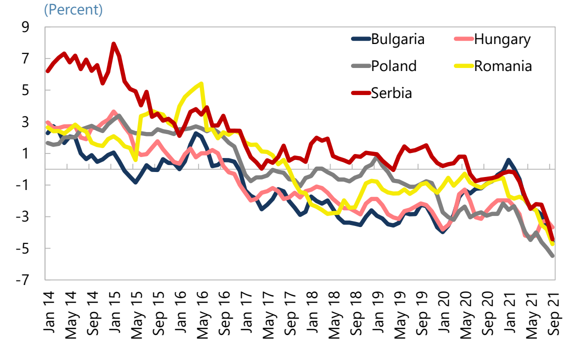
Interest Rates
(Percent)



Sources: National Bank of Serbia; and Haver Analytics

....and remains above EU countries in the region in real terms.

Policy Rate in Real Terms in Selected Countries
(Percent)

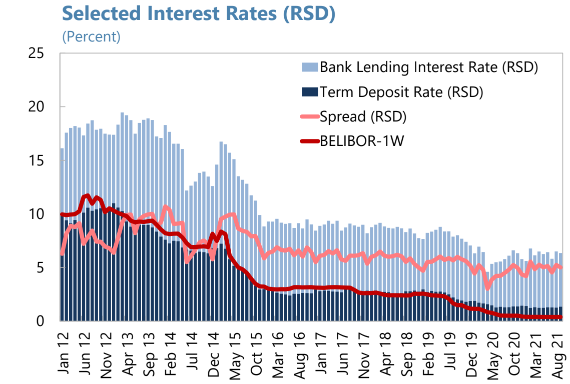


Source: Haver Analytics
Note: Nominal policy rates adjusted by inflation over the past 12 months

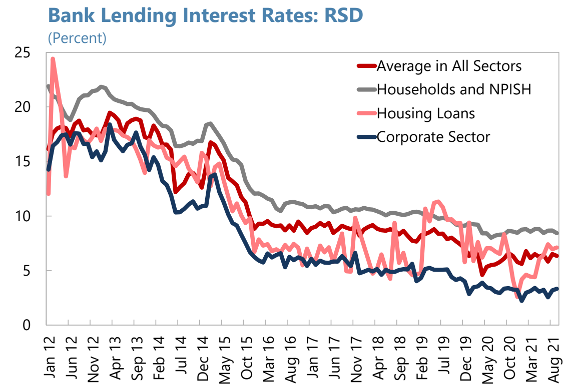
Figure 5. Serbia: Selected Interest Rates

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

....along with most bank lending rates in dinar.



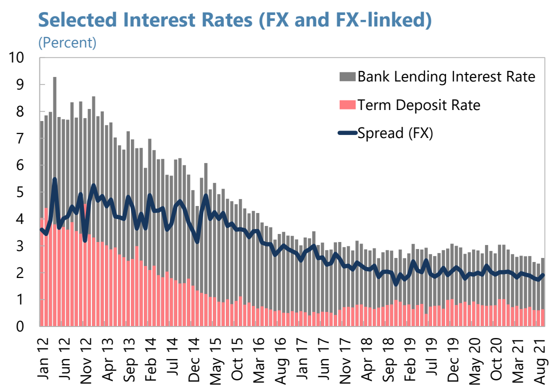
Source: National Bank of Serbia



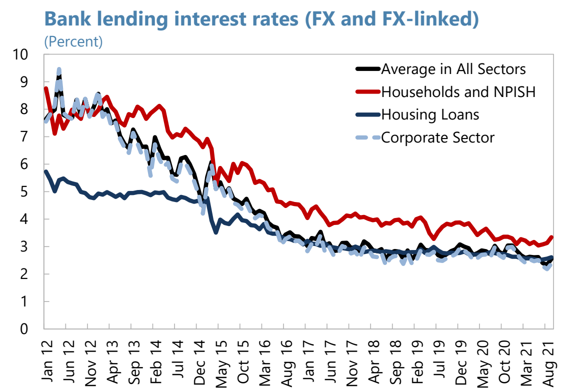
Source: National Bank of Serbia

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

....with lower lending rates to corporates.



Source: National Bank of Serbia



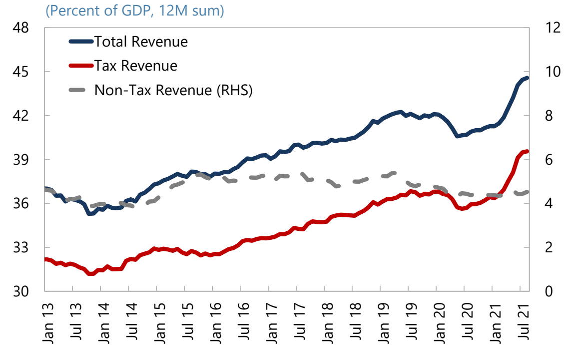
Source: National Bank of Serbia

Figure 6. Serbia: Fiscal Developments

Revenues picked up sharply in 1H2021 as the economy recovered.

Total Revenue Composition

(Percent of GDP, 12M sum)

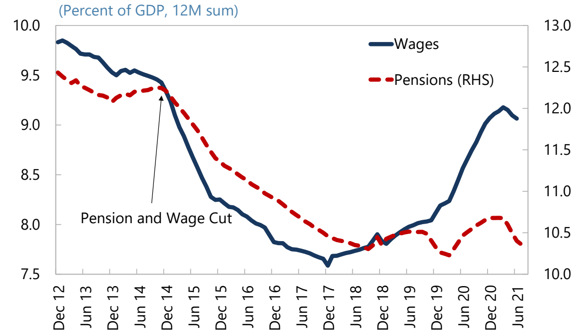


Sources: Ministry of Finance; and IMF Staff calculations

Public sector wage growth slowed in 2021, while the pension bill remains below 11 percent of GDP.

Wages and Pensions 1/

(Percent of GDP, 12M sum)



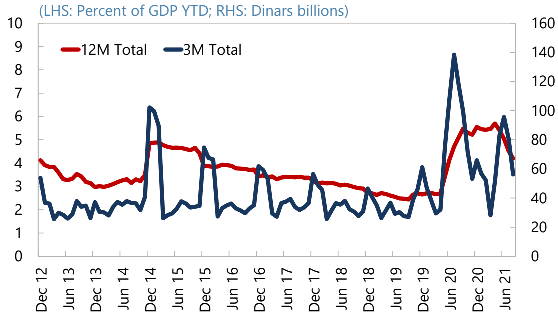
Sources: Ministry of Finance; and IMF Staff calculations

1/ Excludes employers' contributions

State aid to companies has been declining since April...

State Aid 2/

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



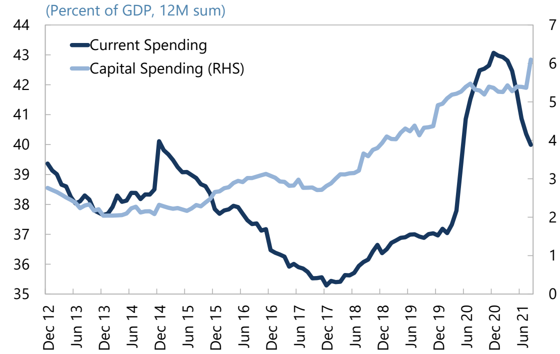
Sources: Ministry of Finance; and IMF Staff calculations

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 more broadly.

Current and Capital Spending

(Percent of GDP, 12M sum)

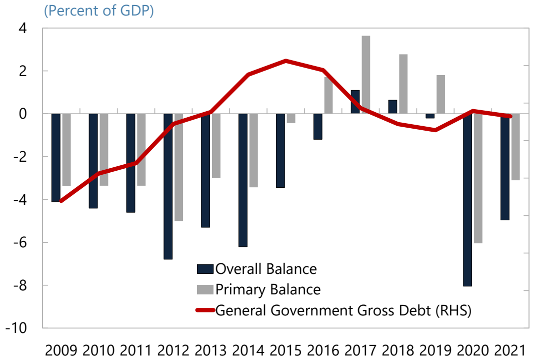


Sources: Ministry of Finance; and IMF Staff calculations

Government debt is expected to have peaked in 2020...

Fiscal Balance and Debt

(Percent of GDP)

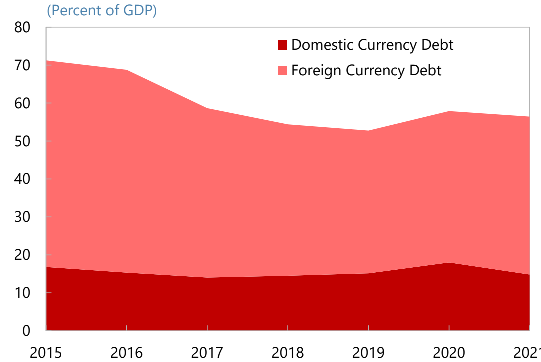


Sources: Ministry of Finance; and IMF Staff calculations

....with its currency composition broadly unchanged.

Public Debt

(Percent of GDP)

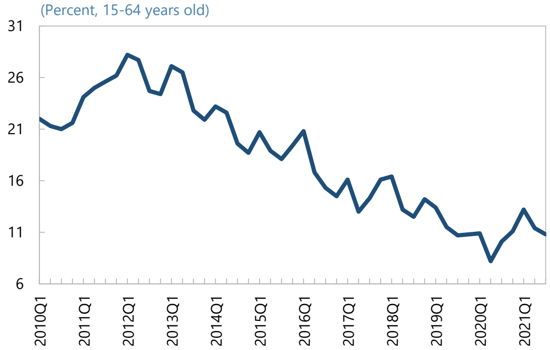


Sources: Ministry of Finance; and IMF Staff calculations

Figure 7. Serbia: Labor Market Developments

After picking up in 1Q2021, unemployment declined slightly in 2Q2021.

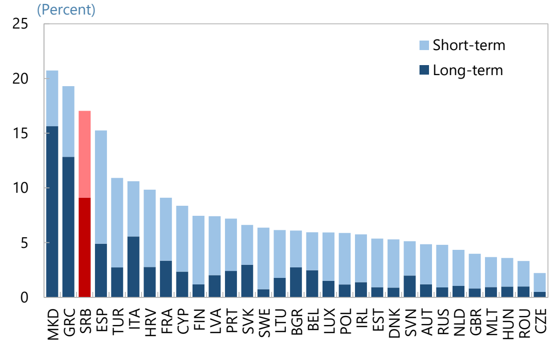
Unemployment Rate
(Percent, 15-64 years old)



Source: SORS

Long-term unemployment persists.

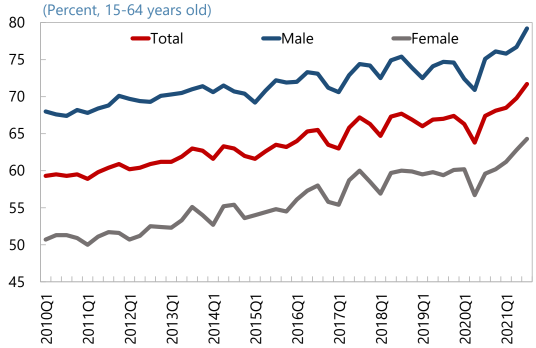
Unemployment Rate, 2020 or latest available
(Percent)



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

Labor market participation rates continued to improve in 2Q2021, exceeding pre-pandemic levels....

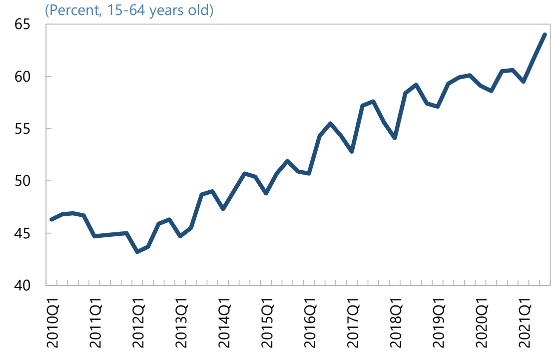
Labor Participation Rate
(Percent, 15-64 years old)



Sources: SORS

....along with employment growth.

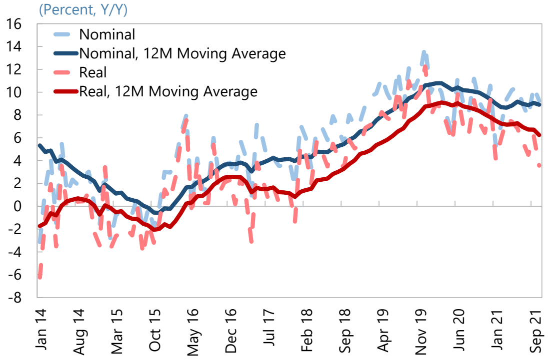
Employment Rate
(Percent, 15-64 years old)



Sources: SORS

Growth in net wages has slowed...

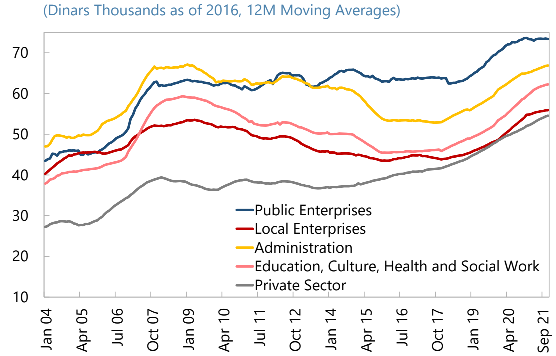
Net Wage Growth
(Percent, Y/Y)



Source: SORS

....but public sector wages remain above private sector wages.

