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REPUBLIC OF SERBIA

June 2022

SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF SERBIA

In the context of the Second Review Under the Policy Coordination Instrument and Request for Modification of Targets, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 24, 2022, following discussions that ended on March 22, 2022, with the officials of Republic of Serbia on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 7, 2022.
- A **Statement by the Executive Director** for Republic of Serbia.

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

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PRESS RELEASE

PR22/230

IMF Executive Board Completes Second Review Under the Policy Coordination Instrument and Modification of Targets for the Republic of Serbia

FOR IMMEDIATE RELEASE

- Serbia's economic growth rebounded strongly at 7.4 percent in 2021. The war in Ukraine, energy sector challenges and high inflation are expected to lower growth in 2022 to 3.5 percent amid high uncertainty.
- Monetary policy is being tightened in response to continued high domestic and global inflation.
- A sound action plan and reforms in the energy sector would provide important assurance for the economic outlook.

Washington, DC – June 27, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the Second Review Under the Policy Coordination Instrument (PCI)[1] for the Republic of Serbia.

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.

The war in Ukraine and an energy crisis have disrupted the strong recovery from the COVID-19 pandemic. Following economic growth of 7.4 percent in 2021, growth in 2022 is projected markedly lower at 3.5 percent, dampened by the impact of high inflation on consumer demand, curtailed trade with Russia, and lower external demand. Driven by soaring global food and energy prices, inflation has increased to 10.4 percent in May 2022, while core inflation remained lower at 6.3 percent. Specific challenges arose in the energy sector when shortfalls in domestic electricity production coincided with rising global energy prices in the 2021-22 winter, increasing total energy costs by about 2 percent of GDP.

Faced with these new shocks, the authorities acted swiftly to preserve financial stability, help companies navigate the international sanctions regime and supply chain disruptions, mitigate the pass-through of high global commodity prices through regulation, and provide financing for energy imports. The authorities have also started to secure energy supply and address the medium-term reform needs in the energy sector. Thus far, higher than budgeted tax revenue has covered the new spending measures. The monetary policy rate has been increased three times since April in response to continued high inflation.

[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

Risks to the near-term outlook remain elevated and mostly to the downside. They include a potentially prolonged war in Ukraine with further pressures on energy and commodity prices, supply chain disruptions, and lower external demand, as well as continued production shortfalls in the energy sector.

Policy priorities have shifted again to supporting the economy in a crisis situation, while the economic policy objectives supported by the PCI remain an appropriate anchor. Provided that global inflation moderates, inflation should return to within the NBS target band over the medium term.

At the conclusion of the Board discussion on the second review of the PCI for Serbia, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair made the following statement:

"Serbia has demonstrated its resilience during the Covid-19 pandemic, but the war in Ukraine, high inflation, and the energy crisis pose new challenges. The authorities' policies have helped mitigate the immediate impact of these shocks and preserved macro-financial stability. Nevertheless, the near-term outlook is subject to downside risks and high uncertainty.

"Supported by strong revenue collection, the fiscal deficit target of 3 percent of GDP for 2022 remains appropriate and feasible. Fiscal support for the energy sector in the past winter amidst soaring import prices and electricity production outages helped maintain energy supply. Should economic disruptions warrant further support to affected groups or activities, it should take the form of targeted measures and be accommodated through spending reprioritization.

"Reforms of the energy sector are urgently needed, including to restore reliable supply and ensure cost recovery. A strategy for the state-owned power company Elektroprivreda Srbije (EPS), and timely adoption of the National Climate and Energy Plan will provide an essential framework for energy investments in particular in renewable sources.

"Amidst ongoing global and domestic inflationary pressures, monetary policy tightening has rightly continued to curb inflation expectations and help bring inflation back within the inflation band over the policy horizon.

"Structural reforms should continue to underpin medium-term growth. The new fiscal rules, expected to be launched with the 2023 budget, will provide an important anchor for medium-term fiscal discipline. The planned primary dealer system will support capital market development."

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

	2018	2019	2020	2021		2022		2023		2024
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.
Real sector										
Real GDP	4.5	4.3	-0.9	**6.5**	7.4	**4.5**	3.5	**4.5**	4.0	4.0
Real domestic demand (absorption)	6.5	6.3	-0.9	**5.1**	8.5	**4.9**	3.6	**5.1**	4.7	4.8
Consumer prices (average)	2.0	1.9	1.6	**4.0**	4.1	**4.9**	9.0	**3.5**	5.9	3.7
Consumer prices (end of period)	2.0	1.9	1.3	**7.0**	7.9	**2.5**	8.0	**3.0**	4.3	3.7
GDP deflator	2.0	2.4	2.4	**4.9**	6.1	**4.7**	6.8	**3.8**	7.0	5.2
Unemployment rate (in percent) 1/	14.1	11.6	10.1	**...**	...	**...**	...	**...**	...	...
Nominal GDP (in billions of dinars)	5,073	5,422	5,502	**6,147**	6,269	**6,725**	6,931	**7,295**	7,711	8,437
General government finances										
Revenue 2/	41.5	42.0	41.0	**43.6**	43.3	**41.7**	41.3	**41.7**	41.6	41.7
Expenditure 2/	40.9	42.2	49.0	**48.5**	47.4	**44.7**	44.3	**43.2**	43.1	42.9
Current 2/	36.4	36.9	42.8	**40.3**	39.0	**37.0**	37.5	**36.2**	36.2	35.9
Capital and net lending	4.1	5.1	6.1	**8.1**	8.3	**7.4**	6.8	**6.8**	6.6	6.7
Amortization of called guarantees	0.4	0.2	0.1	**0.1**	0.1	**0.2**	0.0	**0.1**	0.3	0.2
Fiscal balance 3/	0.6	-0.2	-8.0	**-5.0**	-4.1	**-3.0**	-3.0	**-1.5**	-1.5	-1.1
Primary fiscal balance (cash basis)	2.8	1.8	-6.0	**-3.1**	-2.4	**-1.2**	-1.3	**0.3**	0.8	0.6
Structural primary fiscal balance 4/	2.9	1.5	-4.0	**-3.4**	-2.5	**-1.7**	-1.0	**0.2**	0.7	0.5
Gross debt /5	54.4	52.8	57.9	**58.3**	57.2	**56.5**	55.1	**53.9**	50.8	47.2
Monetary sector										
Money (M1)	20.1	16.3	36.3	**11.4**	14.5	**9.0**	11.2	**8.6**	11.2	8.5
Broad money (M2)	15.0	8.8	18.4	**10.6**	13.0	**8.4**	11.8	**8.1**	7.3	6.0
Domestic credit to non-government 6/	10.1	9.5	12.0	**5.8**	9.9	**5.1**	13.5	**4.3**	7.5	6.6
Interest rates (dinar)										
NBS key policy rate	3.1	2.3	1.0	**...**	1.0	**...**	...	**...**	...	...
Interest rate on new FX and FX-indexed loans	2.8	3.1	3.0	**...**	3.0	**...**	...	**...**	...	...
Balance of payments										
Current account balance	-4.8	-6.9	-4.1	**-4.1**	-4.4	**-4.3**	-6.1	**-4.3**	-5.7	-6.0
Exports of goods	35.2	35.7	34.4	**39.1**	38.9	**39.2**	38.7	**39.0**	36.7	36.0
Imports of goods	-47.1	-47.9	-45.5	**-49.5**	-50.0	**-49.5**	-51.4	**-49.3**	-48.6	-47.2
Trade of goods balance	-11.9	-12.2	-11.1	**-10.4**	-11.1	**-10.3**	-12.7	**-10.3**	-11.9	-11.2
Capital and financial account balance	6.7	10.6	5.0	**11.1**	8.7	**5.9**	3.2	**6.7**	7.2	6.9
External debt (percent of GDP) 7/	66.1	65.7	70.3	**68.4**	71.3	**64.8**	66.2	**62.1**	62.3	58.0
of which: Private external debt	30.9	31.3	33.8	**31.1**	32.6	**29.0**	29.0	**27.2**	26.4	24.4
Gross official reserves (in billions of euro)	11.3	13.4	13.5	**17.1**	16.5	**18.0**	14.7	**19.5**	15.7	16.4
(in months of prospective imports)	4.8	6.1	4.9	**6.0**	5.3	**5.9**	4.4	**5.9**	4.4	4.3
(percent of short-term debt)	195.3	417.2	420.7	**523.2**	513.1	**551.4**	458.9	**594.8**	489.5	510.5
(percent of broad money, M2)	52.2	57.7	57.3	**65.7**	61.4	**63.6**	49.7	**63.9**	47.5	45.2
(percent of risk-weighted metric) 8/	111.2	126.2	125.9	**139.3**	134.0	**138.7**	114.3	**142.4**	113.9	112.8
Exchange rate (dinar/euro, period average)	118.3	117.9	117.6	**...**	117.6	**...**	...	**...**	...	...
REER (annual average change, in percent; + indicates appreciation)	2.8	1.0	1.5	**...**	1.4	**...**	...	**...**	...	...
Social indicators										
Per capita GDP (in US$)	7,252	7,397	7,700	**9,012**	9,178	**9,940**	9,597	**10,904**	10,883	12,145
Real GDP per capita (percent change)	5.1	4.6	-0.4	**6.9**	8.3	**4.9**	4.0	**4.9**	4.4	4.4
Population (in million)	7.0	7.0	6.9	**6.9**	6.9	**6.9**	6.8	**6.8**	6.8	6.8

Sources: Serbian authorities; and IMF staff estimates and projections.
1/ Unemployment rate for working age popula
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.

REPUBLIC OF SERBIA

SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS

June 7, 2022

EXECUTIVE SUMMARY

Recent Developments, Outlook, and Risks. The economy has navigated the COVID-19 pandemic well. In 2021, real GDP growth strongly rebounded by 7.4 percent, supporting a narrower fiscal deficit of 4.1 percent of GDP and a decline in the public debt ratio, and consistent with a return to pre-pandemic medium-term trend growth.

The war in Ukraine is weighing on growth and increasing inflationary pressures amid high uncertainty. Lower growth in trading partners and higher global commodity prices are projected to curtail real GDP growth to 3.5 percent in 2022. Driven by rising food and global energy prices, inflation reached 9.6 percent in April 2022 while core inflation remained lower at 5.5 percent.

Near-term risks are mostly to the downside and include more prolonged or severe spillovers from the war in Ukraine, rising energy prices, energy supply disruptions, more severe trade disruptions, and lower global demand. Serbia's medium-term outlook, while uncertain, remains favorable, supported by the authorities' commitment to structural reforms.

Program Performance. Macro-financial stability has been maintained notwithstanding the various shocks. All but one end-December 2021 quantitative targets (QTs) were met. The ceiling on current primary expenditure was missed when additional fiscal spending was needed to ensure energy security. While the March 2022 inflation level triggered the consultation clause under the program, monetary policy has been tightened appropriately since October 2021. Staff recommends completion of the second review under the Policy Coordination Instrument (PCI).

Policy Recommendations. Immediate policy priorities are to preserve macro-fiscal and financial stability and mitigate the impact of the war in Ukraine.

- **Fiscal Policy.** The 3 percent deficit target for 2022 remains appropriate and achievable. Should economic disruptions warrant further support to the affected groups or activities, including the state-owned enterprises (SOEs) in the energy sector, the additional expenditures should be accommodated by reprioritizing the

budgeted current and capital spending. Any additional emergency assistance should be temporary and targeted to vulnerable households and viable firms. Financial support to the SOEs should be delivered in a transparent manner.

- **Monetary and Financial Policies.** The authorities have tightened monetary conditions, including by increasing the policy rate both in April and May by 50 bps each to 2.0 percent. They should stand ready to tighten monetary policy further as needed to curb inflation expectations and help ensure the return of projected inflation within the target band by end-2023. The banking system remains well-capitalized and liquid, but continued vigilance is essential to safeguard financial stability, as was shown with the decisive NBS action to resolve Sberbank Srbija in late February.

- **Structural Reforms.** The recent energy supply challenges underscored the need for rigorous governance reforms in the main energy companies and a new investment strategy. Forthcoming energy tariff adjustments will need to help ensure cost recovery and financial sustainability of the energy companies while safeguarding vulnerable households and avoiding pressure on the government budget. The planned new fiscal rules framework should be designed to provide clear and credible signals about the government's fiscal commitments and fiscal sustainability. Once a new government is in place, the manifold planned structural reforms should be reinvigorated for continued strong, sustainable and inclusive growth.

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

Discussions were held in person with virtual participation of some staff during March 9–22, 2022. The staff team comprised Jan Kees Martijn (head), Marina Marinkov, Christiane Roehler, Mengxue Wang (all EUR), Hamid Davoodi and Sandra Lizarazo Ruiz (both FAD), Marco Rodriguez Waldo (SPR), Priscilla Toffano (MCM), Yulia Ustyugova (resident representative), Desanka Obradović and Marko Paunović (both local economists). Vuk Djoković (OED) attended some discussions. Support was provided by Hiranmayee Baldev, Amparo Gamboa Gonzalez and Zeju Zhu (all EUR), and by Zvezdana Marjanović (local office).

CONTENTS

ANNEXES

APPENDIX

RECENT DEVELOPMENTS

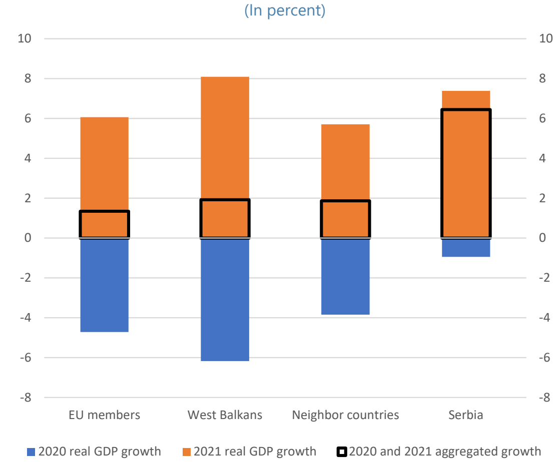
1. **While Serbia fared well during the COVID-19 pandemic compared with other countries, its continued recovery has been tested by new shocks during and since the last winter.** The country experienced another pandemic wave in early 2022, but hospitalizations remained below previous peaks (Figure 1). The vaccine uptake has plateaued at close to 50 percent since 4Q2021. However, since the fall of 2021, the country has faced an energy crisis followed by the spillovers from the war in Ukraine.

2. **Shortfalls in low-cost domestic electricity generation combined with rising international gas and oil prices significantly increased energy costs to the economy during the 2021-22 winter** (Annex I). Although Serbia has typically been largely self-sufficient in electricity, starting in December 2021 Serbia's coal-based power plant capacity was severely reduced by technical breakdowns. Elektroprivreda Srbije (EPS), the state-owned power company, had to import unusually large amounts of electricity throughout the winter. Simultaneously, natural gas imports surged due to higher demand from inclement weather and to back up electricity generation. While Serbia enjoys low-cost gas imports from Russia up to a daily limit, Srbijagas, the state-owned gas company had to import additional gas. Total energy costs during the winter exceeded past levels by about 2 percent of GDP.

3. **The war in Ukraine is disrupting the economic recovery.** Serbia's large domestic electricity generation and food production partly cushions the terms of trade shock from the sharp rise in food and energy prices across Europe. And apart from gas imports, its direct dependence of trade with Russia and Ukraine is moderate. Hence, the war is expected to affect Serbia mostly through lower growth in partner countries and higher inflation (Annex II). However, for some companies it may be difficult to develop alternative markets, and a large refinery is majority-owned by Gazprom and could be affected by future EU sanctions against Russia.

4. **Following strong growth through 2021, the impact of the more recent shocks is not yet visible in recent indicators of activity.** Following a mild contraction by 0.9 percent in 2020, GDP strongly rebounded by 7.4 percent in 2021 on the strength of investment and private consumption, less than 2 percent below its pre-pandemic trend. The outcome exceeded projections at the first PCI review by nearly 1 percentage point, creating a positive carryover to 2022. Labor market indicators also remained favorable. In 4Q:2021 the headline unemployment rate declined to 9.8 percent from 10.5 percent, falling below 4Q:2019, resuming a trend decline (Figure 8). Seasonally adjusted,

Real GDP Growth Comparison
(In percent)



Sources: IMF WEO database and IMF staff calculations.

unemployment declined by 1.3 percentage points while activity and employment rates increased slightly. Industrial production and retail trades turnover in Q12022 showed a continued recovery but remain volatile, and the flash GDP estimate stood at 4.3 percent.

5. **Inflation increased to 9.6 percent in April.** The increase has been driven by rising food prices (contributing about half) and—to a smaller extent—energy prices. Core inflation rose to 5.5 percent, exceeding the 1.5-4.5 percent target band. The pass-through of higher global energy prices has so far been limited. In particular, electricity and gas prices for households are regulated and have been kept stable. Price increases for fuel have been moderated through reduced excise taxes (by 20 percent) and a price cap that is adjusted on a weekly basis in response to international price changes.[1] Inflation expectations have remained reasonably anchored so far, in part reflecting the stable exchange rate to the euro. Both the financial and business sectors expect inflation near the top of the target band within one year and well within that range within two years, which is expected to mitigate second-round effects through wages. Average net wage growth picked up in late 2021 but has stabilized since then at around 13 percent yoy, implying falling real wage growth.[2]

6. **Fiscal performance was strong in 2021 due to recovering tax revenues and lower-than-expected execution of expenditure.** The general government recorded a deficit of 4.1 percent of GDP, 0.9 percentage points lower than projected, mostly explained by the strong GDP growth as well as lower non-wage and capital expenditure.[3]

7. **The external position has remained robust, supported by strong FDI inflows, but affected adversely by energy import costs and confidence shocks triggered by the war in Ukraine**. The external position in 2021 is assessed to be moderately stronger than the level implied by fundamentals and desirable policies (Annex IV). The current account deficit widened slightly to 4.4 percent of GDP in 2021, well below net FDI inflows which, at 6.8 percent of GDP, exceeded projections. During 2021, reserves increased by nearly EUR 3 billion to EUR 16.5 billion. Appreciation pressures prevailed until late 2021 when the central bank switched to foreign exchange sales, in large part to cover high energy import costs. During March 2022, reserves fell to EUR 14.3 billion reflecting high energy import costs (EUR 500 mn) and exceptional purchases of euros by households from banks after the start of the Ukraine war (by EUR 700 mn; see below). Reserves have broadly stabilized since then; and at EUR 14.1 bn at end-April—about 4.3 months of prospective imports, or 110 percent of the ARA metric—remained adequate. As expected, by early 2022 the authorities had used most of the SDR allocation for fiscal financing.

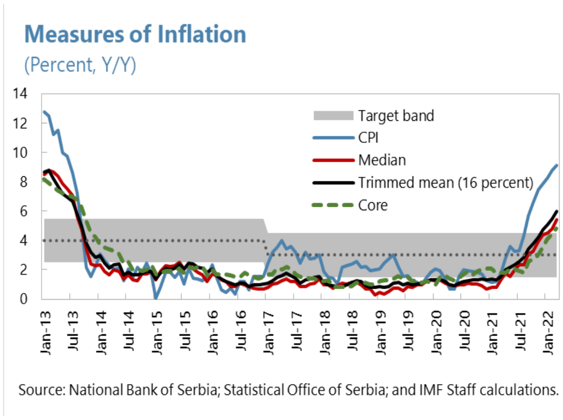
[1] Consumer prices for "Electricity, gas and other fuels" in 4Q2021 increased by 6.8 percent yoy and in 1Q2022 by 3.9 percent yoy, mostly due to solid fuels. Producer prices for "energy" in 4Q2021 rose by 21.8 percent, and in 1Q2022 by 19.3 percent

[2] Wage growth is overstated by as much as about 2 percentage points because of statistical revisions (especially, incorporating IT workers).

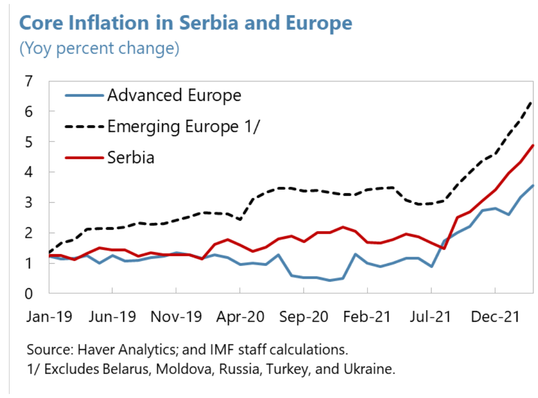
[3] Notwithstanding the missed quantitative target, which refers specifically to current primary spending of the Republican budget. This spending was elevated by a subsidy in December to Srbijagas.

Text Figure 1. Inflation Developments

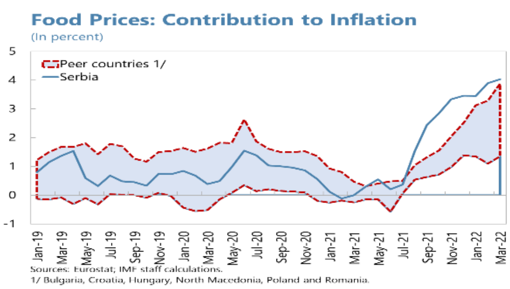
Inflation has exceeded the target band.



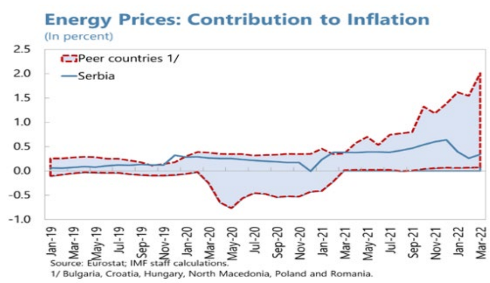
Serbia's core inflation was contained ...



... while food inflation soared ...



... and energy inflation was controlled.



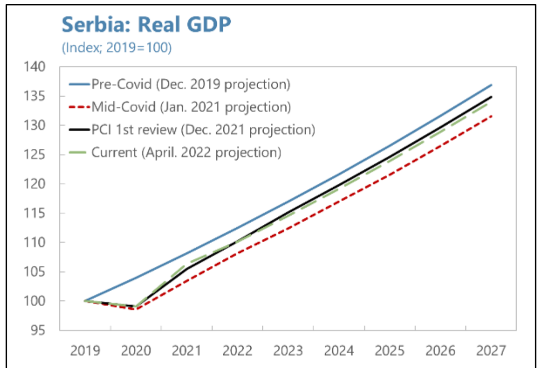
8. The results of the presidential and parliamentary elections on April 3 appear supportive of policy continuity, including with respect to the PCI-supported program. President Vučić was reelected with close to 60 percent of the vote. In the parliamentary elections, with broader party participation than in the previous elections and no election boycott, the ruling Serbian Progressive Party (SNS) fell short of a majority but is expected to form a new coalition government with its allies, and remains supportive of the Fund-supported program's main objectives and key policies. A caretaker government will be in place until the formation of a new government, no later than August. The caretaker government has a limited mandate and cannot adopt new legislation, but can ensure the program remains on track.[4]

[4] No program-related legislative changes are envisaged in the near term, with the timeline ensuring that the new government will be in charge by the time such program commitments are to be implemented.

OUTLOOK AND RISKS

9. Spillovers from the war in Ukraine are projected to lower growth in 2022 followed by a return to trend beyond 2023 given the strength of the ongoing reform agenda.

- **Real GDP growth** is projected at 3.5 percent in 2022, 1 percentage point below forecasts at the first PCI review. Stronger-than-expected activity in 4Q:2021 could have increased 2022 growth by about 0.5 percentage points, while the war in Ukraine is tentatively assumed to reduce growth by 1.5 percentage point in 2022 and 0.5 percentage point in 2023, reopening a negative output gap. Growth is expected to be supported by continued robust private demand, although weakened by inflation and a contractionary policy mix. Since the large fiscal expansion in 2020—which successfully limited the impact of the pandemic—fiscal policy has been on a gradual consolidation path, expected to continue through 2023, to help restore fiscal buffers. Monetary policy has been tightened since October 2021 in response to the rising inflation.



Source: IMF staff calculations.

- **Inflation** is projected to average 9.0 percent in 2022 amid elevated global inflation and impulses from energy pass through, commencing a gradual decline from 3Q2022 when food price inflation should decline after last year's drought-induced price hike. Core inflation is expected to moderate as well during 2H2022 based on the GDP slowdown and contained wage growth. Inflation is projected to reach 8.0 percent yoy by December and to return to the middle of the target band over the medium term.

- **The current account deficit** is projected to widen to 6.1 percent of GDP in 2022 and 5.7 percent of GDP in 2023 due to higher energy imports, and temporary export revenue losses for goods previously destined for the Russian market. Furthermore, volume growth of imports and exports has been revised down with lower regional growth. Over the medium-term, fiscal consolidation is expected to contribute to a gradual current account improvement. Reserves are projected to recover modestly in the remainder of 2022 with a continued return of euro cash holdings to the banking system supported by the tightening of monetary policy, as well as continued strong FDI inflows (confirmed by recent indications from the authorities).

10. Risks to the outlook are elevated and mostly to the downside.

- The main risks arise from a prolonged and escalating war in Ukraine, including through further pressures on energy and commodity prices, extended supply chain disruptions, tighter financial conditions, and lower external demand. Serbia's continuing direct ties with Russia create a country-specific risk, as the country has thus far benefitted from favorable gas import prices, and as its refinery could be impacted by future sanctions against Russia.[5]

- A new Covid wave could increase work absences given low vaccination uptake, and cause global supply disruptions.

- The shortfall of domestic electricity generation may not be resolved by the next winter and the main energy companies could need further budget support.

- Shocks to domestic financial stability in the wake of the war in Ukraine illustrated confidence risks that could, in turn, complicate domestic budget financing or create renewed pressures on international reserves.

11. The authorities broadly concurred with the risk assessment while noting their mitigating actions. They acknowledged the adverse effects of the Ukraine war, but highlighted their quick response to manage the impact, and—in coordination with the Chamber of Commerce—to assist companies. They also continued monitoring the Covid pandemic, and expressed confidence in the preparedness of the health system. The adequate level of reserves of the NBS would offer an important buffer to financial disturbances.

PROGRAM AND POLICY DISCUSSIONS

A. Energy Challenges

12. The authorities have sought to limit the impact of rising energy costs on inflation, including through direct controls.

- Complementing the existing regulated household prices for electricity and gas, the increase in energy prices for corporates has been controlled as well since November. The authorities also introduced temporary caps on sales margins for fuel, price caps on a few basic food items, and export quotas for strategic food items.

- Staff acknowledged that the absence of an effective targeted social safety net justified a delayed and phased approach to passing through international price increases to consumers, but also noted that sustained shocks ultimately would have to be absorbed. Staff encouraged the authorities to eschew introducing banning food exports and unwind export quotas as soon as possible. Staff also advised to increase energy prices to help ensure the financial viability of the energy companies, remove risks to the budget, and incentivize improvements in energy efficiency.

13. Addressing the energy sector's challenges requires urgent financial, operational and governance reforms. While Serbia's SOEs typically have not relied on government subsidies, in the

[5] Serbia has not joined EU sanctions against Russia.

past winter, Srbijagas needed liquidity support that was given through budget loans (0.5 percent of GDP in December 2021, and 0.4 percent of GDP in January 2022) and guaranteed loans from commercial banks (about 0.4 percent of GDP). The EPS received a government budget loan in March 2022 (0.1 percent of GDP).

- **Financial outlook**. The authorities explained that during the summer months with low demand for electricity and natural gas, both main energy companies were expected to operate without subsidies. Furthermore, if exceptional subsidies were needed during the remainder of the year, these would be accommodated within the agreed fiscal deficit ceiling. The authorities also committed not to resort again to state guarantees for liquidity support to SOEs (PS ¶19).

- **Electricity production**. The technical problems in the thermal power plants, as well as the mining of sufficient quantities of coal of suitable quality need to be resolved urgently, if possible, ahead of the next winter, to avoid costly electricity imports. The electricity infrastructure also requires reinvestment. The authorities have enlisted World Bank support to assess the financial situation of EPS which would help guide the medium-term stabilization measures.

- **Energy tariffs.** The authorities committed to initiating the tariff adjustment process to help restore cost recovery once the new government is formed and implement it no later than the second half of 2022 (PS ¶10).

- **Natural Gas**. A high-level agreement with Russia has been reached on a new 3-year gas import contract on favorable terms. The authorities confirmed that gas prices for end users would need to be adjusted with new import prices.

- **Energy strategy and green energy**: The authorities confirmed that the adoption of the National Climate and Energy Plan—already prepared in draft—will be an urgent priority for the next government (PS ¶40), because it provides an essential framework for energy investments. The authorities indicated that green energy sources would become even more important due to their role in energy security.[6]

- **Governance and restructuring** (PS ¶43): To prepare for the change in legal status of EPS to a joint stock company (end-November 2022 reform target (RT)), the valuation of EPS' assets was completed at end-2021. The operational unbundling of Srbijagas is expected by 2024 in line with a Government Conclusion.

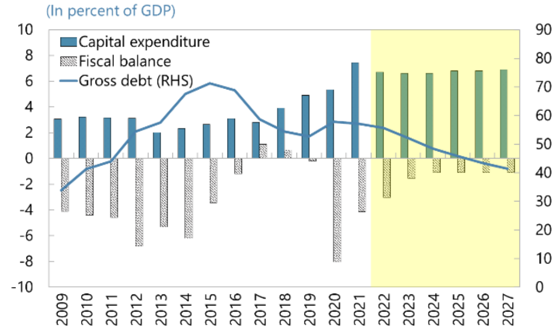
[6] See Annex I, and Box 2 in Serbia: 2021 AIV and new PCI, IMF CR 21/132.

B. Fiscal Policy

14. The authorities' commitment to accommodate recent support measures as well as possible further fiscal pressures within the agreed deficit of 3 percent in 2022 is welcome. Since the 2022 budget was passed, the authorities have announced additional support measures, totaling about 2 percent of GDP. Staff supported additional one-off payments to pensioners (given the long lag in indexation to inflation) and payments for medical workers, but argued that the provision of one-off EUR 100 grants to citizens aged 16–29 (about 0.2 percent of GDP) was not properly targeted. Staff reiterated that any additional support measures should target the most vulnerable individuals and firms. The authorities and staff concurred that strong revenue performance provided room for these past measures and that the 3 percent deficit limit remained appropriate, despite the risks to growth. Further spending needs may arise, in particular from risks in the energy sector, beyond the amounts already provided. The authorities indicated that such additional outlays would be accommodated through reallocations within the agreed deficit limit.

Capital Expenditure, Fiscal Balance and Debt

(In percent of GDP)



Sources: Ministry of Finance and IMF Staff calculations.