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, 2018-2024

	2018	2019	2020	2021		2022		2023		2024
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.
(Percent change, unless otherwise indicated)										
Real sector										
Real GDP	4.5	4.3	-0.9	**6.0**	6.5	**4.5**	4.5	**4.5**	4.5	4.0
Real domestic demand (absorption)	6.5	6.3	-0.9	**5.8**	5.1	**4.5**	4.9	**4.5**	5.1	4.3
Consumer prices (average)	2.0	1.9	1.6	**2.5**	4.0	**2.6**	4.9	**2.6**	3.5	3.0
GDP deflator	2.0	2.4	2.4	**2.6**	4.9	**2.9**	4.7	**2.9**	3.8	3.2
Unemployment rate (in percent) 1/	14.1	11.6	10.0	**...**	...	**...**	...	**...**	...	...
Nominal GDP (in billions of dinars)	5,073	5,422	5,502	**5,942**	6,147	**6,389**	6,725	**6,868**	7,295	7,831
(Percent of GDP)										
General government finances										
Revenue 2/	41.5	42.0	41.0	**41.7**	43.6	**41.4**	41.7	**41.6**	41.7	41.8
Expenditure 2/	40.9	42.2	49.0	**48.7**	48.5	**44.4**	44.7	**43.1**	43.2	42.9
Current 2/	36.4	36.9	42.8	**40.9**	40.3	**37.2**	37.0	**36.5**	36.2	35.9
Capital and net lending	4.1	5.1	6.1	**7.6**	8.1	**6.8**	7.4	**6.5**	6.8	6.8
Amortization of called guarantees	0.4	0.2	0.1	**0.2**	0.1	**0.3**	0.2	**0.1**	0.1	0.2
Fiscal balance 3/	0.6	-0.2	-8.0	**-6.9**	-5.0	**-3.0**	-3.0	**-1.5**	-1.5	-1.1
Primary fiscal balance (cash basis)	2.8	1.8	-6.0	**-5.0**	-3.1	**-1.1**	-1.2	**0.4**	0.3	0.7
Structural primary fiscal balance 4/	2.8	1.5	-4.0	**-0.3**	-3.4	**-1.6**	-1.7	**0.3**	0.2	0.6
Gross debt /5	54.4	52.8	57.9	**60.3**	58.3	**58.9**	56.5	**56.0**	53.9	51.4
(End of period 12-month change, percent)										
Monetary sector										
Money (M1)	20.1	16.3	36.3	**11.8**	11.4	**8.4**	9.0	**8.0**	8.6	7.9
Broad money (M2)	15.0	8.8	18.4	**9.1**	10.6	**7.8**	8.4	**7.5**	8.1	7.4
Domestic credit to non-government 6/	10.1	9.5	12.0	**5.6**	5.8	**4.6**	5.1	**6.6**	4.3	4.5
(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	-4.2	**-5.1**	-4.1	**-5.0**	-4.3	**-4.9**	-4.3	-4.8
Exports of goods	35.2	35.7	34.3	**39.3**	39.1	**40.3**	39.2	**40.8**	39.0	39.4
Imports of goods	-47.1	-47.9	-45.4	**-50.4**	-49.5	**-51.0**	-49.5	**-51.3**	-49.3	-49.6
Trade of goods balance	-11.9	-12.2	-11.2	**-11.2**	-10.4	**-10.7**	-10.3	**-10.5**	-10.3	-10.2
Capital and financial account balance	6.7	10.6	5.2	**8.4**	11.1	**6.8**	5.9	**6.3**	6.7	7.1
External debt (percent of GDP) 7/	66.1	65.4	70.4	**70.6**	68.4	**68.0**	64.8	**64.8**	62.1	59.4
of which: Private external debt	30.9	30.8	33.9	**31.8**	31.1	**30.2**	29.0	**28.5**	27.2	25.8
Gross official reserves (in billions of euro)	11.3	13.4	13.5	**15.2**	17.1	**16.1**	18.0	**16.9**	19.5	21.0
(in months of prospective imports)	4.8	6.1	5.2	**5.4**	6.0	**5.4**	5.9	**5.2**	5.9	5.9
(percent of short-term debt)	195.3	408.9	412.3	**463.6**	523.2	**493.1**	551.4	**516.3**	594.8	640.5
(percent of broad money, M2)	52.2	57.7	57.3	**60.3**	65.7	**60.1**	63.6	**58.7**	63.9	64.5
(percent of risk-weighted metric) 8/	111.2	126.1	126.0	**129.0**	139.3	**130.3**	138.7	**129.6**	142.4	146.3
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	7,397	7,700	**8,878**	9,012	**9,629**	9,940	**10,368**	10,904	11,810
Real GDP per capita (percent change)	5.1	4.6	-0.4	**6.4**	6.9	**4.9**	4.9	**4.9**	4.9	4.4
Population (in million)	7.0	7.0	6.9	**6.9**	6.9	**6.9**	6.9	**6.8**	6.8	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. The calculation of the structural balance has been revised to include temporary one-off measures enacted to respond to the pandemic.

5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis, estimated at 1.1 percent of GDP as of August 15th 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
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.	Proj.	Proj.
						(percent change)						
Real sector												
GDP growth	4.5	4.3	-0.9	**6.0**	6.5	**4.5**	4.5	**4.5**	4.5	4.0	4.0	4.0
Domestic demand (contribution)	7.0	6.9	-1.0	**6.5**	5.7	**5.1**	5.4	**5.0**	5.6	4.7	5.0	4.5
Net exports (contribution)	-2.5	-2.6	0.1	**-0.5**	0.8	**-0.6**	-0.9	**-0.5**	-1.1	-0.7	-0.9	-0.4
Consumer price inflation (average)	2.0	1.9	1.6	**2.5**	4.0	**2.6**	4.9	**2.6**	3.5	3.0	2.8	2.5
Consumer price inflation (end of period)	2.0	1.9	1.3	**3.0**	7.0	**2.4**	2.5	**2.6**	3.0	3.0	2.8	2.5
Output gap (in percent of potential)	0.0	0.4	-2.1	**-1.9**	-0.5	**-1.0**	-0.4	**-0.5**	-0.2	-0.2	-0.1	0.0
Potential GDP growth	3.7	3.9	1.6	**5.8**	4.8	**3.6**	4.3	**4.0**	4.3	4.0	4.0	4.0
Domestic credit to non-gov. (constant exchange rate) 1/	10.1	9.5	12.0	**5.6**	5.8	**4.6**	5.1	**6.6**	4.3	4.5	4.8	5.0
						(percent of GDP, unless otherwise indicated)						
General government												
Revenue 2/	41.5	42.0	41.0	**41.7**	43.6	**41.4**	41.7	**41.6**	41.7	41.8	41.7	41.8
Expenditure 2/	40.9	42.2	49.0	**48.7**	48.5	**44.4**	44.7	**43.1**	43.2	42.9	42.8	42.9
Current 2/	36.4	36.9	42.8	**40.9**	40.3	**37.2**	37.0	**36.5**	36.2	35.9	35.8	35.8
of which: Wages and salaries 2/	9.2	9.5	10.5	**10.4**	10.2	**10.0**	10.0	**9.8**	10.0	9.8	9.9	9.9
of which: Pensions	10.4	10.5	10.9	**10.6**	10.1	**10.2**	10.1	**10.0**	10.0	9.9	9.9	9.9
of which: Goods and services	8.1	8.7	11.0	**10.4**	10.7	**9.1**	9.2	**8.6**	8.7	8.5	8.4	8.2
Capital and net lending	4.1	5.1	6.1	**7.6**	8.1	**6.8**	7.4	**6.5**	6.8	6.8	6.8	6.9
Amortization of called guarantees	0.4	0.2	0.1	**0.2**	0.1	**0.3**	0.2	**0.1**	0.1	0.2	0.2	0.1
Fiscal balance 3/	0.6	-0.2	-8.0	**-6.9**	-5.0	**-3.0**	-3.0	**-1.5**	-1.5	-1.1	-1.1	-1.1
change (+ = consolidation)	*-0.5*	*-0.8*	*-7.8*	***1.2***	*3.1*	***4.0***	*2.0*	***1.4***	*1.5*	*0.3*	*0.0*	*0.0*
Primary fiscal balance	2.8	1.8	-6.0	**-5.0**	-3.1	**-1.1**	-1.2	**0.4**	0.3	0.7	0.7	0.8
change (+ = consolidation)	*-0.9*	*-1.0*	*-7.8*	***1.1***	*2.9*	***4.0***	*1.9*	***1.5***	*1.6*	*0.3*	*0.1*	*0.0*
One-off fiscal items, net 4/	-0.1	0.1	-1.3	**-4.4**	0.5	**0.7**	0.6	**0.0**	0.0	0.0	0.0	0.0
Structural primary balance	2.8	1.5	-4.0	**-0.3**	-3.4	**-1.6**	-1.7	**0.3**	0.2	0.6	0.6	0.6
change (+ = consolidation)	*-0.8*	*-1.3*	*-5.5*	***-2.4***	*0.5*	***-1.3***	*1.7*	***1.9***	*2.0*	*0.3*	*0.0*	*0.0*
Structural primary balance net of capital expenditures	6.8	6.4	1.4	**6.9**	4.4	**4.7**	5.5	**6.3**	6.9	7.3	7.3	7.3
Gross debt	54.4	52.8	57.9	**60.3**	58.3	**58.9**	56.5	**56.0**	53.9	51.4	49.0	46.9
Effective interest rate on government borrowing												
(percent)	3.9	3.9	3.9	**3.5**	3.6	**3.4**	3.3	**3.6**	3.5	3.6	3.9	4.1
Domestic borrowing (including FX)	5.0	4.7	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	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	-4.2	**-5.1**	-4.1	**-5.0**	-4.3	**-4.9**	-4.3	-4.8	-4.9	-4.6
of which: Trade balance	-11.9	-12.2	-11.2	**-11.2**	-10.4	**-10.7**	-10.3	**-10.5**	-10.3	-10.2	-10.2	-10.1
of which: Current transfers, net (excl. grants)	9.2	7.9	7.1	**7.7**	7.4	**7.8**	7.5	**8.0**	7.6	7.7	7.9	7.9
Capital and financial account	6.7	10.6	5.2	**8.4**	11.1	**6.8**	5.9	**6.3**	6.7	7.1	6.5	6.3
of which: Foreign direct investment	7.4	7.7	6.2	**6.2**	6.2	**6.2**	5.7	**6.1**	5.8	5.7	5.6	5.7
External debt (end of period) 5/	66.1	65.4	70.4	**70.6**	68.4	**68.0**	64.8	**64.8**	62.1	59.4	57.3	55.2
of which: Private external debt	30.9	30.8	33.9	**31.8**	31.1	**30.2**	29.0	**28.5**	27.2	25.8	24.2	22.8
Gross official reserves												
(in billions of euros)	11.3	13.4	13.5	**15.2**	17.1	**16.1**	18.0	**16.9**	19.5	21.0	22.0	23.3
(in percent of short-term external debt)	195.3	408.9	412.3	**463.6**	523.2	**493.1**	551.4	**516.3**	594.8	640.5	673.7	711.9
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
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.	Proj.	Proj.
						(Percent change, unless otherwise noted)						
Real												
Gross Domestic Product (GDP)	4.5	4.3	-0.9	6.0	6.5	4.5	4.5	4.5	4.5	4.0	4.0	4.0
Domestic demand	6.5	6.3	-0.9	5.8	5.1	4.5	4.9	4.5	5.1	4.3	4.5	4.0
Consumption	3.2	3.4	-1.1	3.9	2.6	5.1	4.7	4.2	5.0	3.6	3.9	3.2
Non-government	3.1	3.7	-1.9	4.6	3.2	6.3	6.1	4.5	5.0	4.0	4.4	3.6
Government	3.8	2.0	2.9	1.2	0.1	-0.1	-1.5	2.9	5.0	1.6	1.6	1.3
Investment	20.8	17.4	-0.4	11.7	13.4	2.9	5.5	5.2	5.5	6.3	6.1	6.2
Gross fixed capital formation	17.5	17.2	-1.9	14.0	15.4	3.5	6.2	6.1	6.3	7.1	6.8	6.9
Non-government	13.2	14.5	-4.9	6.5	5.5	8.0	9.0	7.5	9.0	7.5	7.5	7.0
Government	45.2	30.8	11.5	42.1	52.8	-9.1	-1.0	1.3	-1.6	5.9	4.6	6.5
Exports of goods and services	7.5	7.7	-4.2	17.1	19.7	7.4	6.7	6.7	5.4	5.7	5.7	6.3
Imports of goods and services	10.8	10.7	-3.6	14.7	15.1	7.0	7.0	6.2	6.2	5.8	6.1	5.9
						(contributions to GDP, percent)						
Gross Domestic Product (GDP)	4.5	4.3	-0.9	6.0	6.5	4.5	4.5	4.5	4.5	4.0	4.0	4.0
Domestic demand (absorption)	7.0	6.9	-1.0	6.5	5.7	5.1	5.4	5.0	5.6	4.7	5.0	4.5
Net exports of goods and services	-2.5	-2.6	0.1	-0.5	0.8	-0.6	-0.9	-0.5	-1.1	-0.7	-0.9	-0.4
Consumption	2.8	2.9	-0.9	3.4	2.2	4.2	3.9	3.5	4.1	3.0	3.2	2.6
Non-government	2.2	2.6	-1.3	3.2	2.2	4.3	4.1	3.1	3.4	2.7	3.0	2.5
Government	0.6	0.3	0.4	0.2	0.0	0.0	-0.2	0.4	0.7	0.2	0.2	0.2
Investment	4.1	4.0	-0.1	3.1	3.5	0.8	1.5	1.5	1.5	1.8	1.8	1.8
Gross fixed capital formation	3.2	3.5	-0.4	3.1	3.5	0.8	1.5	1.4	1.6	1.8	1.8	1.8
Non-government	2.1	2.5	-0.9	1.1	1.0	1.4	1.6	1.4	1.7	1.4	1.5	1.4
Government	1.1	1.0	0.5	2.0	2.5	-0.6	-0.1	0.1	-0.1	0.4	0.3	0.4
Change in inventories	1.0	0.5	0.3	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	-2.3	9.0	10.5	4.3	4.0	4.0	3.3	3.5	3.5	4.0
Imports of goods and services	6.3	6.7	-2.4	9.5	9.7	4.9	4.9	4.5	4.5	4.2	4.5	4.4
						(Percent change, unless otherwise noted)						
Nominal												
Gross Domestic Product (GDP)	6.6	6.9	1.5	8.7	11.7	7.5	9.4	7.5	8.5	7.3	7.4	7.1
Domestic demand (absorption), contribution to GDP growth	9.2	8.9	0.0	9.5	11.3	7.8	10.1	7.7	9.2	7.7	7.9	7.2
Net exports of goods and services, contribution to GDP growth	-2.6	-2.0	1.5	-0.7	0.5	-0.2	-0.7	-0.2	-0.7	-0.4	-0.6	-0.2
Non-government	4.4	5.0	-0.9	7.3	7.3	9.1	11.3	7.2	8.6	7.1	7.3	6.2
Government	9.2	7.4	6.8	5.3	6.6	1.9	4.0	6.2	10.7	5.8	6.5	6.4
Investment	23.3	18.4	-2.1	15.5	21.7	5.7	8.3	7.7	7.1	8.4	8.1	8.4
Gross fixed capital formation	20.4	19.8	-3.1	19.1	25.3	5.8	8.5	8.4	8.0	9.3	8.8	8.8
Non-government	15.0	16.4	-6.8	9.9	12.7	11.2	11.8	10.1	11.3	9.8	9.6	8.9
Government	48.9	33.6	10.1	46.6	63.2	-6.4	1.6	3.8	0.5	8.2	6.7	8.4
Exports of goods and services	6.5	8.1	-4.0	19.1	23.4	9.2	9.1	8.6	7.2	7.6	7.4	8.2
Imports of goods and services	10.3	10.3	-5.9	17.4	19.1	8.3	9.1	7.8	7.5	7.4	7.5	7.5
Memorandum items:												
GDP deflator (percent)	2.0	2.4	2.4	2.6	4.9	2.9	4.7	2.9	3.8	3.2	3.2	2.9
Nominal GDP (billions of dinars)	5073	5422	5502	5942	6147	6389	6725	6868	7295	7831	8407	9001