15. The authorities affirmed the planned deficit for 2023 of 1.5 percent of GDP and their commitment to further debt reduction over the medium term (PS ¶11, ¶14). Financing needs for 2022 are covered in part through the use of the SDR allocation, and in part were pre-financed in 2021. Financing needs for the remainder of the year are moderate and could be covered on the domestic market. For 2023, a return to the Eurobond market and development policy loans from development partners remain further options. In addition, project financing from multiple partners continues as planned and is projected to exceed the fiscal deficit in 2023. The updated debt sustainability analysis (Annex V) confirms that the profile of public debt remains benign. Nonetheless, following the pandemic-induced increase in the debt ratio by almost 5 percent of GDP, to 57 percent of GDP at end-2021, the authorities concurred on the importance of restoring the fiscal buffer through further consolidation.

16. Important fiscal structural reforms have continued.

- **Fiscal rule.** The authorities affirmed their commitment to anchoring medium-term fiscal discipline by adopting a new set of fiscal rules (revised end-October 2022 RT, PS ¶15). In consultation with staff, the new rules will feature a more transparent and credible annual deficit ceiling anchored on public debt. Other key features should include strong accountability and a strong role for the Fiscal Council. The new rules will be incorporated into the budget system law before end-2022. The delay from the previous end-June 2022 RT is due to the legal inability of the caretaker government to adopt the rules. In parallel, the authorities are looking to strengthen medium-term budgeting with Fund technical assistance, which will enhance the credibility of the fiscal rules (PS ¶19).

- **Tax administration.** Significant progress in recent years involved a comprehensive registered taxpayer database, detection of unregistered taxpayers, taxpayer education, and e-filing. A new e-fiscalization model – that makes data from cash registers available to Serbia's Tax Administration (STA) in real time – was introduced in May 2022, and an electronic invoice exchange system should be fully operational in early 2023. The preparation of the tender for a new commercial off-the-shelf (COTS) information system to support new business processes is on track (**end-June 2022 RT**). Staffing shortages in STA continue to be a key concern, yet recruitment procedures remain slow.

- **Fiscal risks.** As an important milestone, expanded reporting on fiscal risks from SOEs, local governments and litigation is planned to be included in the November version of the 2023 Fiscal Strategy. It will draw on upgraded or new models and tools. Protocols on information sharing with relevant institutions will be signed once the new government is in place (PS ¶21).

- **Public investment management.** The Public Investment Management unit in the Ministry of Finance monitors all approved public investment projects. The Public Investment Management System (PIMIS), which includes an integrated database of public investment projects, is in the commissioning phase, and expected to be fully operational for projects in the implementation phase by end-2022 (PS ¶20). Staff noted the importance of effective scrutiny of cost-effectiveness and financial risks beyond verifying procedural requirements.

- **Procurement.** The use and functionality of the e-procurement portal continues to be strengthened, and the 2021 Annual Report of the Public Procurement Office indicates that the value of contracts increased to about 9 percent of GDP. However, exempted contracts at about 6 percent of GDP remained large, and the average number of bids is only 2.5.

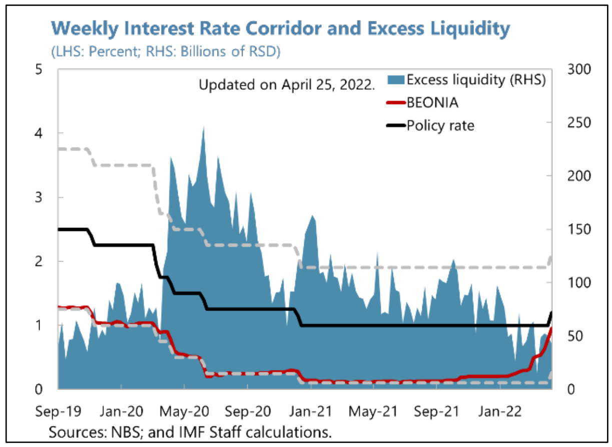
- **Public wage and employment registry (ISKRA)**. The first phase of the new ISKRA information system – covering direct budget users and government units in three sectors – became operational with a delay through May for a small number of budget users (**end-April 2022 RT**). The next phase will include the education sector (except higher education institutions; **new end-February-2023 RT**).

- **Fiscal statistics**. Work is ongoing with Fund technical assistance to automate the preparation of monthly GFSM 2014 compliant fiscal data, expand the coverage of extrabudgetary units, and develop data for the compilation of financial accounts (PS ¶46). Completion will facilitate timely monitoring and adherence to the new fiscal rules.

17. The authorities have re-committed to transparency and accountability in the use of public funds. Pandemic and other emergency spending[7] will be accounted in regular budget execution reports and subject to the annual ex-post audit by the State Audit Institution (PS ¶13). Any financial support to public enterprises is to be delivered transparently (PS ¶13). While a guarantee was issued to Srbijagas in early 2022 to ensure uninterrupted gas imports, the authorities committed to strictly limit the issuances of guarantees and especially not to issue any new guarantees for liquidity support to SOEs (PS ¶19).

C. Monetary and Financial Sector Policies

18. Within Serbia's stabilized de-facto exchange rate regime, the National Bank of Serbia (NBS) raised the policy rate to 2 percent in May. The process of monetary tightening began in October 2021 with the gradual increase of the repo rate in reverse repo auctions, to curb inflation expectations and contain second-round effects on prices in the wake of rising food and global energy prices. As inflationary pressures turned out to be stronger and more persistent than previously expected, including because of the war in Ukraine, the NBS raised the key policy rate twice, in April and May—by 50 bp each time—to 2 percent. It also raised rates on deposit and credit facilities to 1 and 3 percent, respectively.



19. Staff supported the monetary tightening and encouraged the NBS to take further actions as needed to keep inflation expectations anchored and help projected inflation return within the target band within the projection horizon. Staff acknowledged that a more measured pace of monetary tightening in Serbia compared with emerging market peers, in particular in the EU, could be justified in light of relative importance of higher food prices because of a drought (with core inflation remaining lower than regional peers), the ongoing fiscal tightening, moderate inflation expectations, and the stabilization of the exchange rate to the euro during the pandemic. Nevertheless, staff advised the authorities to continue closely monitoring inflation developments, including relative to the euro area, and stand ready to tighten further as needed. In particular, in case of stronger-than-expected second round effects, more decisive policy tightening would be warranted. Monetary policy should also take into account tightening by the ECB and the interest differential with the euro area.

[7] For 2021, see Serbia's State Audit Institution (SAI) at https://www.dri.rs (in Serbian). SAI tracks its recommendations and audited entities' responses and action plans in publicly available databases.

20. At the start of the war in Ukraine, the authorities acted swiftly to mitigate shocks to financial stability.

- The NBS orchestrated the quick sale of Sberbank Srbija to AIK Banka a.d. Beograd, which halted deposit outflows from the bank. Staff appreciated this successful first use of bank resolution procedures, which achieved a market-based take-over without financial involvement of the public sector.

- The spillovers from the war also triggered temporary cash withdrawals in euros from the banking system, peaking in the first two weeks of March. The authorities emphasized in a public campaign that the exchange rate would be kept stable through the crisis, and that any withdrawal requests would be honored.

21. The authorities emphasized that exchange rate stability was essential to macroeconomic stability. They noted the adverse impact that a significant depreciation could have on confidence, inflation, FX denominated debt and the dinarization strategy. While acknowledging that the sharp reserve losses of early March 2022 were due to exceptional circumstances and that the NBS had already started to repurchase euros withdrawn by households, staff emphasized the risks to reserves. The recent tightening of monetary policy was an appropriate complement within the policy mix in this context. Staff agreed that there was a case for maintaining exchange rate stability through crises to maintain confidence, and recognized that the external sector assessment (Annex IV) indicates a fairly valued exchange rate. Nevertheless, staff reiterated that a gradual return to a more flexible exchange rate would be more aligned with a regime of inflation targeting and could help limit risks from unhedged FX loans.

22. Domestic credit growth picked up since mid-2021 and dinarization increased. In March, credit growth reached 12.4 percent yoy, largely reflecting the fading of high base effects from 2020 due to moratoria and rising credit growth to corporates. NPLs have remained stable, registering below 3.5 percent at end-February. Credit and deposit in dinars increased to 38 percent and 40 percent, respectively, at end-December. Dinar savings have been supported by rising interest rates. Starting from July 2022, the authorities plan to apply higher capital requirements on banks' FX lending above a threshold in order to increase dinar lending further.

23. While the banking system remains liquid and well capitalized, and financial stability has been preserved, close monitoring of risks in the banking sector remains critical.

- As the crisis evolves, staff re-emphasized that banks should continue to assess borrowers' creditworthiness and reclassify exposures when repayment appears unlikely.

- Staff and the authorities agreed that risks to financial stability from litigation of loan fees charged by banks are receding thanks to a ruling of the Supreme Court of Cassation affirming the legality of such fees.

- Staff reiterated the need to monitor the expansion plans of Banka Poštanska Štedionica (BPS) the largest remaining state-owned bank, while noting that performance was in line with the approved business plan.

- In view of the ongoing growth in lending, staff suggested phasing out the remaining temporary incentives for housing and other loans. The authorities noted that the economy and citizens still needed support and that the housing measure had been extended through 2022.

24. The authorities have continued enhancing the financial safety nets. The Deposit Insurance Agency (DIA) plans to introduce risk-based premiums in 2022. The authorities were launching the final tendering process of the DIA's residual bad assets (with a nominal value of EUR 492 million), with a goal to complete it by end-2022.

25. The authorities confirmed their plans for strengthening capital markets. Following the adoption of the Capital Market Development Strategy (**end-September 2021 RT**), the authorities passed a new Law on Capital Markets that aligns the Serbian regulatory framework with the EU acquis in December 2021. The authorities aim to introduce a primary dealer system in support of the first auction of dinar-denominated securities using Euroclear (expected in early 2023). Accordingly, the primary dealer system will be applied at least for one benchmark issuance no later than 1Q2023 (**new end-March 2023 RT**).

D. Structural Policies

26. Against the backdrop of robust labor market conditions, the authorities emphasized the continued importance of combatting the grey economy and targeting of social assistance programs. Reform initiatives for fighting the informal economy include the new e-fiscalization model, and draft legislation (to be presented by the new government) on extending the law on seasonal workers beyond agriculture to the construction and tourism sectors. The authorities noted that the minimum wage remains a key tool to support the vulnerable. The Social Card Registry, which consolidates all relevant data on people's socio-economic status, was launched in March. In combination with a new "Social Care" IT system, the design and implementation of social protection programs can now become more targeted. Staff considered that spending on social assistance was low, and suggested that with a better system, there was a case for expanding its coverage and the level of benefits. The authorities also highlighted the successful "My First Salary" program, which aims to boost youth employment.

27. SOE reforms are progressing.

- In December 2021 a centralized and updated database with a registry of all SOEs and their assets was published, and the Ministry of Economy adopted an internal act on the baseline for setting mechanisms and criteria for reviewing and approving key decisions of SOEs (**end-December 2021 RT**). The authorities have created a working group for preparing a new law on ownership management for SOEs (**end-December 2022 RT**).

- In December 2021 an agreement on the privatization of Petrohemija through a strategic partnership with NIS, a Serbian subsidiary of Gazprom, was reached, and closing was expected in July 2022.

- The authorities are continuing to explore strategic investments or partnerships for bus company Lasta.

28. The AML/ CFT framework continues to be strengthened and progress is being made on anti-corruption initiatives. In the MONEYVAL report following the December 2021 Plenary, Serbia was assessed as "compliant" or "largely compliant" for 39 of the 40 FATF recommendations. The national risk assessment (NRA) in the digital assets sector adopted in September 2021 was not yet reflected in the report. The Action Plan for implementing the National 2020-2024 Strategy Against Money Laundering and the Financing of the Terrorism (AML/CFT Strategy) was updated in March 2022 following the 2021 NRA exercise. The updated Rulebook on the methodology for complying with the AML/CFT Law was published in February 2022. The March 2022 Second Interim Compliance Report, which deals with corruption prevention in respect of members of parliament, judges and prosecutors, of the Group of States against Corruption (GRECO) notes that Serbia implemented 8 of 13 recommendations satisfactorily and the remaining were partially implemented. Staff encouraged the authorities to continue advancing the effective implementation of these initiatives.

PROGRAM MODALITIES

29. Program implementation has been broadly on track.

- **All but one end-December 2021 quantitative targets (QTs) and continuous targets (CTs) were observed (PS Table 1a and 1b).** The energy crisis triggered temporary additional fiscal spending to ensure adequate supply of natural gas. As a result, the end 2021 ceiling on current primary expenditure was missed by 0.2 percent of GDP.

- **As the war in Ukraine has raised international energy and food prices further, the upper inflation band under the Inflation Consultation Clause was breached in March 2022 (PS ¶24 and PS Table 1a).** The authorities have consulted with staff on the drivers behind inflation, and staff considered that the continued tightening of monetary conditions, including the increases in the key policy rate in April and May, was appropriate.

- **In light of the rise in inflation and the spending adjustments, staff is proposing to modify the December 2022 QTs** for the fiscal deficit and primary expenditure of the Republican budget, and the inflation consultation band (PS Table 1a).

- **The actions under the end-December 2021 and end-April 2022 reform targets (RTs) were completed.** In December 2021, a centralized SOEs database was created, and an internal act on mechanisms and criteria for reviewing and approving key decisions of SOEs was adopted. The end-April RT on expanding the central electronic public wage and employment registry was missed due to a delay for a small number of budget users (entities) and completed in May.

- **Staff is proposing to modify the target date for the RT to adopt a new fiscal rule from end-June 2022 to end-October 2022.** Revising the timeline is necessary since a formal government decision on a fiscal rule will not be possible while a caretaker government is in place. The authorities reaffirmed their commitment to a new fiscal rule and intended to present it with the 2023 budget.

- **Staff is proposing two additional RTs (PS Table 2).** First, by end-February 2023 the second phase of a new payroll information system covering the education sector (except higher education) should be operational (PS ¶18), which will be critical for preparing the delayed public sector wage grid reform (PS ¶17). Second, the authorities will introduce a primary dealer system in support of at least one benchmark issuance of dinar-denominated government securities by end-March 2023 (PS ¶27).

30. Financing assurances. The program remains fully financed with firm commitments in place for the next 12 months and there are good prospects for the remainder of the program period (¶15).

31. 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

32. Following the COVID-19 pandemic, the energy crisis and the war in Ukraine have posed new challenges for the Serbian economy. Serbia demonstrated its resilience during the pandemic, and production as well as employment recovered more rapidly than in many other countries. However, the recent energy crisis exposed the lingering risks to fiscal sustainability and growth from weak governance and investment planning in key public enterprises. The adverse spillovers from the war in Ukraine are projected to result in a marked reduction in economic growth, and possibly some economic scarring. The further increase in international energy and commodity prices has pushed up inflation further.

33. Immediate policy priorities are to preserve macro-fiscal and financial stability and mitigate the impact of the ongoing external shocks. Should economic disruptions warrant further support to the affected groups or activities, including the state-owned enterprises in the energy sector, the additional expenditures should be accommodated by reprioritizing spending within the agreed 3 percent of GDP fiscal deficit ceiling—which remains an appropriate anchor. Any additional emergency assistance should be temporary and targeted to vulnerable households and viable firms.