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
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.	Proj.	Proj.
						(Billions of euros)						
Current account balance	-2.1	-3.2	-2.0	**-2.5**	-2.2	**-2.7**	-2.4	**-2.8**	-2.6	-3.1	-3.4	-3.4
Trade of goods balance	-5.1	-5.6	-5.2	**-5.6**	-5.4	**-5.8**	-5.8	**-6.0**	-6.3	-6.6	-7.1	-7.5
Exports of goods	15.1	16.4	16.0	**19.7**	20.3	**21.6**	22.2	**23.4**	23.8	25.6	27.4	29.6
Imports of goods	-20.2	-22.0	-21.3	**-25.4**	-25.7	**-27.3**	-28.0	**-29.4**	-30.0	-32.2	-34.5	-37.1
Services balance	1.0	1.0	1.1	**1.1**	1.4	**1.2**	1.5	**1.3**	1.5	1.5	1.6	1.9
Exports of nonfactor services	6.1	6.9	6.2	**6.7**	7.1	**7.3**	7.7	**8.0**	8.2	8.9	9.6	10.4
Imports of nonfactor services	-5.1	-5.9	-5.1	**-5.6**	-5.6	**-6.1**	-6.3	**-6.7**	-6.8	-7.4	-8.0	-8.6
Income balance	-2.2	-2.5	-1.4	**-2.1**	-2.2	**-2.4**	-2.5	**-2.9**	-2.7	-3.3	-3.7	-3.9
Net interest	-0.7	-0.7	-0.6	**-0.7**	-0.7	**-0.7**	-0.7	**-0.7**	-0.7	-0.7	-0.7	-0.7
Current transfer balance	4.2	3.9	3.6	**4.0**	4.0	**4.3**	4.4	**4.8**	4.9	5.3	5.7	6.1
Others, including private remittances	3.9	3.7	3.3	**3.9**	3.9	**4.2**	4.2	**4.6**	4.6	5.0	5.5	0.0
Capital and financial account balance 2/	2.9	4.9	2.4	**4.2**	5.8	**3.6**	3.3	**3.6**	4.1	4.6	4.5	4.6
Foreign direct investment balance	3.2	3.6	2.9	**3.1**	3.2	**3.3**	3.2	**3.5**	3.5	3.7	3.9	4.2
Portfolio investment balance	-0.9	0.2	1.6	**2.0**	1.8	**0.3**	0.3	**0.2**	0.2	0.5	0.3	0.3
of which: debt liabilities	-0.9	0.3	1.6	**2.0**	1.8	**0.3**	0.3	**0.2**	0.2	0.5	0.3	0.3
Other investment balance	0.6	1.2	-2.1	**-0.9**	0.8	**0.0**	-0.1	**-0.1**	0.4	0.4	0.3	0.1
Public sector 2/ 3/	0.2	0.3	-0.3	**0.4**	1.3	**0.4**	0.0	**0.4**	0.8	0.1	0.8	0.9
Domestic banks	0.1	0.6	-0.3	**-0.4**	-0.6	**-0.1**	-0.4	**-0.1**	-0.1	0.0	0.0	0.0
Other private sector 4/	0.3	0.4	-1.5	**-0.9**	0.1	**-0.3**	0.2	**-0.4**	-0.3	0.3	-0.5	-0.7
Errors and omissions	0.3	0.2	-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	0.3	**1.7**	3.6	**1.0**	0.9	**0.8**	1.4	1.5	1.1	1.3
Financing	-1.3	-1.9	-0.3	**-1.7**	-3.6	**-1.0**	-0.9	**-0.8**	-1.4	-1.5	-1.1	-1.3
Gross international reserves (increase, -)	-1.3	-1.9	-0.3	**-1.7**	-3.6	**-1.0**	-0.9	**-0.8**	-1.4	-1.5	-1.1	-1.3
Financing Gap	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Use of Fund credit, net	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0

Sources: NBS; and IMF staff estimates and projections.

1/ SORS released revised 2016 BOP in October 2017.

2/ Excluding net use of IMF resources.

3/ Includes SDR allocations in 2021.

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
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.	Proj.	Proj.
						(Percent of GDP)						
Current account balance	-4.8	-6.9	-4.2	**-5.1**	-4.1	**-5.0**	-4.3	**-4.9**	-4.3	-4.8	-4.9	-4.6
Trade of goods balance	-11.9	-12.2	-11.2	**-11.2**	-10.4	**-10.7**	-10.3	**-10.5**	-10.3	-10.2	-10.2	-10.1
Exports of goods	35.2	35.7	34.3	**39.3**	39.1	**40.3**	39.2	**40.8**	39.0	39.4	39.5	39.8
Imports of goods	-47.1	-47.9	-45.4	**-50.4**	-49.5	**-51.0**	-49.5	**-51.3**	-49.3	-49.6	-49.7	-49.9
Services balance	2.3	2.2	2.3	**2.3**	2.7	**2.2**	2.6	**2.2**	2.4	2.4	2.3	2.5
Income balance	-5.1	-5.4	-3.0	**-4.1**	-4.2	**-4.5**	-4.4	**-5.0**	-4.5	-5.1	-5.3	-5.2
Current transfer balance	9.8	8.5	7.6	**8.0**	7.7	**8.1**	7.8	**8.3**	8.0	8.1	8.3	8.2
Official grants	0.6	0.6	0.5	**0.3**	0.3	**0.3**	0.4	**0.3**	0.4	0.4	0.4	0.4
Others, including private remittances	9.2	7.9	7.1	**7.7**	7.4	**7.8**	7.5	**8.0**	7.6	7.7	7.9	0.0
Capital and financial account balance 2/	6.7	10.6	5.2	**8.4**	11.1	**6.8**	5.9	**6.3**	6.7	7.1	6.5	6.3
Capital transfers balance	0.0	-0.2	-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	6.2	**6.2**	6.2	**6.2**	5.7	**6.1**	5.8	5.7	5.6	5.7
Portfolio investment balance	-2.1	0.4	3.5	**4.0**	3.4	**0.6**	0.4	**0.3**	0.3	0.8	0.4	0.4
Other investment balance	1.5	2.7	-4.5	**-1.8**	1.5	**-0.1**	-0.2	**-0.2**	0.7	0.6	0.4	0.2
Public sector 2/ 3/	0.5	0.6	-0.7	**0.9**	2.6	**0.7**	0.0	**0.7**	1.3	0.1	1.1	1.2
Domestic banks	0.3	1.3	-0.6	**-0.8**	-1.1	**-0.3**	-0.6	**-0.2**	-0.2	0.0	-0.1	-0.1
Other private sector 4/	0.7	0.8	-3.2	**-1.9**	0.1	**-0.5**	0.4	**-0.7**	-0.5	0.4	-0.7	-0.9
Errors and omissions	0.8	0.4	-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	0.6	**3.3**	7.0	**1.8**	1.6	**1.3**	2.3	2.3	1.6	1.7
Memorandum items:												
Nominal growth of exports of goods	7.4	8.7	-2.3	**23.1**	26.8	**9.4**	9.0	**8.5**	7.3	7.5	7.3	7.9
Nominal growth of import of goods	11.8	9.1	-3.5	**19.3**	21.1	**7.8**	8.7	**7.6**	7.3	7.1	7.3	7.5
Volume growth of exports of goods	5.7	8.4	-3.1	**21.0**	23.0	**7.5**	6.5	**6.5**	5.5	5.5	5.5	6.0
Volume growth of import of goods	8.9	9.8	-0.3	**16.6**	17.1	**6.6**	6.6	**6.1**	6.1	5.6	5.9	5.9
Trading partner import growth	5.3	2.7	-6.8	**8.2**	10.1	**6.9**	7.3	**5.0**	5.3	4.6	4.3	4.1
Export prices growth	1.6	0.2	0.8	**1.7**	3.1	**1.7**	2.3	**1.8**	1.7	1.8	1.6	1.8
Import prices growth	2.6	-0.6	-3.3	**2.3**	3.5	**1.2**	2.0	**1.5**	1.2	1.4	1.3	1.5
Change in terms of trade	-1.0	0.8	4.2	**-0.6**	-0.4	**0.5**	0.3	**0.3**	0.5	0.4	0.3	0.3
Gross official reserves (in billions of euro)	11.3	13.4	13.5	**15.2**	17.1	**16.1**	18.0	**16.9**	19.5	21.0	22.0	23.3
(In months of prospective imports of GNFS)	4.8	6.1	5.2	**5.4**	6.0	**5.4**	5.9	**5.2**	5.9	5.9	5.8	5.5
(in percent of short-term debt)	195.3	408.9	412.3	**463.6**	523.2	**493.1**	551.4	**516.3**	594.8	640.5	673.7	711.9
(in percent of broad money, M2)	52.2	57.7	57.3	**60.3**	65.7	**60.1**	63.6	**58.7**	63.9	64.5	63.4	62.6
(in percent of risk-weighted metric) 5/	111.2	126.1	126.0	**129.0**	139.3	**130.3**	138.7	**129.6**	142.4	146.3	146.2	147.4
GDP (billions of euros)	42.9	46.0	46.8	**50.3**	52.1	**53.6**	56.6	**57.3**	60.9	64.9	69.4	74.3

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 2021.