34. The ongoing tightening of monetary policy, including the policy rate increases in April and May, is important for bringing inflation back into the target band in 2023, but more may be needed. The authorities should stand ready to respond as needed to contain second-round effects of higher imported prices on inflation. Maintaining exchange rate stability throughout the extended crisis period has helped maintain and restore confidence and anchor inflation expectations. That said, gradually allowing more exchange rate flexibility once the crisis is over could be beneficial.

35. The banking system remains well-capitalized and liquid, but continued vigilance is essential. The swift response by the NBS to war-related spillovers on the banking system was instrumental for preserving financial stability. The NBS timely initiated a resolution procedure in respect of Sberbank Srbija, and quickly finalized its acquisition by a domestic banking group. At the same time, recent events illustrated the remaining risks to confidence in the currency and the financial system, calling for continued close monitoring of deposit and foreign exchange movements.

36. The recent disruptions in domestic electricity production demonstrated the urgency of rigorous reform of governance in the energy companies as well as of a new strategy for investments in the sector. While the caps on energy prices have helped maintain social and economic stability, forthcoming price adjustments are needed to help ensure cost recovery and financial sustainability of the energy companies without putting pressure on the government budget. When adjusting energy prices, it will be important to soften the impact on vulnerable households.

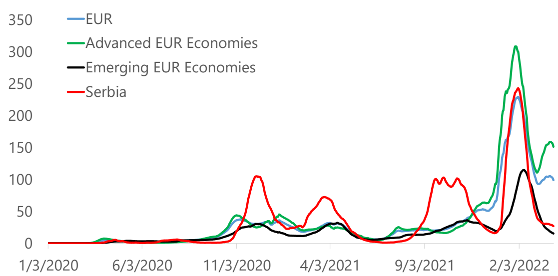
37. The reform momentum should be maintained. A critical reform under the program will be anchoring medium-term fiscal discipline with a new set of fiscal rules. Further actions should include continued implementation of the SOE ownership and governance strategy, and the expansion of the central public wage registry to improve control. Implementing the new capital market development strategy would underpin private investment. Furthermore, strengthening the rule of law, curbing corruption, and pursuing the transition to greener growth should be vital overarching priorities.

38. Staff supports the completion of the second review under the Policy Coordination Instrument. Staff also supports the authorities' request for the completion of the second review under the PCI, the modification of end-December 2022 targets (fiscal deficit, current primary expenditure, and the inflation consultation band), the new proposed RTs and the modification of the completion date for the RT on adopting a new fiscal rule (to end-October 2022).

Figure 1. COVID-19 Evolution in Serbia

New Covid-19 infections saw a sharp peak in early 2022, followed by a return to previous trough levels …

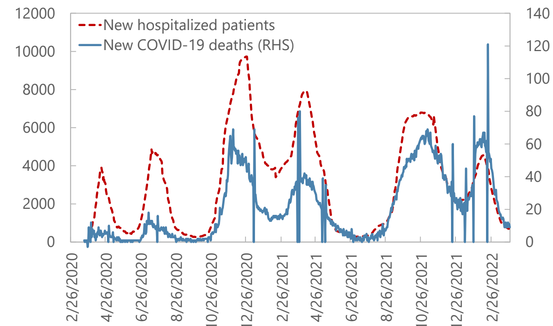
New Weekly Covid-19 Cases: Aggregates
(7-day moving average cases per day per 100,000 people)



Sources: WHO and IMF Staff calculations.
Data as of 3/30/2022

… while hospitalizations remained below previous peaks.

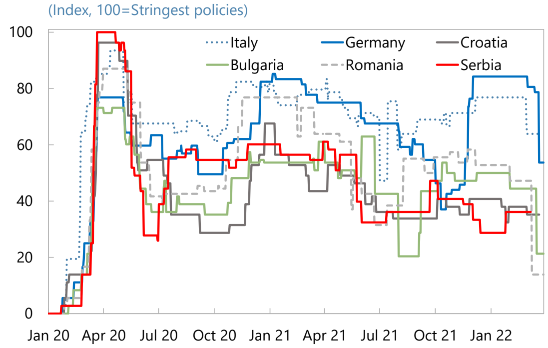
Daily COVID-19 Deaths and Hospital Occupancy
(Number of patients in hospital due to COVID-19 on a given date)



Source: Our world in data

Covid-related restrictions were slightly tightened in early 2022 when recommendations for school and workplace closures were reintroduced …

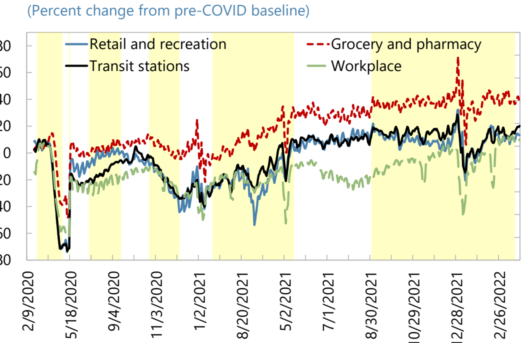
Oxford Government Policy Response Index
(Index, 100=Stringest policies)



Source: Blavatnik School of Government, University of Oxford

… but most mobility indicators only dropped temporarily and have returned to close to pre-pandemic levels.

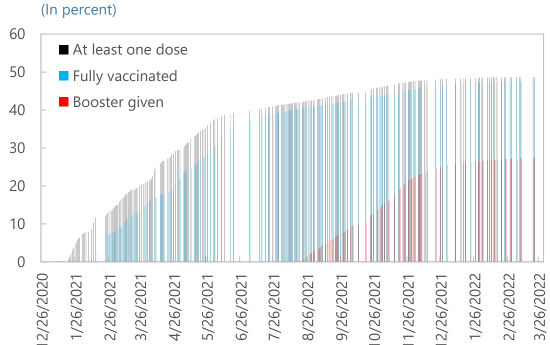
Mobility Trends
(Percent change from pre-COVID baseline)



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

Vaccination uptake has stalled …

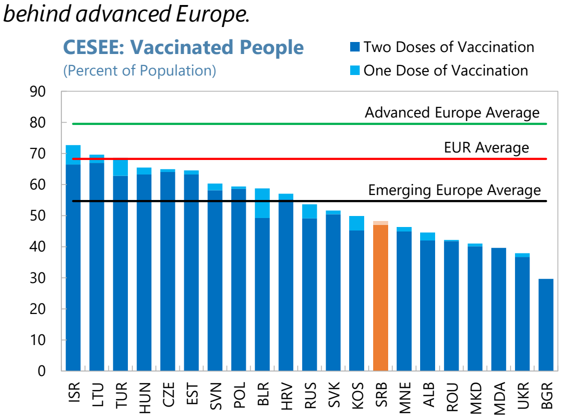
Vaccinations
(In percent)



Source: Our world in data

… with a vaccination rate of around 50 percent, lagging behind advanced Europe.

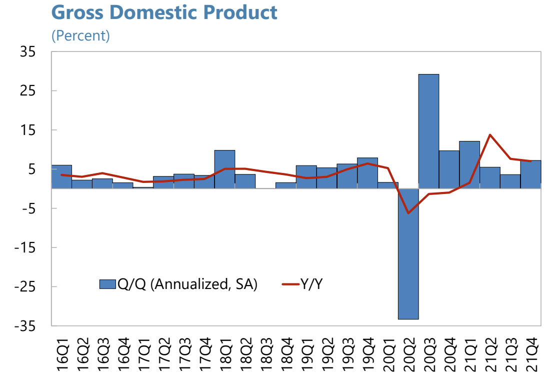
CESEE: Vaccinated People
(Percent of Population)



Source: Our World in Data.

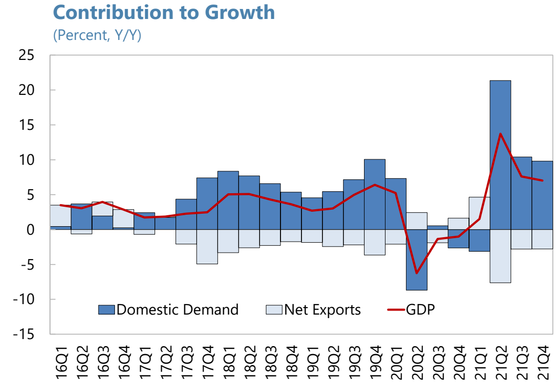
Figure 2. Serbia: Real Sector Developments

Growth continued its recovery through 2H2021…



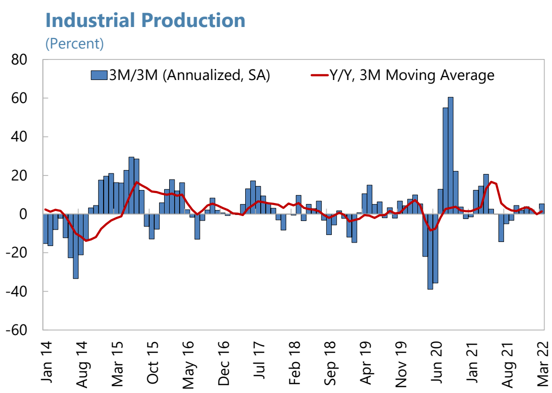
Sources: Haver Analytics; SORS; and IMF Staff calculations

…supported by strong domestic demand.



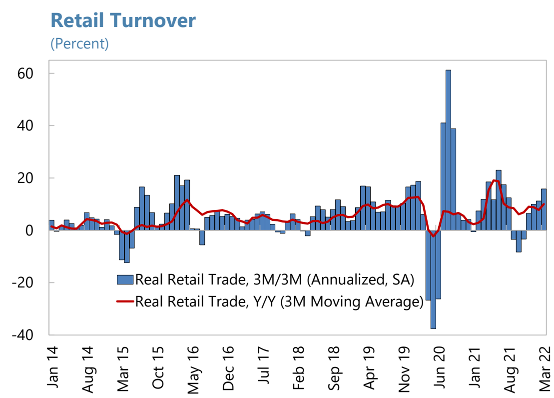
Sources: Haver Analytics; SORS; and IMF Staff calculations

Industrial production has recovered from the pandemic but remains volatile….



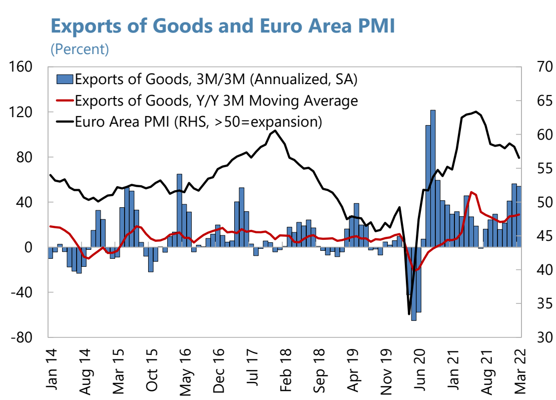
Sources: Haver Analytics; SORS; and IMF Staff calculations

…along with retail sales…



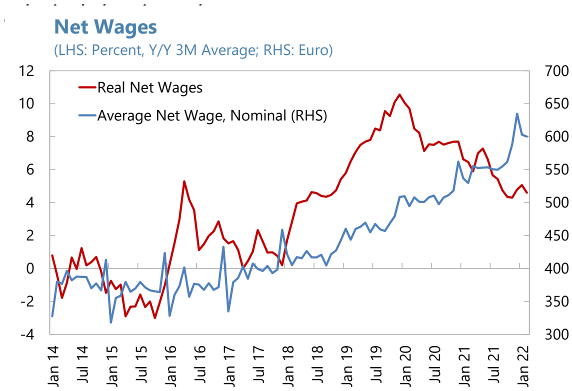
Sources: Haver Analytics; SORS; and IMF Staff calculations

….and exports.



Sources: Haver Analytics; SORS; and IMF Staff calculations

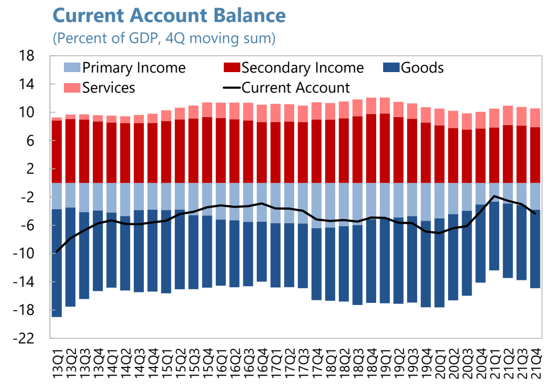
Net wage growth picked up in recent months, but remains



Sources: Haver Analytics; SORS; and IMF Staff calculations

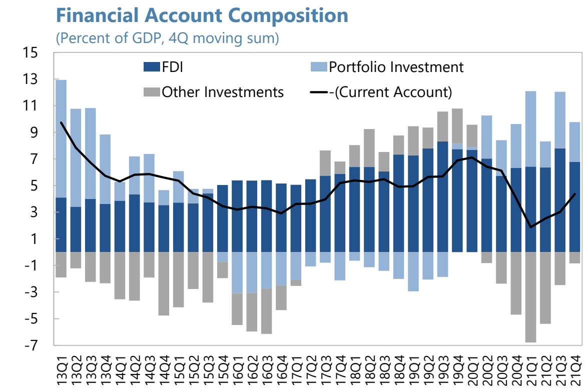
Figure 3. Serbia: Balance of Payments and NIR

The current account deficit widened in 2H2021….



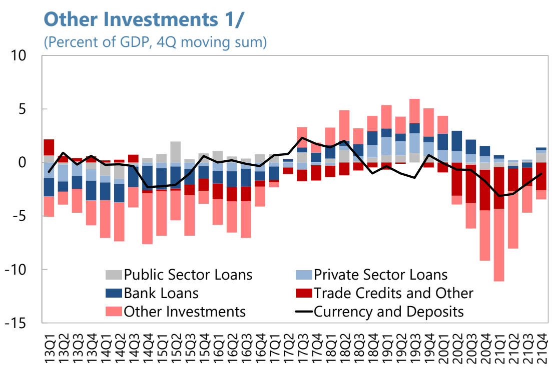
Sources: Haver Analytics; and IMF Staff calculations

…but remained comfortably covered by FDI.



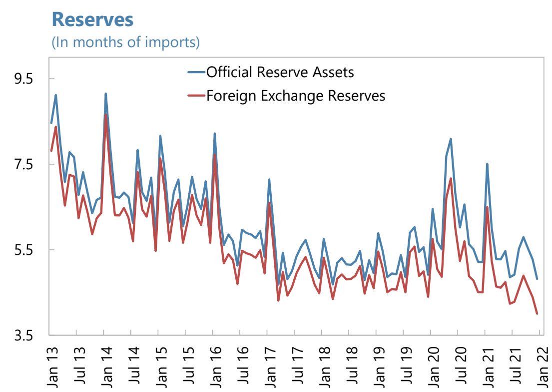
Sources: Haver Analytics; and IMF Staff calculations

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



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

International reserves have declined over the past winter, with high energy impot costs.

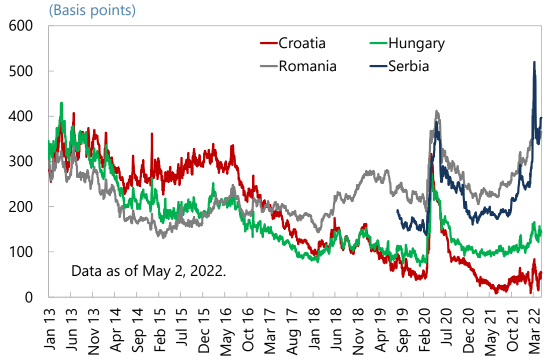


Sources: Haver Analytics; and IMF Staff calculations

Figure 4. Serbia: Financial and Exchange Rate Developments

EMBI spreads have spiked since the start of the war in Ukraine and remain higher than peers ....