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.			
Total financing requirement	**8.4**	**10.8**	**5.5**	**9.7**	**7.6**	**8.4**	**8.6**	**7.3**	**7.3**
Current account deficit	2.1	3.2	2.0	2.2	2.4	2.6	3.1	3.4	3.4
Debt amortization	5.0	5.8	3.3	3.9	4.3	4.3	4.0	2.8	2.6
Medium and long-term debt	4.1	4.4	3.0	3.5	3.4	3.4	3.1	1.9	1.7
Public sector	3.1	3.4	2.3	2.5	2.1	2.3	2.4	1.4	1.3
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	0.7	0.7	0.0	0.0	0.0
Of which: Domestic bonds (non-residents)	1.1	1.0	1.1	1.1	0.5	0.5	0.5	0.5	0.5
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	0.6	0.8	0.7	0.3	0.3	0.3
Short-term debt	0.8	1.4	0.3	0.5	0.9	0.9	0.9	0.9	0.9
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	0.5	0.9	0.9	0.9	0.9	0.9
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	3.6	0.9	1.4	1.5	1.1	1.3
Total financing sources	**8.4**	**10.8**	**5.5**	**9.7**	**7.6**	**8.4**	**8.6**	**7.3**	**7.3**
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	3.2	3.2	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	6.6	5.4	5.5	4.7	4.0	3.9
Medium and long-term debt	4.2	5.7	5.7	6.1	4.5	4.6	3.9	3.1	3.0
Public sector 2/	2.4	3.9	4.4	4.8	3.0	3.2	3.0	2.5	2.5
Of which: Eurobonds	0.0	1.5	3.0	2.7	0.7	0.7	0.7	0.7	0.7
Of which: Domestic bonds (non-residents)	1.3	1.2	0.7	0.7	0.7	0.7	0.3	0.1	0.1
Commercial banks	0.5	0.6	0.7	0.5	0.6	0.5	0.5	0.3	0.1
Corporate sector	1.3	1.1	0.7	0.8	0.9	0.8	0.4	0.3	0.4
Short-term debt	0.8	1.4	0.3	0.5	0.9	0.9	0.9	0.9	0.9
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	0.5	0.9	0.9	0.9	0.9	0.9
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	-0.1	-0.9	-0.6	0.1	-0.6	-0.8
o/w trade credit and currency and deposits	1.5	0.5	2.9	0.9	0.9	0.6	-0.1	0.6	0.8
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	4.6	4.9	4.9	4.4	3.3	2.9
Interest	0.7	0.6	0.7	0.7	0.6	0.5	0.4	0.5	0.3
Amortization	5.0	5.8	3.3	3.9	4.3	4.3	4.0	2.8	2.6

Sources: NBS; and Fund staff estimates and projections.

1/ Only includes equity securities and financial derivatives.
2/ Excluding IMF.
3/ Includes all other net financial flows and errors and omissions.

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

(Billions of RSD)

	2018	2019	2020	2021		2022		2023		2024	2025	2026
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.	Proj.	Proj.
Revenue	2,105	2,279	2,255	**2,480**	2,679	**2,645**	2,804	**2,855**	3,039	3,273	3,509	3,758
Taxes	1,822	1,994	1,991	**2,225**	2,397	**2,384**	2,527	**2,586**	2,751	2,974	3,202	3,441
Personal income tax	179	204	204	**236**	253	**244**	274	**264**	298	324	354	388
Social security contributions 2/	620	676	674	**816**	855	**860**	926	**910**	991	1,084	1,167	1,255
Taxes on profits	112	127	123	**107**	157	**126**	145	**156**	178	193	207	221
Value-added taxes	500	551	549	**600**	654	**644**	684	**695**	741	797	851	908
Excises	290	307	306	**323**	329	**352**	338	**393**	371	393	426	456
Taxes on international trade	44	48	52	**57**	59	**62**	63	**67**	68	74	79	85
Other taxes	77	82	83	**86**	90	**96**	96	**102**	103	109	118	127
Non-tax revenue	263	259	239	**235**	262	**241**	252	**247**	260	268	277	285
Capital revenue	6	11	14	**0**	0	**0**	0	**0**	0	0	0	0
Grants	15	15	11	**20**	20	**21**	26	**22**	28	30	30	32
Expenditure	2,073	2,290	2,698	**2,892**	2,983	**2,834**	3,004	**2,959**	3,148	3,362	3,601	3,858
Current expenditure	1,845	2,002	2,353	**2,428**	2,474	**2,380**	2,490	**2,505**	2,643	2,815	3,013	3,226
Wages and salaries 3/	469	516	579	**616**	629	**638**	673	**675**	728	771	829	890
Goods and services	412	472	606	**618**	661	**579**	618	**589**	632	667	704	740
Interest	109	109	110	**114**	114	**121**	119	**134**	134	142	155	169
Subsidies	110	121	251	**219**	214	**145**	166	**156**	179	193	207	221
Transfers	746	783	806	**862**	858	**896**	915	**951**	970	1,042	1,119	1,206
Pensions 4/	525	568	599	**627**	622	**652**	680	**690**	728	777	831	891
Other transfers 5/	221	215	207	**235**	236	**244**	235	**261**	242	265	288	316
Capital expenditure	199	266	293	**430**	478	**402**	486	**417**	488	528	563	610
Net lending	9	11	44	**22**	22	**32**	13	**26**	7	7	7	8
Amortization of activated guarantees	20	11	7	**12**	8	**21**	15	**10**	11	12	17	13
Fiscal balance	32	-11	-443	**-412**	-304	**-189**	-200	**-104**	-109	-90	-92	-100
Financing	-32	11	443	**412**	304	**189**	200	**104**	109	90	92	100
Privatization proceeds	3	49	53	**0**	0	**0**	0	**0**	0	0	0	0
Equity investment	0	-26	0	**0**	0	**0**	0	**0**	0	0	0	0
Domestic	48	-59	169	**156**	18	**139**	148	**52**	37	19	-64	-67
External	-84	47	221	**257**	287	**50**	52	**52**	72	70	157	167
Program	0	0	0	**0**	0	**0**	0	**0**	0	0	0	0
Project	79	90	70	**114**	104	**151**	142	**150**	167	167	167	167
Bonds and loans	40	213	355	**325**	351	**31**	109	**31**	116	131	100	103
Amortization	-202	-256	-204	**-182**	-168	**-132**	-199	**-130**	-211	-228	-110	-103
Memorandum items:												
Gross 1 wages and salaries	397	440	495	**525**	537	**545**	577	**576**	621	658	707	760
Arrears accumulation (domestic)	1	2	-3	**-1**	0	**-1**	-1	**-1**	0	0	0	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	38	32	33	**4**	37	**8**	8	**9**	9	5	5	5
Government deposits (stock)	105	212	207	**129**	268	**129**	278	**147**	298	298	298	298
Gross public debt 6/	2760	2860	3185	**3584**	3582	**3762**	3798	**3845**	3933	4022	4118	4225
Gross public debt (including restitution) 6/	3003	3103	3428	**3808**	3825	**3966**	4033	**4028**	4151	4220	4296	4383
Nominal GDP (billions of dinars)	5073	5422	5502	**5942**	6147	**6389**	6725	**6868**	7295	7831	8407	9001

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
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.	Proj.	Proj.
Revenue	41.5	42.0	41.0	**41.7**	43.6	**41.4**	41.7	**41.6**	41.7	41.8	41.7	41.8
Taxes	35.9	36.8	36.2	**37.5**	39.0	**37.3**	37.6	**37.6**	37.7	38.0	38.1	38.2
Personal income tax	3.5	3.8	3.7	**4.0**	4.1	**3.8**	4.1	**3.8**	4.1	4.1	4.2	4.3
Social security contributions 2/	12.2	12.5	12.2	**13.7**	13.9	**13.5**	13.8	**13.2**	13.6	13.8	13.9	13.9
Taxes on profits	2.2	2.3	2.2	**1.8**	2.6	**2.0**	2.2	**2.3**	2.4	2.5	2.5	2.5
Value-added taxes	9.9	10.2	10.0	**10.1**	10.6	**10.1**	10.2	**10.1**	10.2	10.2	10.1	10.1
Excises	5.7	5.7	5.6	**5.4**	5.4	**5.5**	5.0	**5.7**	5.1	5.0	5.1	5.1
Taxes on international trade	0.9	0.9	0.9	**1.0**	1.0	**1.0**	0.9	**1.0**	0.9	0.9	0.9	0.9
Other taxes	1.5	1.5	1.5	**1.5**	1.5	**1.5**	1.4	**1.5**	1.4	1.4	1.4	1.4
Non-tax revenue	5.2	4.8	4.3	**4.0**	4.3	**3.8**	3.7	**3.6**	3.6	3.4	3.3	3.2
Capital revenue	0.1	0.2	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	0.2	**0.3**	0.3	**0.3**	0.4	**0.3**	0.4	0.4	0.4	0.4
Expenditure	40.9	42.2	49.0	**48.7**	48.5	**44.4**	44.7	**43.1**	43.2	42.9	42.8	42.9
Current expenditure	36.4	36.9	42.8	**40.9**	40.3	**37.2**	37.0	**36.5**	36.2	35.9	35.8	35.8
Wages and salaries 3/	9.2	9.5	10.5	**10.4**	10.2	**10.0**	10.0	**9.8**	10.0	9.8	9.9	9.9
Goods and services	8.1	8.7	11.0	**10.4**	10.7	**9.1**	9.2	**8.6**	8.7	8.5	8.4	8.2
Interest	2.1	2.0	2.0	**1.9**	1.9	**1.9**	1.8	**1.9**	1.8	1.8	1.8	1.9
Subsidies	2.2	2.2	4.6	**3.7**	3.5	**2.3**	2.5	**2.3**	2.5	2.5	2.5	2.5
Transfers	14.7	14.4	14.7	**14.5**	14.0	**14.0**	13.6	**13.8**	13.3	13.3	13.3	13.4
Pensions 4/	10.4	10.5	10.9	**10.6**	10.1	**10.2**	10.1	**10.0**	10.0	9.9	9.9	9.9
Other transfers 5/	4.4	4.0	3.8	**3.9**	3.8	**3.8**	3.5	**3.8**	3.3	3.4	3.4	3.5
Capital expenditure	3.9	4.9	5.3	**7.2**	7.8	**6.3**	7.2	**6.1**	6.7	6.7	6.7	6.8
Net lending	0.2	0.2	0.8	**0.4**	0.4	**0.5**	0.2	**0.4**	0.1	0.1	0.1	0.1
Amortization of activated guarantees	0.4	0.2	0.1	**0.2**	0.1	**0.3**	0.2	**0.1**	0.1	0.2	0.2	0.1
Fiscal balance	0.6	-0.2	-8.0	**-6.9**	-5.0	**-3.0**	-3.0	**-1.5**	-1.5	-1.1	-1.1	-1.1
Financing	-0.6	0.2	8.0	**6.9**	5.0	**3.0**	3.0	**1.5**	1.5	1.1	1.1	1.1
Privatization proceeds	0.1	0.9	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
Domestic	1.0	-1.1	3.1	**2.6**	0.3	**2.2**	2.2	**0.8**	0.5	0.2	-0.8	-0.7
External	-1.7	0.9	4.0	**4.3**	4.7	**0.8**	0.8	**0.8**	1.0	0.9	1.9	1.9
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
Project	1.5	1.7	1.3	**1.9**	1.7	**2.4**	2.1	**2.2**	2.3	2.1	2.0	1.9
Bonds and loans	0.8	3.9	6.4	**5.5**	5.7	**0.5**	1.6	**0.5**	1.6	1.7	1.2	1.1
Amortization	-4.0	-4.7	-3.7	**-3.1**	-2.7	**-2.1**	-3.0	**-1.9**	-2.9	-2.9	-1.3	-1.1
Memorandum items:												
Gross 1 wages and salaries	7.8	8.1	9.0	**8.8**	8.7	**8.5**	8.6	**8.4**	8.5	8.4	8.4	8.4
Arrears accumulation (domestic)	0.0	0.0	-0.1	**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	3.8	**2.2**	4.4	**2.0**	4.1	**2.1**	4.1	3.8	3.5	3.3
Gross financing need	8.8	10.7	14.9	**12.2**	10.1	**9.3**	9.1	**8.1**	8.4	8.0	5.2	4.9
Gross public debt 6/	54.4	52.8	57.9	**60.3**	58.3	**58.9**	56.5	**56.0**	53.9	51.4	49.0	46.9
Gross public debt (including restitution) 6/	59.2	57.2	62.3	**64.1**	62.2	**62.1**	60.0	**58.7**	56.9	53.9	51.1	48.7
Nominal GDP (billions of dinars)	5,073	5,422	5,502	**5,942**	6,147	**6,389**	6,725	**6,868**	7,295	7,831	8,407	9,001

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: Decomposition of Public Debt and Debt Service by Creditor, 2020-2022 1/

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US$ bln)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ bln)*			*(Percent GDP)*		
Total	32.8	100.0	57.0	4.6	3.8	3.8	8.0	6.1	5.5
External	18.7	57.1	32.6	2.4	1.8	1.2	4.2	2.8	1.8
Multilateral creditors[2]	6.5	19.9	11.3	0.5	0.5	0.5	0.8	0.9	0.8
IMF	0.6	1.7	1.0						
World Bank	0.0	0.0	0.0						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	6.0	18.2	10.4						
o/w: IBRD	2.7	8.2	4.7						
EIB	2.2	6.7	3.8						
Others (IDA, EU, CEB, EBRD, EUROFIMA)	1.1	3.2	1.9						
Bilateral Creditors	5.7	17.4	9.9	0.6	0.4	0.6	1.1	0.7	0.9
Paris Club	1.1	3.2	1.8	0.2	0.2	0.2	0.3	0.3	0.3
o/w: PC Germany KfW	0.2	0.6	0.3						
PC United Kingdom	0.1	0.4	0.2						
Non-Paris Club	4.7	14.2	8.1	0.4	0.3	0.4	0.7	0.4	0.6
o/w: UAE	2.0	6.1	3.5						
China	1.3	4.0	2.3						
Russia	0.8	2.4	1.4						
Others	0.5	1.6	0.9						
Bonds	6.3	19.3	11.0	1.3	1.0	0.0	2.3	1.5	0.0
Commercial creditors	0.1	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
o/w: T.C. ZİRAAT BANKASI A.Ş. and DENİZBANK A. Ş.	0.1	0.2	0.1						
Kuwait Fund Belgrade Center Railway Station Project 1	0.0	0.1	0.0						
Other international creditors	0.1	0.3	0.2	0.0	0.0	0.031	0.0	0.0	0.0
o/w: JICA	0.1	0.3	0.2						
Domestic	14.1	42.9	24.4	2.2	2.0	2.6	3.8	3.3	3.7
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	0.4	1.1	0.6	0.4	0.0	0.0	0.6	0.0	0.0
Bonds	13.3	40.7	23.2	1.8	2.0	2.5	3.2	3.2	3.6
Loans and other domestic debt	0.3	1.1	0.6	0.0	0.1	0.1	0.0	0.1	0.1
Memo items:									
Collateralized debt[3]	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities	1.7	5.3	3.0						
o/w: Public guarantees	1.7	5.3	3.0						
o/w: Other explicit contingent liabilities[4]	0.0	0.0	0.0						
Nominal GDP	57.5		100.0						

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

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

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

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

Table 8. Serbia: Monetary Survey, 2018-2026

	2018	2019	2020	2021		2022		2023		2024	2025	2026
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/											
Net foreign assets 2/	1116	1287	1347	1601	1765	1744	2017	1851	2219	2409	2551	2707
in billions of euro	9.4	11.0	11.5	13.5	14.9	14.6	16.9	15.4	18.4	19.9	21.1	22.3
Foreign assets	1616	1831	1924	2190	2453	2343	2625	2458	2838	3041	3191	3352
NBS	1342	1585	1598	1812	2040	1940	2161	2036	2352	2545	2682	2831
Commercial banks	273	247	326	378	413	403	464	422	486	496	510	520
Foreign liabilities (-)	-500	-544	-577	-589	-688	-599	-607	-607	-619	-632	-640	-645
NBS	-3	-2	-1	-3	-93	-3	-3	-3	-3	-3	-3	-3
Commercial banks	-497	-542	-576	-586	-595	-596	-604	-603	-616	-629	-637	-642
Net domestic assets	1,435	1,486	1,938	1,982	1,868	2,118	1,919	2,302	2,036	2,159	2,350	2,530
Domestic credit	2,552	2,643	3,090	3,295	3,195	3,488	3,497	3,729	3,705	3,889	4,187	4,495
Government, net	346	225	379	412	310	458	454	495	511	542	675	809
NBS	-233	-360	-273	-195	-333	-196	-345	-244	-397	-414	-424	-434
Claims on government	5	1	93	95	95	95	95	65	65	50	40	30
Liabilities (deposits)	238	361	366	290	428	291	440	309	462	464	464	464
Banks	578	586	652	607	643	654	799	739	909	956	1,100	1,244
Claims on government	641	676	747	702	738	749	894	834	1,004	1,051	1,195	1,339
Liabilities (deposits)	63	91	95	95	95	96	95	96	96	95	95	95
Local governments, net	-28	-19	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20
Non-government sector	2,235	2,437	2,731	2,902	2,905	3,049	3,063	3,254	3,213	3,367	3,531	3,705
Households	1,018	1,112	1,244	1,319	1,321	1,383	1,390	1,474	1,455	1,522	1,594	1,670
Enterprises	1,188	1,291	1,453	1,547	1,548	1,628	1,635	1,740	1,718	1,802	1,892	1,988
Other	29	33	34	36	36	38	38	41	40	42	44	46
Other assets, net	-1,117	-1,156	-1,152	-1,313	-1,328	-1,370	-1,578	-1,427	-1,669	-1,730	-1,837	-1,964
Capital accounts (-)	-997	-1,046	-1,018	-1,159	-1,173	-1,206	-1,409	-1,245	-1,475	-1,517	-1,605	-1,711
NBS	-324	-353	-340	-380	-394	-380	-513	-304	-436	-353	-325	-302
Banks	-673	-693	-678	-779	-779	-826	-896	-942	-1,040	-1,164	-1,281	-1,409
Provisions (-)	-121	-106	-120	-139	-139	-148	-152	-165	-175	-193	-210	-231
Other assets	1	-5	-14	-15	-16	-16	-17	-17	-18	-20	-21	-23
Broad money (M2)	2551	2774	3285	3583	3632	3862	3936	4153	4255	4569	4901	5237
M1	745	867	1182	1322	1317	1433	1434	1547	1558	1682	1813	1949
Currency in circulation	183	210	267	298	297	323	324	349	352	380	409	440
Demand deposits	563	657	915	1023	1019	1110	1111	1198	1206	1302	1404	1509
Time and saving deposits	220	273	325	364	362	394	395	426	429	463	499	536
Foreign currency deposits	1585	1634	1779	1898	1954	2034	2107	2180	2268	2424	2589	2751
in billions of euro	13.4	13.9	15.1	16.0	16.5	17.0	17.7	18.2	18.8	20.0	21.4	22.7
Memorandum items:	(year-on-year change unless indicated otherwise)											
M1	20.1	16.3	36.3	11.8	11.4	8.4	9.0	8.0	8.6	7.9	7.8	7.5
M2	15.0	8.8	18.4	9.1	10.6	7.8	8.4	7.5	8.1	7.4	7.3	6.8
Velocity (Dinar part of money supply)	5.3	4.8	3.7	3.5	3.7	3.5	3.7	3.5	3.7	3.6	3.6	3.6
Velocity (M2)	2.0	2.0	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Deposits at constant exchange rate	15.9	8.7	17.6	8.2	9.9	7.3	8.0	7.3	7.5	7.0	7.1	6.8
Credit to non-gov. (current exchange rate)	9.6	8.0	12.2	4.9	5.2	4.1	4.3	5.0	4.0	3.7	3.6	3.6
Credit to non-gov. (constant exchange rates) 3/	10.2	8.5	12.1	4.1	4.5	3.6	3.9	4.9	3.4	3.3	3.5	3.7
Domestic	10.1	9.5	12.0	5.6	5.8	4.6	5.1	6.6	4.3	4.5	4.8	5.0
Households	12.9	9.5	11.8	5.6	5.8	4.6	5.0	6.4	4.3	4.4	4.6	4.8
Enterprises and other sectors	7.9	9.4	12.1	5.6	5.9	4.7	5.2	6.7	4.4	4.6	4.9	5.1
External	10.5	6.6	12.3	0.9	1.8	1.4	1.4	1.1	1.2	0.6	0.5	0.5
Credit to non-gov. (real terms) 4/	7.5	6.0	10.8	1.8	-1.7	1.7	1.6	2.4	1.0	0.6	0.8	1.1
Domestic credit to non-gov. (real terms)	7.4	7.1	10.7	3.2	-0.6	2.6	2.7	4.0	1.8	1.7	2.0	2.4
Households	10.3	7.3	10.4	3.0	-0.8	2.4	2.5	3.8	1.7	1.6	1.9	2.2
Enterprises and other sectors	5.1	6.9	10.9	3.3	-0.4	2.8	2.8	4.2	2.0	1.9	2.1	2.5
External	7.6	4.0	10.9	-1.0	-4.0	-0.3	-0.8	-1.2	-0.8	-1.9	-2.1	-2.0
12-m change in NBS's NFA, billions of euros	0.0	0.3	0.5	-0.7	0.5	0.0	0.1	0.2	0.2	0.0	0.0	-2.4
Deposit euroization (percent of total) 5/	66.9	63.7	58.9	57.8	58.6	57.5	58.3	57.3	58.1	57.9	57.6	57.4
Credit euroization (percent of total) 5/	66.9	66.7	62.0	61.2	61.2	60.4	60.4	59.4	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

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

5/ Using current exchange rates.

Table 9. Serbia: NBS Balance Sheet, 2018-2026

	2018	2019	2020	2021		2022		2023		2024	2025	2026
			Prel.	CR 21/132	Proj.	CR 21/132	Proj.	CR 21/132	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/											
Net foreign assets	1339	1583	1598	**1809**	1947	**1937**	2158	**2033**	2349	2542	2678	2828
(In billions of euro)	11.3	13.5	13.6	**15.2**	16.4	**16.2**	18.1	**17.0**	19.5	21.0	22.1	23.4
Gross foreign reserves	1342	1585	1598	**1812**	2040	**1940**	2161	**2036**	2352	2545	2682	2831
Gross reserve liabilities (-)	-3	-2	-1	**-3**	-93	**-3**	-3	**-3**	-3	-3	-3	-3
Net domestic assets	-607	-806	-625	**-704**	-836	**-742**	-951	**-745**	-1041	-1134	-1164	-1205
Net domestic credit	-282	-453	-285	**-324**	-442	**-362**	-438	**-441**	-606	-781	-839	-903
Net credit to government	-233	-360	-273	**-195**	-333	**-196**	-345	**-244**	-397	-414	-424	-434
Claims on government	5	1	93	**95**	95	**95**	95	**65**	65	50	40	30
Liabilities to government (-)	-238	-361	-366	**-290**	-428	**-291**	-440	**-309**	-462	-464	-464	-464
Liabilities to government (-): local currency	-137	-222	-171	**-171**	-171	**-171**	-171	**-171**	-171	-171	-171	-171
Liabilities to government (-): foreign currency	-101	-140	-195	**-119**	-257	**-119**	-269	**-138**	-291	-293	-293	-293
Net credit to local governments	-46	-36	-38	**-38**	-38	**-38**	-38	**-38**	-38	-38	-38	-38
Net claims on banks	-16	-69	-14	**-103**	-83	**-141**	-68	**-171**	-182	-341	-389	-443
Capital accounts (-)	-324	-353	-340	**-380**	-394	**-380**	-513	**-304**	-436	-353	-325	-302
Reserve money	732	777	973	**1106**	1111	**1195**	1207	**1288**	1308	1408	1514	1623
Currency in circulation	183	210	267	**298**	297	**323**	324	**349**	352	380	409	440
Commercial bank reserves	269	341	431	**524**	522	**568**	569	**613**	618	667	719	773
Required reserves	171	192	220	**205**	211	**220**	228	**235**	245	262	280	297
Excess reserves	98	149	210	**319**	311	**348**	341	**378**	373	405	439	475
FX deposits by banks, billions of euros	2.4	1.9	2.3	**2.4**	2.5	**2.5**	2.6	**2.7**	2.8	3.0	3.2	3.4

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

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

Table 10. Serbia: Banking Sector Financial Soundness Indicators, 2016-2021

	2016	2017	2018	2019	2020	2021		
						Mar	Jun	Aug
Capital adequacy								
Regulatory capital to risk-weighted assets	21.8	22.6	22.3	23.4	22.4	22.3	22.2	22.2
Regulatory Tier 1 capital to risk-weighted assets	20.0	21.6	21.1	22.4	21.6	21.4	21.1	21.1
Nonperforming loans net of provisions to regulatory capital	27.1	17.7	9.7	6.3	6.7	7.0	6.9	6.7
Regulatory Tier 1 capital to assets	11.6	13.7	13.5	14.4	13.1	13.0	12.6	12.3
Large exposures to capital	86.0	69.3	77.4	66.5	73.8	80.0	82.4	82.6
Regulatory capital to assets	12.7	14.4	14.2	15.1	13.6	13.5	13.3	13.0
Asset quality								
Nonperforming loans to total gross loans	17.0	9.8	5.7	4.1	3.7	3.9	3.6	3.5
Sectoral distribution of loans (percent of total loans)								
Deposit takers	0.5	0.3	0.4	0.4	0.3	0.4	0.4	0.3
Central bank	1.7	2.1	0.7	2.8	1.1	1.1	1.1	1.0
General government	1.5	1.3	1.1	1.5	1.6	1.5	1.4	1.6
Other financial corporations	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.5
Nonfinancial corporations	52.6	50.5	50.0	49.2	49.6	49.1	48.6	48.7
Agriculture	3.6	3.5	3.5	3.5	3.3	3.1	3.0	3.1
Industry	16.5	16.2	16.5	15.0	15.0	14.7	14.5	14.9
Construction	4.1	4.0	4.2	4.8	5.1	5.0	4.9	4.9
Trade	14.3	14.6	14.0	13.7	13.3	13.2	13.1	12.8
Other loans to nonfinancial corporations	14.1	12.2	11.8	12.3	13.0	13.1	13.1	13.1
Households and NPISH	41.5	42.9	44.3	43.8	45.0	45.0	45.6	45.2
Households and NPISH of which: mortgage loans to total loans	17.9	16.9	16.8	15.8	16.4	16.7	17.1	17.1
Foreign sector	1.4	2.0	2.6	1.5	1.6	2.3	2.2	2.7
IFRS provision for NPLs to gross NPLs	67.8	58.1	60.2	61.5	59.0	58.8	58.2	59.1
IFRS provision of total loans to total gross loans	12.4	6.6	4.5	3.4	3.5	3.5	3.3	3.3
Earnings and Profitability								
Return on assets	0.7	2.1	2.2	1.8	1.1	1.2	1.2	1.2
Return on equity	3.3	10.5	11.3	9.8	6.5	7.3	6.9	7.4
Liquidity								
Customer deposits to total (noninterbank) loans	108.1	106.9	110.6	109.2	116.4	117.8	118.1	117.6
Foreign-currency-denominated loans to total loans	69.4	67.5	68.5	67.1	64.7	64.1	63.2	63.4
Average monthly liquidity ratio	2.1	2.0	2.0	2.2	2.2	2.3	2.3	2.2
Average monthly narrow liquidity ratio	1.7	1.7	1.7	1.8	1.9	2.0	1.9	1.8
Sensitivity to Market Risk								
Foreign-currency-denominated liabilities to total liabilities	71.1	69.7	69.3	66.6	62.3	62.8	61.4	61.4
Classified off-balance sheet items to classified balance sheet assets	32.4	36.4	36.8	39.7	36.3	35.2	35.8	35.9

Source: National Bank of Serbia.