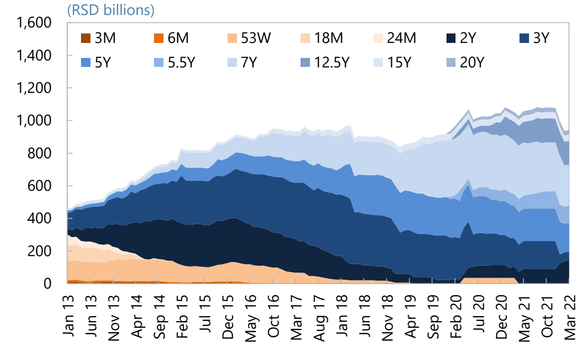
Sovereign Risk - Euro EMBIG Spreads
(Basis points)



Source: Bloomberg

....while efforts to lengthen the maturity of domestic securities have continued.

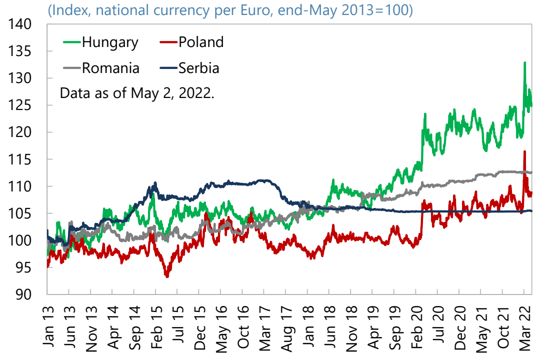
Domestic Debt Stock 1/
(RSD billions)



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

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

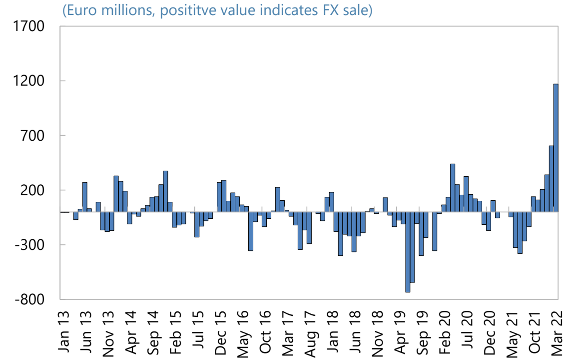
Exchange Rates in the Region
(Index, national currency per Euro, end-May 2013=100)



Sources: Bloomberg

....while the NBS foreign exchange interventions switched to net sales in Q42021 and peaked in March 2022.

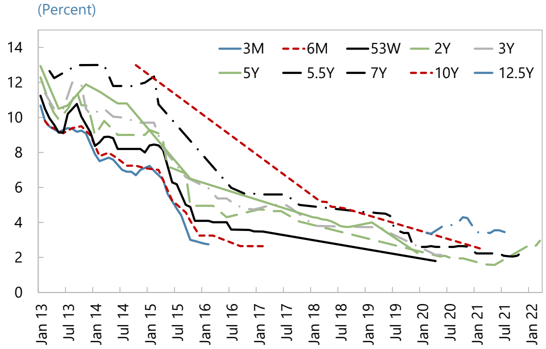
FX Interventions by NBS
(Euro millions, posititve value indicates FX sale)



Source: National Bank of Serbia

Yields for dinar-denominated securities remain low...

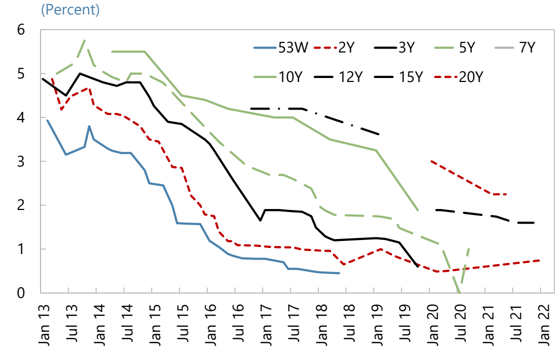
Yields on Dinar-Denominated Domestic Securities
(Percent)



Source: National Bank of Serbia

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

Yields on Euro-Denominated Domestic Securities
(Percent)

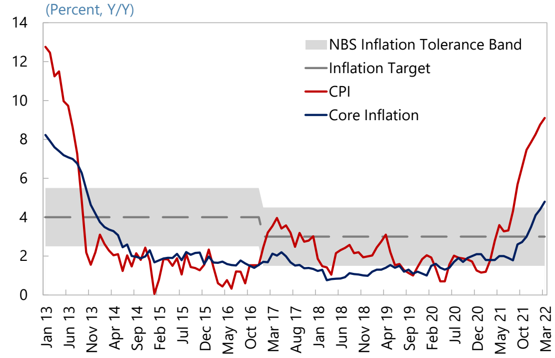


Source: National Bank of Serbia

Figure 5. Serbia: Inflation and Monetary Policy

Inflation moved outside the target band in 2H2021....

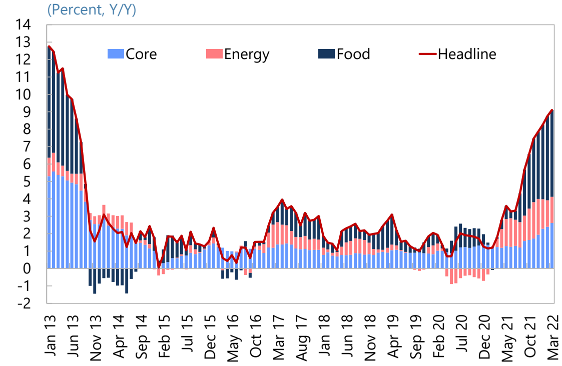
Inflation
(Percent, Y/Y)



Source: National Bank of Serbia; and IMF Staff calculations

....driven primarily by higher food prices.

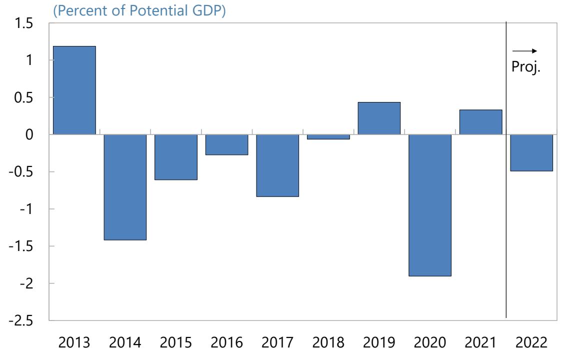
Contribution to Annual Inflation
(Percent, Y/Y)



Source: SORS

The output gap turned positive in 2021.

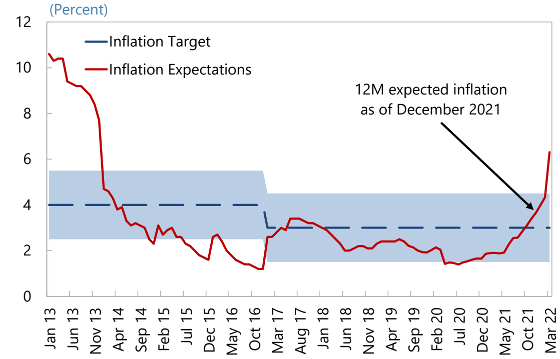
Output Gap
(Percent of Potential GDP)



Sources: National Bank of Serbia; and IMF Staff projections

Inflations expectations picked up in early 2022 to the upper limit of the target band.

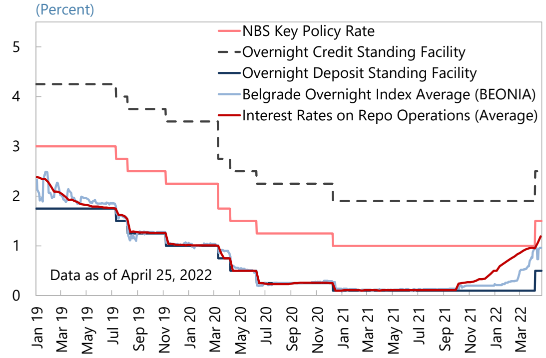
One-Year-Ahead Inflation Expectations
(Percent)



Sources: Bloomberg; SORS; and IMF Staff projections

The repo rate was substantially raised since October 2021, and the key policy rate was increased in April and May 2022 by 0.5 percentage points each to 2 percent....

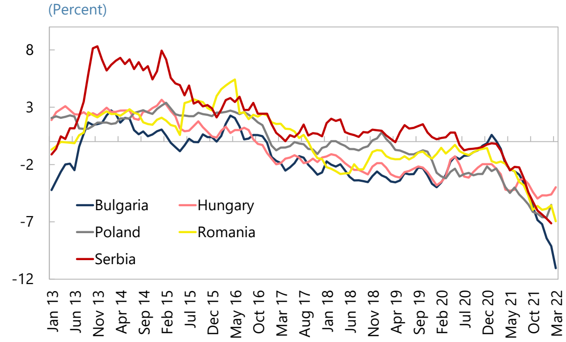
Interest Rates
(Percent)



Sources: National Bank of Serbia; and Haver Analytics

.... but remains comparable to peer countries in real terms.

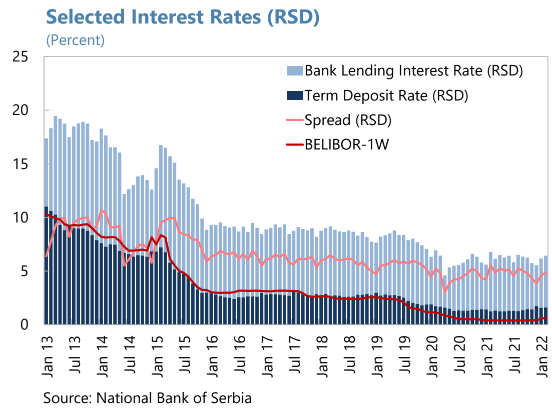
Policy Rate in Real Terms in Selected Countries
(Percent)



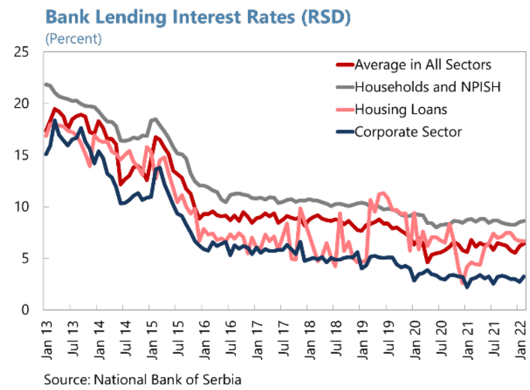
Source: Haver Analytics
Note: Nominal policy rates adjusted by inflation over the past 12 months

Figure 6. Serbia: Selected Interest Rates and Credit Development

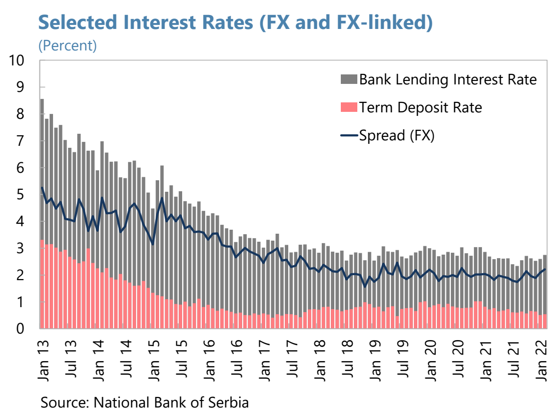
Monetary policy easing through 2020 contributed to a decline in dinar deposit interest rates….



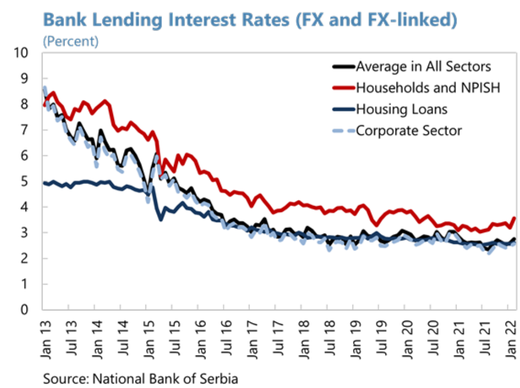
….along with most bank lending rates in dinar.



FX (and FX-linked) interest rates also remained low…



….with lower lending rates to corporates.



Credit growth picks up in 2021 and 1Q2022.

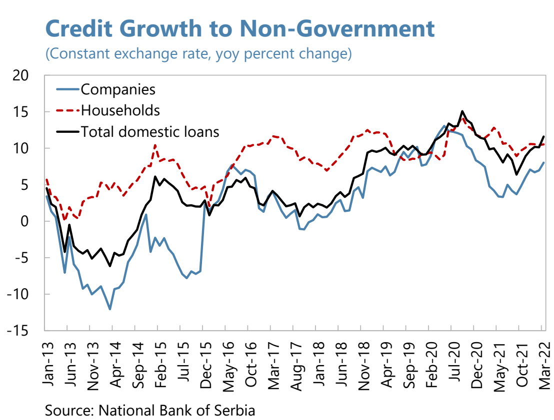
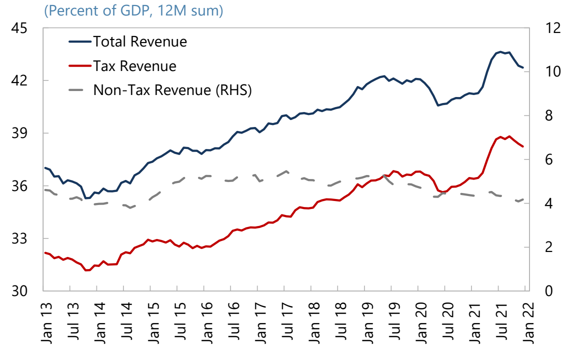


Figure 7. Serbia: Fiscal Developments

Revenues picked up sharply throughout 2021 as the economy recovered.

Total Revenue Composition

(Percent of GDP, 12M sum)

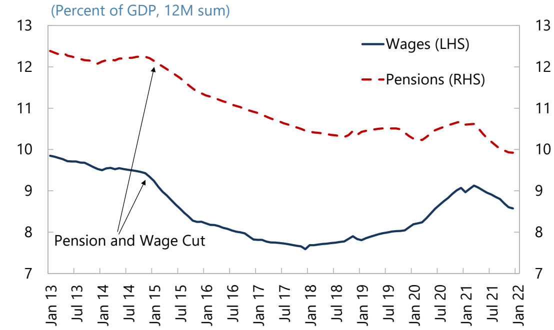


Sources: Ministry of Finance; and IMF Staff calculations

The public sector wage bill and pension costs (share of GDP) have declined, partly reflecting unexpected inflation.

Wages and Pensions 1/

(Percent of GDP, 12M sum)



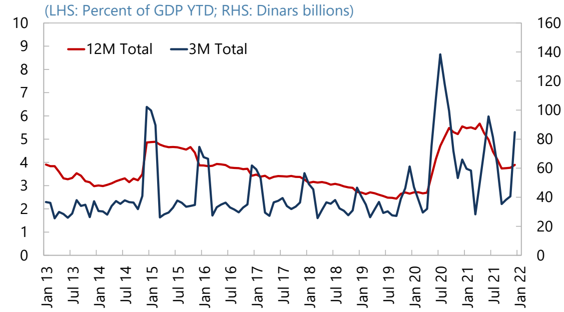
Sources: Ministry of Finance; and IMF Staff calculations

1/ Excludes employers' contributions

State aid to companies was boosted by the pandemic and energy crises…

State Aid 2/

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



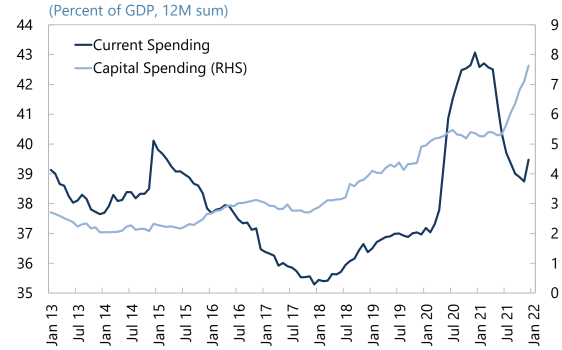
Sources: Ministry of Finance; and IMF Staff calculations

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.

…. while the composition of spending has switched towards capital spending.

Current and Capital Spending

(Percent of GDP, 12M sum)

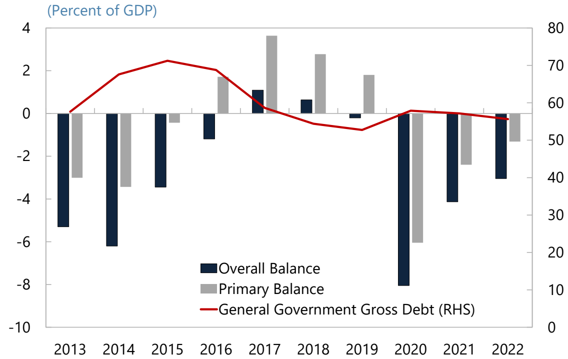


Sources: Ministry of Finance; and IMF Staff calculations

Government debt is expected to have peaked in 2020…

Fiscal Balance and Debt

(Percent of GDP)

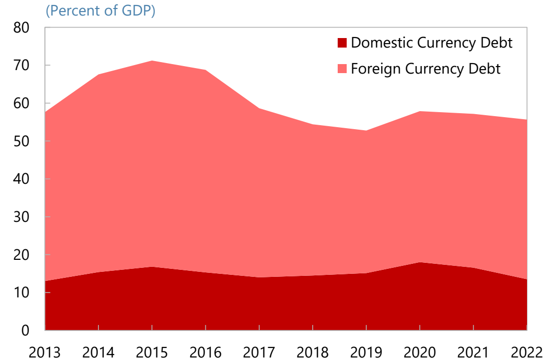


Sources: Ministry of Finance; and IMF Staff calculations

….with its currency composition broadly unchanged.

Public Debt

(Percent of GDP)

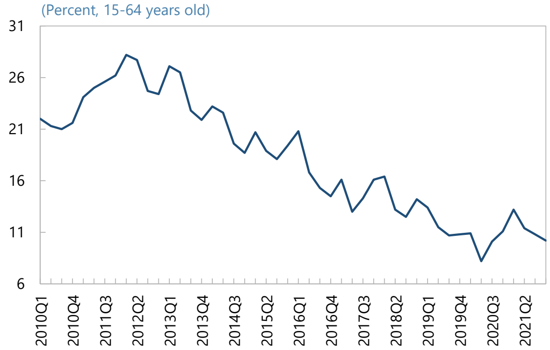


Sources: Ministry of Finance; and IMF Staff calculations

Figure 8. Serbia: Labor Market Developments

Unemployment continued to decline in 2H2021.

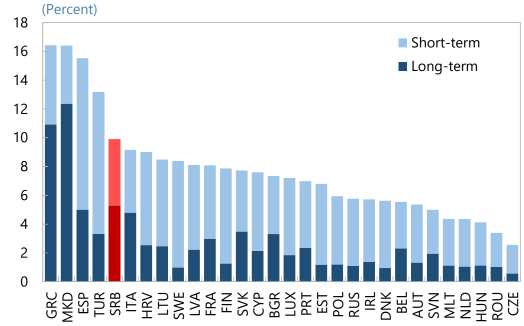
Unemployment Rate
(Percent, 15-64 years old)



Source: SORS

Long-term unemployment persists.

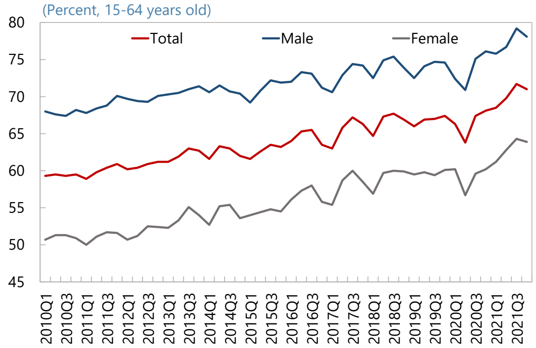
Unemployment Rate, 2020 or latest available
(Percent)



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

Labor market participation rates increased in 2021 ….

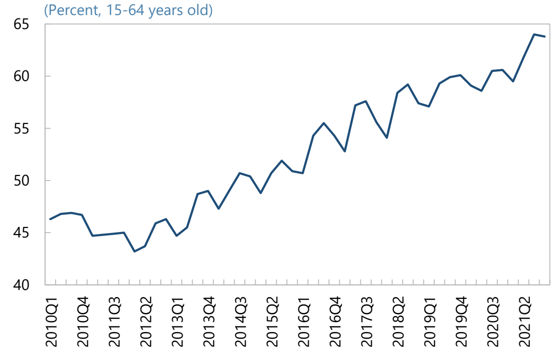
Labor Participation Rate
(Percent, 15-64 years old)



Sources: SORS

…. along with employment growth.

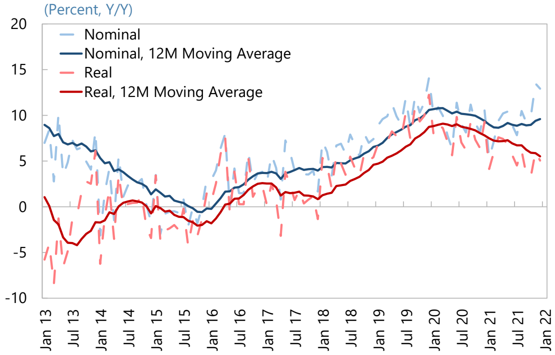
Employment Rate
(Percent, 15-64 years old)



Sources: SORS

Growth in nominal net wages picked up in recent months while real wage growth fell …

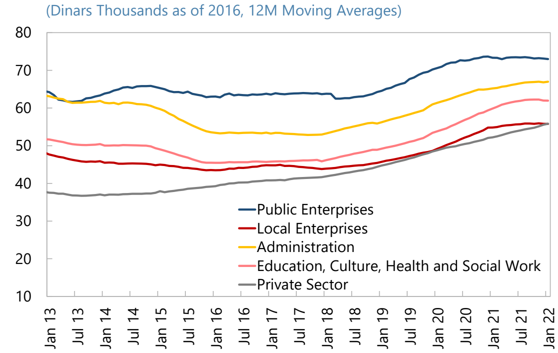
Net Wage Growth
(Percent, Y/Y)



Source: SORS

….with private sector real wages continuing to catch up towards those in the public sector.

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, 2018–24

	2018	2019	2020	2021		2022		2023		2024
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.
	(Percent change, unless otherwise indicated)									
Real sector										
Real GDP	4.5	4.3	-0.9	**6.5**	7.4	**4.5**	3.5	**4.5**	4.0	4.0
Real domestic demand (absorption)	6.5	6.3	-0.9	**5.1**	8.5	**4.9**	3.6	**5.1**	4.7	4.8
Consumer prices (average)	2.0	1.9	1.6	**4.0**	4.1	**4.9**	9.0	**3.5**	5.9	3.7
Consumer prices (end of period)	2.0	1.9	1.3	**7.0**	7.9	**2.5**	8.0	**3.0**	4.3	3.7
GDP deflator	2.0	2.4	2.4	**4.9**	6.1	**4.7**	6.8	**3.8**	7.0	5.2
Unemployment rate (in percent) 1/	14.1	11.6	10.1	**...**	...	**...**	...	**...**	...	...
Nominal GDP (in billions of dinars)	5,073	5,422	5,502	**6,147**	6,269	**6,725**	6,931	**7,295**	7,711	8,437
	(Percent of GDP)									
General government finances										
Revenue 2/	41.5	42.0	41.0	**43.6**	43.3	**41.7**	41.3	**41.7**	41.6	41.7
Expenditure 2/	40.9	42.2	49.0	**48.5**	47.4	**44.7**	44.3	**43.2**	43.1	42.9
Current 2/	36.4	36.9	42.8	**40.3**	39.0	**37.0**	37.5	**36.2**	36.2	35.9
Capital and net lending	4.1	5.1	6.1	**8.1**	8.3	**7.4**	6.8	**6.8**	6.6	6.7
Amortization of called guarantees	0.4	0.2	0.1	**0.1**	0.1	**0.2**	0.0	**0.1**	0.3	0.2
Fiscal balance 3/	0.6	-0.2	-8.0	**-5.0**	-4.1	**-3.0**	-3.0	**-1.5**	-1.5	-1.1
Primary fiscal balance (cash basis)	2.8	1.8	-6.0	**-3.1**	-2.4	**-1.2**	-1.3	**0.3**	0.8	0.6
Structural primary fiscal balance 4/	2.9	1.5	-4.0	**-3.4**	-2.5	**-1.7**	-1.0	**0.2**	0.7	0.5
Gross debt /5	54.4	52.8	57.9	**58.3**	57.2	**56.5**	55.1	**53.9**	50.8	47.2
	(End of period 12-month change, percent)									
Monetary sector										
Money (M1)	20.1	16.3	36.3	**11.4**	14.5	**9.0**	11.2	**8.6**	11.2	8.5
Broad money (M2)	15.0	8.8	18.4	**10.6**	13.0	**8.4**	11.8	**8.1**	7.3	6.0
Domestic credit to non-government 6/	10.1	9.5	12.0	**5.8**	9.9	**5.1**	13.5	**4.3**	7.5	6.6
	(Period average, percent)									
Interest rates (dinar)										
NBS key policy rate	3.1	2.3	1.0	**...**	1.0	**...**	...	**...**	...	...
Interest rate on new FX and FX-indexed loans	2.8	3.1	3.0	**...**	3.0	**...**	...	**...**	...	...
	(Percent of GDP, unless otherwise indicated)									
Balance of payments										
Current account balance	-4.8	-6.9	-4.1	**-4.1**	-4.4	**-4.3**	-6.1	**-4.3**	-5.7	-6.0
Exports of goods	35.2	35.7	34.4	**39.1**	38.9	**39.2**	38.7	**39.0**	36.7	36.0
Imports of goods	-47.1	-47.9	-45.5	**-49.5**	-50.0	**-49.5**	-51.4	**-49.3**	-48.6	-47.2
Trade of goods balance	-11.9	-12.2	-11.1	**-10.4**	-11.1	**-10.3**	-12.7	**-10.3**	-11.9	-11.2
Capital and financial account balance	6.7	10.6	5.0	**11.1**	8.7	**5.9**	3.2	**6.7**	7.2	6.9
External debt (percent of GDP) 7/	66.1	65.7	70.3	**68.4**	71.3	**64.8**	66.2	**62.1**	62.3	58.0
of which: Private external debt	30.9	31.3	33.8	**31.1**	32.6	**29.0**	29.0	**27.2**	26.4	24.4
Gross official reserves (in billions of euro)	11.3	13.4	13.5	**17.1**	16.5	**18.0**	14.7	**19.5**	15.7	16.4
(in months of prospective imports)	4.8	6.1	4.9	**6.0**	5.3	**5.9**	4.4	**5.9**	4.4	4.3
(percent of short-term debt)	195.3	417.2	420.7	**523.2**	513.1	**551.4**	458.9	**594.8**	489.5	510.5
(percent of broad money, M2)	52.2	57.7	57.3	**65.7**	61.4	**63.6**	49.7	**63.9**	47.5	45.2
(percent of risk-weighted metric) 8/	111.2	126.2	125.9	**139.3**	134.0	**138.7**	114.3	**142.4**	113.9	112.8
Exchange rate (dinar/euro, period average)	118.3	117.9	117.6	**...**	117.6	**...**	...	**...**	...	...
REER (annual average change, in percent; + indicates appreciation)	2.8	1.0	1.5	**...**	1.4	**...**	...	**...**	...	...
Social indicators										
Per capita GDP (in US$)	7,252	7,397	7,700	**9,012**	9,178	**9,940**	9,597	**10,904**	10,883	12,145
Real GDP per capita (percent change)	5.1	4.6	-0.4	**6.9**	8.3	**4.9**	4.0	**4.9**	4.4	4.4
Population (in million)	7.0	7.0	6.9	**6.9**	6.9	**6.9**	6.8	**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, 2018–27