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. Chronology of COVID-19 Measures in Serbia

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

<table>
<tr><th rowspan="2">Measures</th><th colspan="10">2020</th><th colspan="12">2021</th></tr>
<tr><th>Mar</th><th>Apr</th><th>May</th><th>Jun</th><th>Jul</th><th>Aug</th><th>Sep</th><th>Oct</th><th>Nov</th><th>Dec</th><th>Jan</th><th>Feb</th><th>Mar</th><th>Apr</th><th>May</th><th>Jun</th><th>Jul</th><th>Aug</th><th>Sep</th><th>Oct</th><th>Nov</th><th>Dec</th></tr>
<tr><th colspan="23">First wave of measures: 7.2 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 colspan="12"></td></tr>
<tr><td>Higher healthcare spending</td><td></td><td colspan="9">1.1 percent of GDP</td><td colspan="12"></td></tr>
<tr><td>One off payment to pensioners</td><td></td><td>0.1 percent of GDP</td><td colspan="20"></td></tr>
<tr><td>Universal cash transfer</td><td colspan="2"></td><td>1.3 percent of GDP</td><td colspan="19"></td></tr>
<tr><td>Deferement of labor taxes and SSC</td><td colspan="3">1.8 percent of GDP</td><td colspan="19"></td></tr>
<tr><td>Deferement of CIT</td><td></td><td colspan="9">0.4 percent of GDP</td><td colspan="12"></td></tr>
<tr><td>Payment of minimum wages</td><td></td><td colspan="3">1.8 percent of GDP</td><td colspan="18"></td></tr>
<tr><td>New loans to SMEs</td><td></td><td colspan="9">0.2 percent of GDP</td><td colspan="12"></td></tr>
<tr><td>State Guarantee Scheme for bank loans to SMEs</td><td></td><td colspan="9">0.25 percent of GDP (guarantee cap)</td><td colspan="12"></td></tr>
<tr><th colspan="23">Second wave of measures: 1.4 percent of GDP</th></tr>
<tr><td>Minimum wage subsidy for SMEs</td><td colspan="5"></td><td colspan="2">0.7 percent of GDP</td><td colspan="15"></td></tr>
<tr><td>Deferment of labor taxes and SSC for an additional month</td><td colspan="4"></td><td>0.5 percent of GDP</td><td colspan="17"></td></tr>
<tr><td>One-off fiscal support to hotels</td><td colspan="5"></td><td colspan="5">0.02 percent of GDP</td><td colspan="12"></td></tr>
<tr><td>Bonus to public-sector health workers</td><td colspan="5"></td><td colspan="5">0.02 percent of GDP</td><td colspan="12"></td></tr>
<tr><td>One off payment to pensioners</td><td colspan="9"></td><td>0.15 percent of GDP</td><td colspan="12"></td></tr>
<tr><th colspan="23">Third wave of measures: 4.5 percent of GDP</th></tr>
<tr><td>Higher healthcare spending</td><td colspan="11"></td><td colspan="11">0.8 percent of GDP</td></tr>
<tr><td>Minimum wage subsidies (additional three months)</td><td colspan="12"></td><td colspan="3">1.1 percent of GDP</td><td colspan="7"></td></tr>
<tr><td>Minimum wage for employees in travel and hospitality</td><td colspan="12"></td><td colspan="3">0.1 percent of GDP</td><td colspan="7"></td></tr>
<tr><td>Universal cash transfer (EUR 30 paid in May and November; EUR 20 paid in December)</td><td colspan="14"></td><td>0.35 percent of GDP</td><td colspan="5"></td><td>0.35 percent of GDP</td><td>0.2 percent of GDP</td></tr>
<tr><td>One-off financial assistance to the unemployed</td><td colspan="15"></td><td>0.1 percent</td><td colspan="6"></td></tr>
<tr><td>Pension bonus (paid in September 2021)</td><td colspan="18"></td><td>0.2 percent</td><td colspan="3"></td></tr>
<tr><td>Support for transport sector and city hotels</td><td colspan="11"></td><td colspan="11">0.1 percent of GDP</td></tr>
<tr><td>A one-off payment to vaccinated citizens</td><td colspan="11"></td><td colspan="11">0.1 percent of GDP</td></tr>
<tr><td>Expansion of the existing State Guarantee Scheme</td><td colspan="11"></td><td colspan="11">0.25 percent of GDP (guarantee cap)</td></tr>
<tr><td>New lending scheme to support vulnerable companies</td><td colspan="11"></td><td colspan="11">1 percent of GDP (guarantee cap)</td></tr>
</table>

Source: Serbian authorities, IMF staff estimates.

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

2020										2021									
Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Monetary policy measures																			
Key policy rate																			
Cut by 0.5 pp 1.75 percent	Cut by 0.25 pp 1.5 percent		Cut by 0.25 pp 1.25 percent						Cut by 0.25 pp 1 percent										
Rate corridor narrowed from ±1.25 pp to ±1.0 pp									Rate corridor narrowed from ±1 pp to ±0.9 pp										
Support to dinar liquidity																			
Additional swap auctions, 3-month maturity								Additional swap auctions (weekly basis), 3-month maturity											
	Lower interest rate on FX swaps																		
Auctions of repo purchase of government securities, 7-day maturity																			
Auctions of repo purchase of government securities								Additional auctions of repo purchase of government securities (weekly basis), 3-month maturity											
	Outright purchase of government securities in the secondary market																		
		Corporate bonds included in the list of eligible collateral in NBS monetary operations																	
More favorable conditions for Guarantee Scheme loans																			
				Approval of dinar loans under the Guarantee Scheme at lower interest rates (minimum 50 bp reduction is compansated by the NBS through higher remuneration rate on allocated required reserves)															
Additional measures implemented by the National Bank of Serbia																			
Moratorium																			
	Moratorium on debt repayments				Moratorium on debt repayments				Moratorium on debt repayments for debtors unable to settle their liabilities due to the pandemic (extension of the repayment period)										
Housing loans																			
			Reduction of mandatory downpayment for first-time home buyers																
					Reduction of the minimum degreee of completion of a building eligible for financing thhrough bank housing loans														
					Extension of repayment term for housing loans by up to five years														
Other loans																			
				Extension of repayment term for household loans (except housing) by up to eight years															
					Until end-2021, banks allowed to extend household dinar loans only based on signed statement on employment/pension														
Precautionary line with the ECB																			
				A precautionary repo line with the ECB established to supply additional euro liquidity to local banks in case of need															

Source: National Bank of Serbia

Appendix I. Program Statement

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

Belgrade, December 3, 2021

Dear Ms. Georgieva:

The Serbian economy has been navigating the COVID-19 pandemic well. A strong economic recovery is underway, on the heels of our large and timely policy response and one of the fastest COVID-19 vaccine rollouts in the region. GDP exceeded its pre-crisis level already in Q1 this year. Despite the recent pick-up in COVID-19 cases, growth in 2021 is now expected to reach or even exceed 6.5 percent, supported by external and domestic demand. Macroeconomic and financial stability has been maintained.

Our economic program, supported by a Policy Coordination Instrument (PCI) approved by the IMF Executive Board on June 18, 2021, aims at sustaining the ongoing economic recovery, maintaining macroeconomic and financial stability, and advancing an ambitious structural reform agenda necessary to put Serbia on a faster and more sustainable income convergence path. This Program Statement (PS) describes progress made so far and sets out the economic policies that the Government and the National Bank of Serbia (NBS) intend to implement for the remainder of the PCI.

Program implementation has been broadly on track. All end-June quantitative program targets (QTs) and standard continuous targets were met. The structural reform agenda has been progressing, albeit with some delays due to the challenging COVID-19 environment. Inflation at end-September exceeded the upper limit of the NBS target band and of the program inflation consultation band. Accordingly, we have discussed with Fund staff the causes of this differential, which was driven by temporary factors, as well as our timely policy response. As a prior action for the review, parliament has approved the 2022 budget consistent with program objectives.

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

We believe that the policies set forth in this PS are adequate to achieve the objectives of the PCI-supported program, and we will promptly take any additional measures that may become appropriate for this purpose. We will consult with the 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/	/s/
Jorgovanka Tabaković	Siniša Mali
Governor of the National Bank of Serbia	Minister of Finance

Attachment: Technical Memorandum of Understanding

Program Statement

1. **This program statement sets out our economic program for the remainder of the Policy Coordination Instrument.** 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. **Our policies will continue focusing on maintaining macro and financial stability while supporting growth.** Sustaining the economic recovery remains a key priority, amid high uncertainty about the course of the pandemic and its effects on firms, banks, and households. We will continue monitoring domestic and external developments closely to ensure agile and targeted policy responses as needed.

3. **We will continue to advance our structural reform agenda to promote a stronger, greener, and more inclusive growth over the medium term.** We will build on progress already made in strengthening fiscal frameworks, reforming tax administration, developing capital markets, reforming state-owned enterprises (SOEs), addressing AML/CFT weaknesses, enhancing governance and transparency. 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

4. **Supported by a substantial policy response, a strong economic recovery in Serbia is underway.**

- Economic activity in the first half of 2021 turned out to be higher than expected, supported by fixed investment and private consumption, and GDP exceeded the pre-crisis level already in Q1. The available indicators for Q3 are supportive of the 6.5 to 7 percent GDP growth forecast for this year, with a possibility of an even higher outcome. These positive trends are underpinned by the effects of past monetary and fiscal policy measures and the consequently preserved investment and consumer confidence, production capacities and jobs. After 2021, growth is projected to reach 4.5 percent in the next two years.

- Headline inflation increased to 6.6 percent in October largely due to last year's low base and transitory supply-side factors. These factors include the rising global prices of oil and other primary commodities along with halts in global supply chains. Moreover, since April the domestic market has experienced a pronounced rise in unprocessed food prices, chiefly vegetable prices, due to drought. At the same time, core inflation has stayed significantly lower than headline inflation at 2.7 percent while medium-term inflation expectations remain anchored. We expect headline inflation to temporarily trend higher, above the upper bound of the target band of 3.0±1.5 percent. Accordingly, 2021 end-year headline inflation is projected at 7 percent. In the mid-2022, we expect headline inflation to return within the target band, and to move around the midpoint in last quarter of 2022. Risks to inflation going forward are mainly related to the movement in the prices of unprocessed food and global energy prices. On the other hand, continuing relative stability of the exchange rate is a strong anchor of price stability.

- The current account in the first half of 2021 was stronger than expected, due to higher exports, net primary income, and remittances. Accordingly, we project current account deficit in 2021 to narrow to about 4 percent of GDP and be fully financed by the net FDI. The exchange rate has been kept stable in the face of modest appreciation pressures.

Economic Policies

A. Fiscal Policies

5. Fiscal support deployed since the beginning of the pandemic has been instrumental in supporting the observed economic recovery. Following two packages of support measures in 2020 (with the total fiscal cost of about 8½ percent of GDP), additional measures totaling about 4½ percent of GDP were introduced in 2021. They included extending the credit guarantee for SMEs, creating a new credit guarantee targeting vulnerable firms, providing further support to the healthcare sector, households and firms, and offering one-off payment to the vaccinated citizens. Apart from this direct fiscal support to economy and households, public investment has been increased by about 2.5 percent of GDP compared to original budget (a part of which is allocated for new green public investment projects and new healthcare facilities). The economic impact of the support measures has been in line with our expectations at their introduction. As we project the recovery to mature, we plan to start rebuilding fiscal buffers and unwind the support measures.

6. Fiscal performance has been strong in 2021, boosted by recovering tax revenues amid strong economic activity. All revenue categories overperformed comparing to what was envisaged in the program through September, by 3.2 percent of GDP in total, with the strongest overperformance of wage tax and contributions (0.9 percent of GDP); VAT (0.9 percent of GDP); and CIT (0.8 percent of GDP). We are using a part of the ongoing revenue overperformance to finance additional investment spending (0.8 percent of GDP), COVID-related wage compensations (0.2 percent of GDP), and two additional disbursements for citizens that include the universal cash grant of 20 EUR to be paid out in December and 3,000 RSD paid to those who got vaccinated by the end of May, paid out in June. These changes are reflected in the supplementary budget that was adopted by the government on October 21. Accordingly, the general government deficit in 2021 is projected at 4.9 percent of GDP, 2 percentage points below the previous projection under the PCI, which will reduce the crisis-related increase in public debt. Public debt is projected at about 58.2 percent of GDP at end-2021.