	2018	2019	2020	2021		2022		2023		2024	2025	2026	2027
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.	Proj.	Proj.	Proj.
	(percent change)												
Real sector													
GDP growth	4.5	4.3	-0.9	6.5	7.4	4.5	3.5	4.5	4.0	4.0	4.0	4.0	4.0
Domestic demand (contribution)	7.0	6.9	-1.0	5.7	9.5	5.4	4.1	5.6	5.3	5.4	4.7	4.7	4.7
Net exports (contribution)	-2.5	-2.6	0.1	0.8	-2.1	-0.9	-0.5	-1.1	-1.3	-1.4	-0.7	-0.7	-0.7
Consumer price inflation (average)	2.0	1.9	1.6	4.0	4.1	4.9	9.0	3.5	5.9	3.7	3.5	3.2	3.0
Consumer price inflation (end of period)	2.0	1.9	1.3	7.0	7.9	2.5	8.0	3.0	4.3	3.7	3.5	3.2	3.0
Output gap (in percent of potential)	-0.1	0.4	-1.9	-0.5	0.3	-0.4	-0.5	-0.2	-0.3	-0.2	0.0	0.0	0.0
Potential GDP growth	3.7	3.8	1.4	4.8	5.0	4.3	4.4	4.3	3.8	3.9	3.8	3.9	4.1
Domestic credit to non-gov. (constant exchange rate) 1/	10.1	9.5	12.0	5.8	9.9	5.1	13.5	4.3	7.5	6.6	5.5	5.6	5.4
	(percent of GDP, unless otherwise indicated)												
General government													
Revenue 2/	41.5	42.0	41.0	43.6	43.3	41.7	41.3	41.7	41.6	41.7	41.6	41.6	41.6
Expenditure 2/	40.9	42.2	49.0	48.5	47.4	44.7	44.3	43.2	43.1	42.9	42.7	42.6	42.7
Current 2/	36.4	36.9	42.8	40.3	39.0	37.0	37.5	36.2	36.2	35.9	35.6	35.5	35.6
of which: Wages and salaries 2/	9.2	9.5	10.5	10.2	10.0	10.0	9.9	10.0	9.7	9.9	9.8	9.8	9.8
of which: Pensions	10.4	10.5	10.9	10.1	9.9	10.1	9.9	10.0	9.8	9.8	9.8	9.8	9.8
of which: Goods and services	8.1	8.7	11.0	10.7	10.4	9.2	9.3	8.7	8.5	8.3	8.3	8.2	8.3
Capital and net lending	4.1	5.1	6.1	8.1	8.3	7.4	6.8	6.8	6.6	6.7	6.8	6.9	7.0
Amortization of called guarantees	0.4	0.2	0.1	0.1	0.1	0.2	0.0	0.1	0.3	0.2	0.2	0.1	0.1
Fiscal balance 3/	0.6	-0.2	-8.0	-5.0	-4.1	-3.0	-3.0	-1.5	-1.5	-1.1	-1.1	-1.1	-1.1
change (+ = consolidation)	*-0.5*	*-0.8*	*-7.8*	*3.1*	*3.9*	*2.0*	*1.1*	*1.5*	*1.5*	*0.4*	*0.0*	*0.0*	*0.0*
Primary fiscal balance	2.8	1.8	-6.0	-3.1	-2.4	-1.2	-1.3	0.3	0.8	0.6	0.5	0.6	0.5
change (+ = consolidation)	*-0.9*	*-1.0*	*-7.8*	*2.9*	*3.6*	*1.9*	*1.1*	*1.6*	*2.0*	*-0.1*	*-0.1*	*0.1*	*-0.1*
One-off fiscal items, net 4/	-0.1	0.1	-1.3	0.5	0.0	0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Structural primary balance	2.9	1.5	-4.0	-3.4	-2.5	-1.7	-1.0	0.2	0.7	0.5	0.4	0.4	0.2
change (+ = consolidation)	*-0.8*	*-1.4*	*-5.5*	*0.5*	*1.5*	*1.7*	*1.6*	*2.0*	*1.6*	*-0.1*	*-0.2*	*0.0*	*-0.2*
Structural primary balance net of capital expenditures	6.8	6.4	1.3	4.4	4.9	5.5	5.7	6.9	7.2	7.2	7.2	7.3	7.2
Gross debt	54.4	52.8	57.9	58.3	57.2	56.5	55.1	53.9	50.8	47.2	44.7	42.3	40.3
Effective interest rate on government borrowing (percent)	3.9	3.9	3.9	3.6	3.5	3.3	3.7	3.5	4.5	3.7	3.8	4.1	4.0
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	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	3.7
	(percent of GDP, unless otherwise indicated)												
Balance of payments													
Current account	-4.8	-6.9	-4.1	-4.1	-4.4	-4.3	-6.1	-4.3	-5.7	-6.0	-5.4	-5.1	-4.8
of which: Trade balance	-11.9	-12.2	-11.1	-10.4	-11.1	-10.3	-12.7	-10.3	-11.9	-11.2	-10.6	-10.1	-9.8
of which: Current transfers, net (excl. grants)	9.2	7.9	7.1	7.4	7.3	7.5	8.0	7.6	8.0	7.8	7.9	7.8	7.4
Capital and financial account	6.7	10.6	5.0	11.1	8.7	5.9	3.2	6.7	7.2	6.9	6.2	6.4	5.5
of which: Foreign direct investment	7.4	7.7	6.3	6.2	6.8	5.7	5.7	5.8	5.7	5.5	5.3	5.2	5.2
External debt (end of period) 5/	66.1	65.7	70.3	68.4	71.3	64.8	66.2	62.1	62.3	58.0	55.2	52.7	50.0
of which: Private external debt	30.9	31.3	33.8	31.1	32.6	29.0	29.0	27.2	26.4	24.4	22.8	21.3	20.1
Gross official reserves													
(in billions of euros)	11.3	13.4	13.5	17.1	16.5	18.0	14.7	19.5	15.7	16.4	17.0	18.1	18.8
(in percent of short-term external debt)	195.3	417.2	420.7	523.2	513.1	551.4	458.9	594.8	489.5	510.5	529.5	565.1	585.6
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, 2018–27

	2018	2019	2020	2021		2022		2023		2024	2025	2026	2027
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise noted)												
Real													
Gross Domestic Product (GDP)	4.5	4.3	-0.9	**6.5**	7.4	**4.5**	3.5	**4.5**	4.0	4.0	4.0	4.0	4.0
Domestic demand	6.5	6.3	-0.9	**5.1**	8.5	**4.9**	3.6	**5.1**	4.7	4.8	4.1	4.1	4.1
Consumption	3.2	3.4	-1.1	**2.6**	6.7	**4.7**	3.3	**5.0**	4.2	4.2	3.2	3.3	3.2
Non-government	3.1	3.7	-1.9	**3.2**	7.6	**6.1**	4.6	**5.0**	4.0	4.6	3.4	3.7	3.4
Government	3.8	2.0	2.9	**0.1**	2.6	**-1.5**	-2.5	**5.0**	5.4	2.2	2.5	1.6	2.3
Investment	20.8	17.4	-0.4	**13.4**	14.7	**5.5**	4.6	**5.5**	6.0	6.6	6.5	6.4	6.5
Gross fixed capital formation	17.5	17.2	-1.9	**15.4**	12.5	**6.2**	5.3	**6.3**	7.1	7.6	7.5	7.3	7.2
Non-government	13.2	14.5	-4.9	**5.5**	13.5	**9.0**	8.9	**9.0**	7.5	7.7	7.5	7.6	7.5
Government	45.2	30.8	11.5	**52.8**	8.6	**-1.0**	-8.7	**-1.6**	5.1	6.8	7.2	6.0	5.5
Exports of goods and services	7.5	7.7	-4.2	**19.7**	19.4	**6.7**	3.3	**5.4**	3.5	5.1	5.7	5.8	5.8
Imports of goods and services	10.8	10.7	-3.6	**15.1**	19.3	**7.0**	3.5	**6.2**	4.7	6.2	5.5	5.7	5.6
	(contributions to GDP, percent)												
Gross Domestic Product (GDP)	4.5	4.3	-0.9	**6.5**	7.4	**4.5**	3.5	**4.5**	4.0	4.0	4.0	4.0	4.0
Domestic demand (absorption)	7.0	6.9	-1.0	**5.7**	9.5	**5.4**	4.1	**5.6**	5.3	5.4	4.7	4.7	4.7
Net exports of goods and services	-2.5	-2.6	0.1	**0.8**	-2.1	**-0.9**	-0.5	**-1.1**	-1.3	-1.4	-0.7	-0.7	-0.7
Consumption	2.8	2.9	-0.9	**2.2**	5.7	**3.9**	2.8	**4.1**	3.6	3.5	2.7	2.8	2.7
Non-government	2.2	2.6	-1.3	**2.2**	5.2	**4.1**	3.2	**3.4**	2.8	3.2	2.4	2.6	2.4
Government	0.6	0.3	0.4	**0.0**	0.4	**-0.2**	-0.4	**0.7**	0.8	0.3	0.4	0.2	0.3
Investment	4.1	4.0	-0.1	**3.5**	3.8	**1.5**	1.3	**1.5**	1.7	1.9	1.9	1.9	2.0
Gross fixed capital formation	3.2	3.5	-0.4	**3.5**	2.8	**1.5**	1.3	**1.6**	1.7	1.9	1.9	1.9	2.0
Non-government	2.1	2.5	-0.9	**1.0**	2.4	**1.6**	1.7	**1.7**	1.5	1.6	1.6	1.7	1.7
Government	1.1	1.0	0.5	**2.5**	0.4	**-0.1**	-0.4	**-0.1**	0.2	0.3	0.3	0.3	0.3
Change in inventories	1.0	0.5	0.3	**0.0**	1.0	**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	**10.5**	10.3	**4.0**	2.0	**3.3**	2.1	3.0	3.4	3.5	3.6
Imports of goods and services	6.3	6.7	-2.4	**9.7**	12.4	**4.9**	2.5	**4.5**	3.3	4.5	4.0	4.2	4.2
	(Percent change, unless otherwise noted)												
Nominal													
Gross Domestic Product (GDP)	6.6	6.9	1.5	**11.7**	13.9	**9.4**	10.6	**8.5**	11.2	9.4	8.7	8.5	8.1
Domestic demand (absorption), contribution to GDP growth	9.2	8.9	0.0	**11.3**	14.6	**10.1**	13.5	**9.2**	11.6	9.9	8.7	8.8	8.4
Net exports of goods and services, contribution to GDP growth	-2.6	-2.0	1.5	**0.5**	-0.7	**-0.7**	-2.9	**-0.7**	-0.4	-0.5	0.0	-0.2	-0.3
Non-government	4.4	5.0	-0.9	**7.3**	11.9	**11.3**	14.0	**8.6**	10.1	8.5	7.0	7.0	6.5
Government	9.2	7.4	6.8	**6.6**	9.4	**4.0**	4.9	**10.7**	13.4	9.3	7.9	8.2	8.2
Investment	23.3	18.4	-2.1	**21.7**	20.7	**8.3**	13.7	**7.1**	10.1	10.3	10.6	10.6	10.6
Gross fixed capital formation	20.4	19.8	-3.1	**25.3**	19.4	**8.5**	11.5	**8.0**	11.5	11.4	11.6	11.3	11.1
Non-government	15.0	16.4	-6.8	**12.7**	6.3	**11.8**	17.8	**11.3**	12.2	11.7	11.7	11.8	11.7
Government	48.9	33.6	10.1	**63.2**	59.2	**1.6**	-1.2	**0.5**	9.7	10.8	11.4	10.1	9.6
Exports of goods and services	6.5	8.1	-4.0	**23.4**	28.5	**9.1**	10.2	**7.2**	6.1	7.5	7.8	7.8	7.8
Imports of goods and services	10.3	10.3	-5.9	**19.1**	25.5	**9.1**	13.6	**7.5**	5.7	7.2	6.7	7.2	7.3
Memorandum items:													
GDP deflator (percent)	2.0	2.4	2.4	**4.9**	6.1	**4.7**	6.8	**3.8**	7.0	5.2	4.5	4.3	3.9
Nominal GDP (billions of dinars)	5073	5422	5502	**6147**	6269	**6725**	6931	**7295**	7711	8437	9172	9952	10759

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

Table 4a. Serbia: Balance of Payments, 2018–27 1/

	2018	2019	2020	2021		2022		2023		2024	2025	2026	2027
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of euros)												
Current account balance	-2.1	-3.2	-1.9	-2.2	-2.3	-2.4	-3.6	-2.6	-3.7	-4.3	-4.2	-4.3	-4.4
Trade of goods balance	-5.1	-5.6	-5.2	-5.4	-5.9	-5.8	-7.5	-6.3	-7.8	-8.1	-8.2	-8.6	-9.0
Exports of goods	15.1	16.4	16.1	20.3	20.8	22.2	22.8	23.8	24.1	25.9	27.9	30.0	32.2
Imports of goods	-20.2	-22.0	-21.3	-25.7	-26.7	-28.0	-30.3	-30.0	-31.9	-34.0	-36.1	-38.5	-41.2
Services balance	1.0	1.0	1.1	1.4	1.4	1.5	1.4	1.5	1.4	1.4	1.5	1.6	1.7
Exports of nonfactor services	6.1	6.9	6.2	7.1	7.8	7.7	8.7	8.2	9.3	10.0	10.8	11.8	12.8
Imports of nonfactor services	-5.1	-5.9	-5.1	-5.6	-6.4	-6.3	-7.3	-6.8	-7.9	-8.6	-9.3	-10.2	-11.1
Income balance	-2.2	-2.5	-1.4	-2.2	-2.0	-2.5	-2.5	-2.7	-2.8	-3.5	-3.9	-4.2	-4.2
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	-0.7
Current transfer balance	4.2	3.9	3.6	4.0	4.2	4.4	4.9	4.9	5.5	5.9	6.5	6.9	7.0
Others, including private remittances	3.9	3.7	3.3	3.9	3.9	4.2	4.7	4.6	5.2	5.6	6.2	0.0	0.0
Capital and financial account balance 2/	2.9	4.9	2.3	5.8	4.7	3.3	1.9	4.1	4.7	5.0	4.8	5.4	5.1
Foreign direct investment balance	3.2	3.6	2.9	3.2	3.6	3.2	3.4	3.5	3.7	4.0	4.1	4.4	4.8
Portfolio investment balance	-0.9	0.2	1.6	1.8	1.6	0.3	0.0	0.2	0.9	0.5	0.3	0.4	-0.4
of which: debt liabilities	-0.9	0.3	1.6	1.8	1.6	0.3	0.0	0.2	0.9	0.5	0.3	0.4	-0.4
Other investment balance	0.6	1.2	-2.2	0.8	-0.5	-0.1	-1.5	0.4	0.1	0.5	0.4	0.6	0.7
Public sector 2/ 3/	0.2	0.3	-0.3	1.3	0.5	0.0	0.0	0.8	0.8	0.1	0.8	0.9	1.1
Domestic banks	0.1	0.6	-0.2	-0.6	-0.6	-0.4	-0.2	-0.1	-0.4	-0.1	-0.1	-0.1	0.0
Other private sector 4/	0.3	0.4	-1.7	0.1	-0.4	0.2	-1.3	-0.3	-0.3	0.5	-0.3	-0.1	-0.4
Errors and omissions	0.3	0.2	-0.1	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.3	1.9	0.3	3.6	2.6	0.9	-1.7	1.4	1.0	0.7	0.6	1.1	0.7
Financing	-1.3	-1.9	-0.3	-3.6	-2.6	-0.9	1.7	-1.4	-1.0	-0.7	-0.6	-1.1	-0.7
Gross international reserves (increase, -)	-1.3	-1.9	-0.3	-3.6	-2.6	-0.9	1.7	-1.4	-1.0	-0.7	-0.6	-1.1	-0.7
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of Fund credit, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: NBS; and IMF staff estimates and projections.

1/ SORS released revised 2016 BOP in October 2017.
2/ Excluding net use of IMF resources.
3/ Includes SDR allocations in 2021.
4/ Includes trade credits (net).