7. In line with our program commitments and considering the ongoing economic recovery in 2021, we will narrow the 2022 fiscal deficit to 3 percent of GDP. This would imply a reduction of public debt to about 56½ percent of GDP by end-2022. As a **prior action**, the National Assembly approved the 2022 budget aimed at reducing the overall deficit and containing primary current spending. Consistent with these parameters:

- We will keep our revenue projections for 2022 conservative.
- We will increase the public sector wage bill by RSD 44.4 billon, ensuring that the wage bill as a percent of GDP declines in 2022. The wage increases are designed to help attract and retain employees.
- We will increase pensions based on the existing indexation mechanism, linking pension growth to 50 percent of inflation and 50 percent of the average nominal wage growth. For this purpose, inflation is measured as the annual average increase in the consumer price index (CPI), published by the Statistical Office of the Republic of Serbia (SORS). Average nominal wage growth is defined as average growth of wages in the economy as published by SORS. We will refrain from ad-hoc increases in the pension base and minimize further pension bonuses, if any, beyond the RSD 20,000 bonus that has already been announced.
- We will further reduce the tax wedge on labor, through a reduction in pension contributions by 0.5 percentage points.
- We will also increase the nontaxable PIT threshold by RSD 1,000.
- We will create adequate room for healthcare and well-targeted social protection schemes.
- We will budget capital spending at about 7.3 percent of GDP to address Serbia's sizeable infrastructure needs and boost growth potential.

8. We plan to finance the 2022 budget from domestic and external sources, including our development partners. We are planning to borrow about RSD 182 billion domestically. We will also draw on the government's cash deposits and use the proceeds of the recent Eurobond issuances. We plan to use the recent SDR allocation (in part or in total, if needed) within the fiscal financing mix, given that the FX reserves position is strong. To this end, the Parliament has ratified a law that allows the utilization of these funds for (re)financing purposes at the request of the Ministry of Finance.

9. We will maintain strict fiscal discipline over the medium term. We are committed to narrow the fiscal deficit further. We plan to adopt a new fiscal rule that will stipulate a low ceiling for the overall deficit (¶12) to become effective in 2023, providing economic conditions allow. We aim to reduce public debt to less than 45 percent percent of GDP, 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.

10. We will contain fiscal risks and prepare contingency measures as needed. We will continue to closely monitor revenue and expenditure risks related to the ongoing 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).

11. 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

12. 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 through a government decision **(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 and incorporated in the budget system law before end-2022. In case of a renewed crisis in 2022, the date of effectiveness of the rule can be reconsidered in the context of the 2022 PCI program reviews.

13. We remain committed to modernize tax administration, to strengthen 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. In May 2021 we have adopted 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.

- 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. We will also implement an e-fiscalization system management.
- We are introducing a new model of fiscalization which implies that all data from fiscal cash registers will be available to the tax authorities in real time. The new fiscalization model will reduce taxpayers' operating costs and facilitate administration, thus creating a better business environment. The transition period to the new model began on November 1, 2021. The taxpayers are obliged to completely switch to the new model by April 30, 2022. We are easing the costs of the transition to the new model through direct subsidies to taxpayers. We will also introduce an electronic invoice exchange system which will be fully operational by the beginning of 2023.
- We have reviewed the STA's existing business processes as a part of the business process re-engineering and adopted the new business model at end-October.
- We are preparing, with World Bank support, to launch a tender for procuring a new commercial-off-the shelf-system (COTS) system **(new end-June 2022 reform target)**. This system, that is expected to become operational gradually starting from 2022, will facilitate an effective implementation of key reform activities, including the modernization of business processes.
- To help ensure that the STA has adequate capacity to fulfill its tasks, we strive to reduce 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 Determining the Origin of Property and Special Tax, we have set 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 to start implementing a response strategy. The unit has been collecting the data that would allow the launch of the first audits.

14. Transition to the new general government employment framework based on personnel planning for all public sector entities is ongoing. 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 public sector entities to replace up to 70 percent of the staff leaving the institution or retiring, within the institutions' budget limits, without approval of the Commission. 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.

15. We decided to postpone the implementation of the public wage system reform to 2025 to re-examine the parameters of the reform and its implications. Over the past years the structure of public sector wages was significantly affected by fiscal consolidation, increases in minimum wages and rises in health sector wages amid the pandemic. This warrants an in-depth analysis of the consequences of the recorded changes in wages, the intra- and intersectoral adequacy of the new wage coefficients, as well as financial and macroeconomic implications of the reform. In order to make such an analysis possible, we will make use of the forthcoming central electronic public wage and employment registry *Iskra* which will cover all public sector (except Ministry of Defense, Ministry of Internal Affairs, Security Information Agency BIA and higher education institutions). This system would allow for better planning, executing and controlling wage spending. It will enhance transparency, facilitate access to data, increase efficiency in personnel management, and reduce operating costs by harmonizing and consolidating processes. A pilot for the Ministry of Finance has already become effective. By end-March 2022, it will be expanded and be fully operational for (1) direct budget users; (2) judiciary sector; (3) culture sector; (4) labor employment and social affairs sector (**new end-April 2022 reform target**). This system is expected to be completed by end-2023 and cover more than 450 thousand public sector employees.

16. We will continue to enhance public financial management (PFM). In June 2021, we adopted 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. We are committed to implementing key measures that include: (i) improving capacities for medium-term budget planning and PIM; (ii) ensuring efficient collection and management of budget funds; (iii) enhancing budget discipline and implementing more efficient management of EU funds; (iv) improving the implementation of the public sector internal control system; (v) strengthening the regulation and the application of international accounting standards for the public sector; and (vi) enhancing the external scrutiny of public funds.

- 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.

- 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 and address the underlying factors to prevent the emergence of new ones.

17. 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 will maintain 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 ensure full implementation of the strategic relevance assessments of projects in line with the Decree on Capital Projects.

- We will continue to build human resource capacity within the PIM Unit and accelerate recruitment in line with staffing plans. We will also strengthen coordination and information flows within the MOF departments.

- We are developing a Public Investment Management System (PIMIS)—including an integrated database of public investment projects. We plan to start testing the new system in early 2022 and have it fully operational by the end of 2022.

- Once the PIM capacity and information systems are fully developed, we will explore before end-2022 expanding the coverage of the Decree on Capital Projects. This is to include informing the Government on the projects monitored and appraised by the local and provincial governments and lowering the current EUR 5 million threshold. We will continue to monitor the projects of special importance in the implementation stage and inform the government on the PPP projects.

18. We will continue to strengthen the role and capacity of the Fiscal Risks Monitoring Department (FRMD) at the MOF.

- We created additional positions in the department that we aim to fill by early 2022.

- We adopted 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 (**end-September 2021 reform target**). In order to ensure effective implementation, the methodology has been formally adopted through a government decision in October and published in the Official Gazette. We did not adopt the by-law because there was no formal legal basis in the Budget System Act. The methodology identifies roles and responsibilities in the process of fiscal risks monitoring and management, as well as main fiscal risk reports, and their use and consideration in decision making processes. We will sign Protocols or Memorandums of Understanding with all relevant institutions to establish formal basis for the MOF to collect the data that is needed for monitoring fiscal risks and will develop detailed procedures for carrying out all tasks required for effective fiscal risks monitoring and management.

- In the period ahead, we will continue relying on the World Bank support to develop models and tools, as well as strengthen the MOF capacity to fully operationalize the use of the new methodology. Our aim is to develop practices for reporting on fiscal risks, and to formally inform the 2023 budget. We will accordingly continue to report on the fiscal risks and provide expanded fiscal risks projections in the Fiscal Strategy for 2023 using the methodologies developed thus far. We will also continue using the methodology that was developed with IMF TA support for managing fiscal risks associated with the state-guarantee schemes designed in response to the COVID-19 crisis.

19. We will continue enhancing the public procurement system to improve competition and transparency.

- The current Law on Public Procurement, prepared with support from the EU, helps to ensure alignment with the EU acquis and enhance competition and transparency. We will ensure regular public reporting through the Public Procurement Office on all procurements that were exempted from the regular procurement regime under this law, as well as the basis for those exemptions. Going forward, we will ensure alignment of the procurement framework with the EU acquis.

- We have ensured that all procurement transactions in the public sector are conducted using the e-procurement portal. This was achieved well ahead of the deadline set at end-2022. Supported by this system, we aim to increase the number of bids per procedure.

20. We have been working on strengthening state aid controls and enhancing transparency. With some delay, we have published an inventory of state aid schemes, including the corresponding amounts, and adopted 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.

C. Monetary and Exchange Rate Policies

21. 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). The inflation consultation clause was triggered when headline inflation increased to 5.7 percent in September (¶4) exceeding the 4.5 percent upper band limit. As envisaged by the TMU (¶9), we discussed with the IMF staff the reasons for the deviation and the proposed policy response.

22. Following four key policy rate cuts in 2020, we have kept the key policy rate on hold at one percent since then. The rates on deposit and lending facilities also remained unchanged at 0.10 and 1.90 percent, respectively. We consider the current level of key policy rate as broadly appropriate, bearing in mind the transitory nature of the current inflationary episode (¶4).

23. At the same time, we have started adjusting monetary conditions to current and expected monetary trends employing our other monetary policy instruments at hand.

- At the first reverse repo auction in October, we raised the average executive repo rate by 13 bp to 0.24 percent. Later in October, the rate was raised further to 0.27 percent, and by the middle of November to 0.28 percent.

- We terminated repo securities purchase auctions as of October 2021, through which banks were provided with three-month dinar liquidity at lowered, preferential rates (equal to deposit facility rate). We also suspended three-month FX swap auctions earlier in 2021. These instruments were reactivated in 2020 as sources of additional dinar liquidity for the banking sector in a situation of heightened uncertainty and strained economic activity and provided banks with a total of RSD 145.1 billion (101.4 billion repo purchases and RSD 43.7 billion additional FX swap). Since they have served their purpose well and the liquidity of the banking sector is satisfactory, these standing lines of the NBS have been suspended.

- We have also phased out outright purchases of dinar-denominated government securities and corporate bonds on the secondary market, which were previously used in 2020 to provide additional liquidity and ensure stability of the bond market.

- Going forward, we stand ready to adjust money market rates further, either within the current corridor around the key policy rate or by adjusting the policy rate, as warranted by the possible spillover of cost pressures from the international or domestic environment to inflation expectations and wages, and guided by our medium-term projection of inflationary pressures.

24. We aim to maintain relative stability of the exchange rate through the pandemic to abate confidence risks. Foreign exchange (FX) interventions will continue to be used to smooth excessive short-term exchange rate volatility, while considering the implications for financial sector and price stability. Given appreciation pressures present for most of 2021, we intervened in the FX market and injected substantial amount of dinar liquidity (RSD 120.1 billion according to settlement date) with a net purchase of almost EUR 1 billion (EUR 960 million) during January-October 2021. Our gross and net FX reserves reached high levels of EUR 16.3 billion and EUR 13.9 billion, respectively at end-October 2021. We assess the current level of gross FX reserves as adequate and comfortable for precautionary purposes.

25. 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.

- In September 2021, deposit and credit dinarization reached 39.0 percent and 38.6 percent, respectively. Dinarization of credit to corporate sector has been supported by the implementation of (the first and the second) state guarantee schemes, under which the banks have provided dinar loans to micro, small and medium enterprises. The NBS has also kept higher reserve requirement (RR) remuneration rate (at 0.6 percent vs. 0.1 percent as standard RR remuneration rate) on the amount of dinar loans granted within state guarantee schemes under favorable conditions. Dinar savings continued to grow supported by higher interest rates and more favorable tax treatment compared to FX savings.

- Starting from July 1, 2022, we will apply measures related to banks' capital adequacy, aimed at supporting dinar lending. While adopted in 2019, the application of the measures has been postponed several times due to the COVID-19 crisis.

- 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.

- In June 2021, the J.P. Morgan included three dinar-denominated government bonds of the Republic of Serbia into its EM indexes. This decision contributed to broadening the investor based, enhancing liquidity and improving financing conditions in dinar for the government and companies, thus supporting our dinarization efforts.

- On October 4, 2021, Clearstream included Serbia's domestic capital market in its global network and thus enabled direct settlement of dinar government securities for foreign investors. This should expand the investor base, reduce transaction costs, and improve depth and liquidity of dinar government securities market.

- We continue working to make possible the settlement of Serbian government securities through Euroclear effective from January 2023. We have been working on aligning IT systems and legal practices with Euroclear standards.

- We remain committed to establishing a primary dealer system and develop an adequate supervisory framework. 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.

26. 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

27. Financial stability has been maintained supported by the temporary measures that were implemented in response to the pandemic.

- The banking system has been stable owing to adequate capitalization, high liquidity, and profitability. The capital adequacy ratio stood at 22.2 percent in June 2021 which is significantly above the regulatory prescribed threshold (8.0). Average monthly liquidity ratio amounted to 2.2 percent in August 2021 which is more than double the regulatory prescribed threshold (1.0). As of end-August, the ROA and ROE amounted to 1.2 and 7.4 percent, respectively.

- 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.

- The financial sector measures that we adopted in 2020 to support debtors affected by the pandemic (including through amended requirements for housing loans and incentives for banks to lower interest rates on loans granted within the Guarantee Scheme) have been successful in spurring credit activity. A measure allowing for loan rescheduling and refinancing with a six-month grace period with extension of repayment terms was phased out at end-October. The other measures that are set to be phased out by the end of 2021 or mid-2022, will be reviewed depending on pandemic-related needs.

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

29. We continue enhancing financial safety nets. Specifically, the work on harmonization of the deposit insurance scheme with the EU acquis remains a priority for the Deposit Insurance Agency (DIA). It includes comprehensive analyses of the effects of application of the relevant EU regulations, analyses of international practice, and initiation of inter-agency cooperation in order to define the optimum draft law which would meet the requirements set by the EU acquis, and properly address the specificities of the Serbian market at the same time. Regarding the DIA's transition to a risk-based premium model, we aim to introduce risk-based premiums in 2022 following the adoption of a methodology for implementation of a risk-based premium assessment model in October 2020. The detailed timeline remains to be determined, with due consideration given to its effects on the industry and its participants in the current pandemic situation.

30. NPL ratios have remained at very low levels but continue to be monitored closely.

- As of end-August, the NPL ratio was at 3.52 percent. The negative impact of the COVID-19 crisis on NPLs have been mitigated by the comprehensive measures to support firms and households deployed by the NBS and the government. We continue to closely monitor NPLs trends considering the expiration of the moratorium of bank loan repayments and the fiscal measures to support companies. It is expected that further credit growth and anticipated economic recovery, supported by the measures taken by the NBS, will contribute to the continuation of the downward trend of the NPL ratio.

- Our efforts to contain NPLs are underpinned by the NPL resolution strategy that focuses on measures to prevent accumulation of new NPLs and 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 DIA on behalf of the State and the bankruptcy estates of banks in liquidation. We plan to continue working on resolving the residual assets of the DIA portfolio of bad assets by launching the third tendering process in early 2022 with a goal to complete it by end-2022.

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

- We will continue to implement the new strategy for Banka Poštanska Štedionica (BPS) for the period 2021-2025. The strategy, based on the Government conclusion from July 2021, envisages (i) the ongoing bank's commercial orientation towards retail banking, entrepreneurs, micro-enterprises, small and medium enterprises, (ii) maintaining business relations with local government units, public entities and SOEs, and (iii) upgrading bank's IT solutions by end 2022, while (iv) limiting the level of problematic loans below 5.5 percent. The BPS will continue implementing the Business Plan for 2020–22, adopted in June 2020.

    - 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.

    - The merger between BPS and MTS banks was completed in June 2021. The unification of the BPS and MTS core banking systems is ongoing.

    - On August 30, 2021, a decision was adopted to acquire a subsidiary - Komercijalna Banka Banja Luka, in which the BPS would acquire 100 percent ownership.

- The preparation of a plan for the future of Srpska Banka had to be delayed to 2022 due to the continuation of the COVID-19 pandemic.

- 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.

32. We developed and adopted a Capital Market Development Strategy to enhance Serbia's capital markets and diversify sources of long-term financing (end-September 2021 reform target). The strategy is built around the following "pillars": (i) improving the regulatory framework; (ii) improving the institutional framework; (iii) introducing new investment products and issuers; (iv) attracting new investors; (v) strengthening the technological and human capacities of institutions; (vi) promoting opportunities to participate in the capital market and enhancing education of all potential market participants. The Strategy primarily focuses on development of crucial segments of capital market i.e. equity and corporate bond market respecting the proper sequencing of financial market instruments development. We have also prepared a related time-bound action plan to implement the strategy. Key actions include: (i) the adoption of a revised capital market law, (ii) the development a comprehensive web-based information platform, (iii) the establishment of a capital market unit to support market participants and monitor the implementation of the capital development's strategy, (iv) an analysis of tax regulations in order to address hurdles for capital market transaction, (v) the creation of a pipeline of IPOs to jumpstart the equity market, (vi) the improvement of a framework for corporate bonds and subsequent development of a framework for covered bonds.

33. We are committed to strengthening the AML/CFT framework. We are pressing ahead with various initiatives that support Serbia's strategic objectives and priorities and help to sustain the reform momentum generated at the high political level in 2018.

- 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. After submitting to MONEYVAL in

March the recent report updating on the outstanding four FATF Recommendations rated as partially compliant, we provided additional information and clarifications in June and August 2021. We expect that the demonstrated progress would lead to the formal upgrade of the ratings for the outstanding recommendations at the forthcoming December 2021 Plenary of MONEYVAL. This would result in Serbia being Largely Compliant or Compliant with all FATF Recommendations.

- We continue implementing the action plan related to the 2020-24 National Strategy Against Money Laundering and the Financing of Terrorism. This year, we have completed the national risk-assessment (NRA) update through a process that involved more than 200 individuals in various authorities and organizations and private sector partners. In addition to updating the NRAs for money laundering and terrorist financing, we conducted new national risk assessments for virtual assets and virtual assets service providers, and for financing of proliferation of weapons of mass destruction. These NRA reports were adopted by the government on 30 September 2021. Going forward, we will present the findings of the NRA exercise to all AML/CFT stakeholders so that their resources could be (re-)allocated, where appropriate, to mitigate the risks found by the NRA.

- We continue with AML/CFT compliance officer licensing across all obliged entities which is crucial for building capacities of AML/CFT compliance officers and enhancing their status in their organizations.

- We have also been working on enhancing the capacities for prevention of the misuse of non-profit organizations for terrorist financing. In October 2021, we held a series of workshops for tax inspectors, administrative inspectors and inspectors for foundations and endowments about the prevention of violent extremism and terrorism, that were supported by the OSCE mission.

E. Structural Policies

34. We are working on enhancing the existing social protection programs to protect vulnerable groups, reduce inequality, and fight poverty. We have made progress in developing a Social Cards Registry. This registry envisages a single, centralized, and electronic record with up-to-date data on the socio-economic status of individuals and persons related to them, which will improve the consistency and efficiency of social protection programs. We have already started testing the new system and plan to finalize it in the first half of 2022. Furthermore, we will prepare plans to enhance the coverage of the social protection system to protect households against poverty, using the new database.

35. We will continue developing a comprehensive agenda for green growth, to support the economic recovery and ensure a more sustainable and environmental-friendly development.

- The adoption of the Law on Climate Change in early 2021 set the scene for the development of Low-Carbon Development Strategy and prescribed the need for consistency across national strategies, general and sectoral, and plans and policies that affect green-house gas emissions. The Low-Carbon Development Strategy has been prepared with support of the World Bank. We expect it to be finalized and adopted over the next months. The strategy, which will include an action plan, will set the goals, relevant targets, sectoral obligations as well as funding implications. We have created a working group to ensure that the Low-Carbon Development Strategy is fully aligned with National Energy and Climate Plan, which is being prepared in parallel. We have also established The National Council for Climate Change chaired by the Minister of Environment to better coordinate our multisectoral efforts to promote green growth and the ongoing work on the legal framework (including draft Law on Nature Protection, Law on Waste Management and other related draft laws).

- 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.

- In September 2021, we adopted a Green Bond Framework, making Serbia the first Balkan country to publicly declare a commitment to promote ESG awareness and projects in the field of climate change mitigation and environmental protection. This Green Bond Framework enabled us to successfully access the global capital markets in ESG format, and Serbia placed its first-ever green bond issue on the international financial markets. The seven-year bonds worth EUR 1.0 billion bearing a historically low coupon rate of 1.0 percent and a yield rate of 1.26 percent were oversubscribed by more than three times. We will fully allocate the net proceeds of this issuance within two budget years. Our intergovernmental Green Bond Working Group has already identified past and planned eligible green expenditures in such categories as renewable energy, energy efficiency, transport, sustainable water and wastewater management, pollution prevention and control and circular economy, as well as protection of the environment and biodiversity and sustainable agriculture. We are committed to publishing a "Green Bond Report", providing investors and the public with transparent disclosure on the allocation of proceeds, as well as on the results and positive environmental impact of those expenditures. The first report will be published in the second half of 2022.

36. 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.

37. We have been implementing measures to fight 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. The new fiscalization model (¶13) will also help reduce the grey economy. 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 by end of 2021. We have started working on a new action plan that will guide our further efforts to counter the grey economy.

38. 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 are committed to changing 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 are on track to complete the valuation of the company's properties and assets by end-2021. In line with our previous commitments, we have finalized the functional unbundling of the distribution system operator from EPS.

- **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.

39. We remain committed to resolving enterprises in the portfolio of the former Privatization Agency in accordance with the revised Privatization Law. By October 2021, more than 310 companies entered bankruptcy, and 69 were privatized since end-2014. About 36,600 employees from 365 companies have received severance payments. 68 companies with nearly 28,000 employees remain.

- In early September, we have launched a privatization tender for Petrohemija, and got one application for participation in the privatization procedure. We plan to complete the privatization by end-2021.

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

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

40. In June, we adopted a time-bound action plan to implement the ownership and governance strategy for SOEs, which had been approved earlier in 2021 (end-June 2021 reform target). This strategy (i) identifies ownership rationales and high-level objectives of the State's ownership; (ii) develops criteria for classification of SOEs; (iii) designs the framework for setting objectives and targets for SOEs and for monitoring their achievement; and (iv) reviews the legal and regulatory framework for corporate governance of SOEs. Correspondingly, the action plan for 2021-23 operationalizes the general and specific objectives of the strategy and includes the following key actions: (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 continue working on (i) developing a centralized and updated database with a registry of all SOEs and their assets and (ii) establishing 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).**

- In 2022, we will make further efforts to resolve the excessive reliance on acting directors in state-owned companies.

41. We continue improving the quality and transparency of national statistics:

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

- In accordance with international dissemination best practices, the MOF has compiled and SORS published on the national summary data page (NSDP) monthly GFSM 2014 compliant fiscal accounts covering the central and local government, social security funds, and consolidated general government, and quarterly debt data covering central and general government debt, and government guaranteed debt by creditor **(end-September 2021 reform target)**. The fiscal accounts data is published monthly and presented on a cumulative basis. We will ensure continued publication of these monthly and quarterly data. SORS will continue reporting data per GFSM 2014 to the IMF GFS Yearbook publication.

Program Monitoring

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

Table 1a. Serbia: Quantitative Program Targets 1/

	2021							2022			
	end-Jun.			end-Sep.			end-Dec.	end-Mar.	end-Jun.	end-Sep.	end-Dec.
	Prog. QT	Adj. Prog.	Act.	IT 7/	Adj. Prog.	Act.	Prog. QT	IT 7/	Prog. QT	IT 7/	Prog. QT
	CR 21/132			CR 21/132			CR 21/132	CR 21/132	CR 21/132	CR 21/132	CR 21/132
I. Quantitative Targets (QT)											
1 Ceiling on the general government fiscal deficit 2/ 3/ (in billions of dinars)	175.5	189.6	38.8	263.3	267.2	68.0	412.2	69.1	98.1	121.9	200.2
2 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 2/	621.5	622.0	602.8	916.0	914.4	853.9	1256.0	265.5	549.4	819.5	1154.2
3 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 4/	1.0	...	0.0	1.0	...	0.6	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	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		4.8	4.5		7.2	8.5	8.5	6.5	5.0	4.0
End of period inflation, center point 6/	*3.0*	...	*3.3*	*3.0*	...	*5.7*	*7.0*	*7.0*	*5.0*	*3.5*	*2.5*
Lower band limit (1.5 percent below center point)	1.5		1.8	1.5		4.2	5.5	5.5	3.5	2.0	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: Prior Actions and Reform Targets

	Reform Targets	Target Date	Status	Objective
	Prior Actions			
1	Adoption by the National Assembly of the 2022 budget consistent with fiscal parameters.		Met.	Increase fiscal transparency.
	Fiscal			
2	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	Not met. The GFSM-compliant fiscal accounts were published on the NSDP page in October.	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.
3	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	Not met. The inventory was published by end-September, but the secondary legislation was adopted in October.	This reform would empower the State Aid Commission to better control state aid in Serbia. It would also be critical to enhance fiscal transparency.
4	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	Not met. The fiscal risks methodology with related procedures and processes was adopted in October.	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.
5	Expand and fully operationalize the central electronic public wage and employment registry for (i) direct budget users, (ii) judiciary sector, (iii) culture sector, and (iv) labor employment and social affairs sector.	End-April 2022		This reform would help rationalize pay and improve incentives across public sector.
6	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.
7	Launch a tender for procuring a new commercial-off-the shelf-system (COTS) system.	End-June 2022		This IT system upgrade would help advance reforms of the State Tax Administration (STA).
	Other			
8	Adopt a time-bound action plan to implement the new ownership and governance strategy for SOEs.	End-June 2021	Met.	The action plan, prepared with EBRD support, will guide the implementation of the SOE strategy adopted in April 2021.
9	Adopt the new strategy for capital market development and a related time-bound action plan to implement it.	End-September 2021	Not met. A capital market development strategy was adopted in October. A time-bound action plan was adopted in December.	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.
10	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.
11	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.
12	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.

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 second review will assess end-December 2021 test date, the third review will assess end-June 2022 test date, the fourth review will assess end-December 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
(In billions of dinars)

	End-Jun. 2021	End-Sep. 2021	End-Dec. 2021	End-Mar. 2022	End-Jun. 2022	End-Sep. 2022	End-Dec. 2022
Programmed cumulative dividends	17.1	17.1	17.1	10.5	10.5	10.5	10.5
Programmed cumulative debt recovery receipts	2.5	2.5	4	4	4	4	4
Programmed cumulative debt issuance at a premium	0	0	6	4	4	4	4
Programmed concession and PPP receipts recorded above the line	0	0	0	0	0	0	0

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

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

	End-Jun. 2021	End-Sep. 2021	End-Dec. 2021	End-Mar. 2022	End-Jun. 2022	End-Sep. 2022	End-Dec. 2022
Programmed cumulative ear-marked grants receipts	9.3	13.9	17.6	1.5	5.0	11.0	23.4
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0	0	0

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