Table 4b. Serbia: Balance of Payments, 2018–27 1/

	2018	2019	2020	2021		2022		2023		2024	2025	2026	2027
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP)												
Current account balance	-4.8	-6.9	-4.1	**-4.1**	-4.4	**-4.3**	-6.1	**-4.3**	-5.7	-6.0	-5.4	-5.1	-4.8
Trade of goods balance	-11.9	-12.2	-11.1	**-10.4**	-11.1	**-10.3**	-12.7	**-10.3**	-11.9	-11.2	-10.6	-10.1	-9.8
Exports of goods	35.2	35.7	34.4	**39.1**	38.9	**39.2**	38.7	**39.0**	36.7	36.0	35.7	35.5	35.4
Imports of goods	-47.1	-47.9	-45.5	**-49.5**	-50.0	**-49.5**	-51.4	**-49.3**	-48.6	-47.2	-46.3	-45.6	-45.2
Services balance	2.3	2.2	2.4	**2.7**	2.7	**2.6**	2.4	**2.4**	2.2	1.9	1.9	1.9	1.9
Income balance	-5.1	-5.4	-3.0	**-4.2**	-3.8	**-4.4**	-4.2	**-4.5**	-4.3	-4.9	-5.0	-5.0	-4.6
Current transfer balance	9.8	8.5	7.7	**7.7**	7.9	**7.8**	8.4	**8.0**	8.3	8.2	8.3	8.1	7.7
Official grants	0.6	0.6	0.5	**0.3**	0.5	**0.4**	0.4	**0.4**	0.4	0.4	0.3	0.3	0.3
Others, including private remittances	9.2	7.9	7.1	**7.4**	7.3	**7.5**	8.0	**7.6**	8.0	7.8	7.9	0.0	0.0
Capital and financial account balance 2/	6.7	10.6	5.0	**11.1**	8.7	**5.9**	3.2	**6.7**	7.2	6.9	6.2	6.4	5.5
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	0.0
Foreign direct investment balance	7.4	7.7	6.3	**6.2**	6.8	**5.7**	5.7	**5.8**	5.7	5.5	5.3	5.2	5.2
Portfolio investment balance	-2.1	0.4	3.5	**3.4**	2.9	**0.4**	0.1	**0.3**	1.4	0.7	0.4	0.5	-0.4
Other investment balance	1.5	2.7	-4.7	**1.5**	-0.9	**-0.2**	-2.6	**0.7**	0.1	0.7	0.5	0.7	0.7
Public sector 2/ 3/	0.5	0.6	-0.6	**2.6**	0.9	**0.0**	0.0	**1.3**	1.2	0.1	1.0	1.0	1.2
Domestic banks	0.3	1.3	-0.5	**-1.1**	-1.0	**-0.6**	-0.4	**-0.2**	-0.6	-0.1	-0.2	-0.2	0.0
Other private sector 4/	0.7	0.8	-3.6	**0.1**	-0.8	**0.4**	-2.2	**-0.5**	-0.5	0.7	-0.4	-0.2	-0.4
Errors and omissions	0.8	0.4	-0.3	**0.0**	0.6	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Overall balance	3.0	4.1	0.6	**7.0**	4.9	**1.6**	-3.0	**2.3**	1.5	0.9	0.8	1.3	0.7
Memorandum items:													
Nominal growth of exports of goods	7.4	8.7	-2.0	**26.8**	29.1	**9.0**	9.9	**7.3**	5.6	7.4	7.7	7.5	7.5
Nominal growth of import of goods	11.8	9.1	-3.4	**21.1**	25.4	**8.7**	13.6	**7.3**	5.1	6.6	6.3	6.7	6.9
Volume growth of exports of goods	5.7	8.4	-2.8	**23.0**	14.5	**6.5**	3.0	**5.5**	3.0	5.0	5.5	5.5	5.5
Volume growth of import of goods	8.9	9.8	0.3	**17.1**	14.0	**6.6**	3.5	**6.1**	4.1	5.6	5.1	5.3	5.2
Trading partner import growth	5.2	2.8	-6.0	**10.1**	12.3	**7.3**	3.4	**5.3**	5.2	4.5	4.1	3.9	3.6
Export prices growth	1.6	0.2	0.8	**3.1**	12.7	**2.3**	6.7	**1.7**	2.5	2.3	2.0	1.9	1.9
Import prices growth	2.6	-0.6	-3.7	**3.5**	10.0	**2.0**	9.8	**1.2**	1.0	0.9	1.2	1.4	1.6
Change in terms of trade	-1.0	0.8	4.7	**-0.4**	2.5	**0.3**	-2.9	**0.5**	1.5	1.3	0.8	0.5	0.3
Gross official reserves (in billions of euro)	11.3	13.4	13.5	**17.1**	16.5	**18.0**	14.7	**19.5**	15.7	16.4	17.0	18.1	18.8
(In months of prospective imports of GNFS)	4.8	6.1	4.9	**6.0**	5.3	**5.9**	4.4	**5.9**	4.4	4.3	4.2	4.2	4.3
(in percent of short-term debt)	195.3	417.2	420.7	**523.2**	513.1	**551.4**	458.9	**594.8**	489.5	510.5	529.5	565.1	585.6
(in percent of broad money, M2)	52.2	57.7	57.3	**65.7**	61.4	**63.6**	49.7	**63.9**	47.5	45.2	43.4	42.6	41.1
(in percent of risk-weighted metric) 5/	111.2	126.2	125.9	**139.3**	134.0	**138.7**	114.3	**142.4**	113.9	112.8	110.9	112.2	111.8
GDP (billions of euros)	42.9	46.0	46.8	**52.1**	53.3	**56.6**	58.9	**60.9**	65.6	72.0	78.1	84.5	91.2

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 and Sources, 2018–27
(in billions of Euros)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Proj.					
Total financing requirement	**8.4**	**10.8**	**5.4**	**8.9**	**6.1**	**8.7**	**9.4**	**7.9**	**8.4**	**9.8**
Current account deficit	2.1	3.2	1.9	2.3	3.6	3.7	4.3	4.2	4.3	4.4
Debt amortization	5.0	5.8	3.2	4.0	4.2	4.0	4.4	3.1	3.0	4.7
Medium and long-term debt	4.1	4.4	2.9	3.7	3.1	2.9	3.4	2.1	1.9	3.7
Public sector	3.1	3.4	2.2	2.5	1.8	1.7	2.5	1.5	1.5	3.3
Of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Eurobonds	1.0	1.5	0.2	0.6	0.0	0.0	0.0	0.0	0.0	2.0
Of which: Domestic bonds (non-residents)	1.1	1.0	1.1	1.1	0.9	0.5	0.5	0.5	0.5	0.5
Commercial banks	0.3	0.4	0.3	0.4	0.5	0.5	0.5	0.2	0.1	0.1
Corporate sector	0.8	0.6	0.4	0.8	0.8	0.7	0.4	0.3	0.3	0.2
Short-term debt	0.8	1.4	0.3	0.3	1.1	1.1	1.1	1.1	1.1	1.1
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.8	1.3	0.3	0.3	1.1	1.1	1.1	1.1	1.1	1.1
Corporate sector	0.0	0.1	0.0	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	2.6	-1.7	1.0	0.7	0.6	1.1	0.7
Total financing sources	**8.4**	**10.8**	**5.4**	**8.9**	**6.1**	**8.7**	**9.4**	**7.9**	**8.4**	**9.8**
Capital transfers	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	3.2	3.6	2.9	3.6	3.4	3.7	4.0	4.1	4.4	4.8
Portfolio investment (net) 1/	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	5.0	7.1	6.0	6.4	5.2	5.9	5.3	4.5	4.5	5.7
Medium and long-term debt	4.2	5.7	5.7	6.1	4.1	4.8	4.2	3.4	3.4	4.7
Public sector 2/	2.4	3.9	4.4	4.6	3.1	3.4	3.1	2.6	2.8	4.0
Of which: Eurobonds	0.0	1.5	3.0	2.7	0.7	0.7	0.7	0.7	0.7	1.7
Of which: Domestic bonds (non-residents)	1.3	1.2	0.7	0.5	0.2	0.7	0.3	0.1	0.2	0.4
Commercial banks	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.3	0.2	0.2
Corporate sector	1.3	1.1	0.7	0.9	0.5	0.9	0.6	0.5	0.5	0.5
Short-term debt	0.8	1.4	0.3	0.3	1.1	1.1	1.1	1.1	1.1	1.1
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.8	1.3	0.3	0.3	1.1	1.1	1.1	1.1	1.1	1.1
Corporate sector	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net capital inflows 3/	0.2	0.4	-3.5	-1.0	-2.5	-0.9	0.2	-0.6	-0.5	-0.7
o/w trade credit and currency and deposits	-0.7	0.1	-2.6	-2.0	-2.5	-0.9	0.2	-0.6	-0.5	-0.7
Total financing needs	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:										
Debt service	5.6	6.4	3.9	4.7	4.9	4.6	4.9	3.6	3.4	5.1
Interest	0.7	0.6	0.7	0.7	0.6	0.6	0.4	0.5	0.3	0.3
Amortization	5.0	5.8	3.2	4.0	4.2	4.0	4.4	3.1	3.0	4.7

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, 2018–27 1/

	2018	2019	2020	2021		2022		2023		2024	2025	2026	2027
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.	Proj.	Proj.	Proj.
				(Billions of RSD)									
Revenue	2,105	2,279	2,255	**2,679**	2,712	**2,804**	2,861	**3,039**	3,208	3,522	3,813	4,136	4,481
Taxes	1,822	1,994	1,991	**2,397**	2,420	**2,527**	2,578	**2,751**	2,902	3,204	3,478	3,789	4,117
Personal income tax	179	204	204	**253**	256	**274**	284	**298**	312	345	387	427	469
Social security contributions 2/	620	676	674	**855**	862	**926**	951	**991**	1,064	1,179	1,283	1,384	1,506
Taxes on profits	112	127	123	**157**	159	**145**	146	**178**	182	211	231	251	272
Value-added taxes	500	551	549	**654**	659	**684**	700	**741**	779	849	915	994	1,082
Excises	290	307	306	**329**	330	**338**	338	**371**	383	421	447	490	528
Taxes on international trade	44	48	52	**59**	62	**63**	63	**68**	76	85	91	107	110
Other taxes	77	82	83	**90**	92	**96**	96	**103**	106	114	124	136	150
Non-tax revenue	263	259	239	**262**	261	**252**	257	**260**	277	287	302	313	328
Capital revenue	6	11	14	**0**	12	**0**	0	**0**	0	0	0	0	0
Grants	15	15	11	**20**	19	**26**	26	**28**	29	31	32	34	35
Expenditure	2,073	2,290	2,698	**2,983**	2,971	**3,004**	3,069	**3,148**	3,322	3,616	3,914	4,241	4,599
Current expenditure	1,845	2,002	2,353	**2,474**	2,445	**2,490**	2,598	**2,643**	2,789	3,027	3,270	3,537	3,829
Wages and salaries 3/	469	516	579	**629**	629	**673**	683	**728**	752	832	897	973	1,049
Goods and services	412	472	606	**661**	651	**618**	646	**632**	653	704	761	811	892
Interest	109	109	110	**114**	109	**119**	119	**134**	172	146	151	168	171
Subsidies	110	121	251	**214**	206	**166**	216	**179**	190	213	226	246	265
Transfers	746	783	806	**858**	850	**915**	935	**970**	1,022	1,132	1,234	1,338	1,452
Pensions 4/	525	568	599	**622**	619	**680**	686	**728**	754	828	902	973	1,057
Other transfers 5/	221	215	207	**236**	231	**235**	249	**242**	268	305	332	365	395
Capital expenditure	199	266	293	**478**	467	**486**	461	**488**	506	560	624	687	753
Net lending	9	11	44	**22**	52	**13**	13	**7**	7	8	3	3	4
Amortization of activated guarantees	20	11	7	**8**	8	**15**	-3	**11**	20	20	17	13	12
Fiscal balance	32	-11	-443	**-304**	-259	**-200**	-208	**-109**	-114	-93	-101	-105	-118
Financing	-32	11	443	**304**	259	**200**	208	**109**	114	93	101	105	118
Privatization proceeds	3	49	53	**0**	0	**0**	0	**0**	0	0	0	0	0
Equity investment	0	-26	0	**0**	0	**0**	0	**0**	0	0	0	0	0
Domestic	48	-59	169	**18**	-63	**148**	-14	**37**	-62	4	-76	-80	26
External	-84	47	221	**287**	322	**52**	223	**72**	176	89	176	185	92
Program	0	0	0	**0**	0	**0**	6	**0**	0	0	0	0	0
Project	79	90	70	**104**	126	**142**	160	**167**	201	201	201	201	201
Bonds and loans	40	213	355	**351**	346	**109**	170	**116**	114	128	98	100	228
Amortization	-202	-256	-204	**-168**	-151	**-199**	-113	**-211**	-138	-240	-122	-116	-337
Memorandum items:													
Gross 1 wages and salaries	397	440	495	**537**	538	**577**	587	**621**	642	710	765	831	896
Arrears accumulation (domestic)	1	2	-3	**0**	0	**-1**	-1	**0**	0	0	0	0	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	38	32	33	**37**	38	**8**	31	**9**	9	5	5	5	11
Government deposits (stock)	105	212	207	**268**	268	**278**	227	**298**	223	220	214	211	207
Gross public debt 6/	2760	2860	3185	**3582**	3584	**3798**	3819	**3933**	3917	3981	4100	4211	4339
Gross public debt (including restitution) 6/	3003	3103	3428	**3825**	3827	**4033**	4062	**4151**	4145	4189	4289	4380	4489
Nominal GDP (billions of dinars)	5073	5422	5502	**6147**	6269	**6725**	6931	**7295**	7711	8437	9172	9952	10759

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, 2018–27 1/

	2018	2019	2020	2021		2022		2023		2024	2025	2026	2027
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.	Proj.	Proj.	Proj.
				(percent of GDP)									
Revenue	41.5	42.0	41.0	**43.6**	43.3	**41.7**	41.3	**41.7**	41.6	41.7	41.6	41.6	41.6
Taxes	35.9	36.8	36.2	**39.0**	38.6	**37.6**	37.2	**37.7**	37.6	38.0	37.9	38.1	38.3
Personal income tax	3.5	3.8	3.7	**4.1**	4.1	**4.1**	4.1	**4.1**	4.1	4.1	4.2	4.3	4.4
Social security contributions 2/	12.2	12.5	12.2	**13.9**	13.8	**13.8**	13.7	**13.6**	13.8	14.0	14.0	13.9	14.0
Taxes on profits	2.2	2.3	2.2	**2.6**	2.5	**2.2**	2.1	**2.4**	2.4	2.5	2.5	2.5	2.5
Value-added taxes	9.9	10.2	10.0	**10.6**	10.5	**10.2**	10.1	**10.2**	10.1	10.1	10.0	10.0	10.1
Excises	5.7	5.7	5.6	**5.4**	5.3	**5.0**	4.9	**5.1**	5.0	5.0	4.9	4.9	4.9
Taxes on international trade	0.9	0.9	0.9	**1.0**	1.0	**0.9**	0.9	**0.9**	1.0	1.0	1.0	1.1	1.0
Other taxes	1.5	1.5	1.5	**1.5**	1.5	**1.4**	1.4	**1.4**	1.4	1.4	1.4	1.4	1.4
Non-tax revenue	5.2	4.8	4.3	**4.3**	4.2	**3.7**	3.7	**3.6**	3.6	3.4	3.3	3.1	3.0
Capital revenue	0.1	0.2	0.3	**0.0**	0.2	**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	**0.4**	0.4	**0.4**	0.4	0.4	0.4	0.3	0.3
Expenditure	40.9	42.2	49.0	**48.5**	47.4	**44.7**	44.3	**43.2**	43.1	42.9	42.7	42.6	42.7
Current expenditure	36.4	36.9	42.8	**40.3**	39.0	**37.0**	37.5	**36.2**	36.2	35.9	35.6	35.5	35.6
Wages and salaries 3/	9.2	9.5	10.5	**10.2**	10.0	**10.0**	9.9	**10.0**	9.7	9.9	9.8	9.8	9.8
Goods and services	8.1	8.7	11.0	**10.7**	10.4	**9.2**	9.3	**8.7**	8.5	8.3	8.3	8.2	8.3
Interest	2.1	2.0	2.0	**1.9**	1.7	**1.8**	1.7	**1.8**	2.2	1.7	1.6	1.7	1.6
Subsidies	2.2	2.2	4.6	**3.5**	3.3	**2.5**	3.1	**2.5**	2.5	2.5	2.5	2.5	2.5
Transfers	14.7	14.4	14.7	**14.0**	13.6	**13.6**	13.5	**13.3**	13.3	13.4	13.5	13.4	13.5
Pensions 4/	10.4	10.5	10.9	**10.1**	9.9	**10.1**	9.9	**10.0**	9.8	9.8	9.8	9.8	9.8
Other transfers 5/	4.4	4.0	3.8	**3.8**	3.7	**3.5**	3.6	**3.3**	3.5	3.6	3.6	3.7	3.7
Capital expenditure	3.9	4.9	5.3	**7.8**	7.4	**7.2**	6.6	**6.7**	6.6	6.6	6.8	6.9	7.0
Net lending	0.2	0.2	0.8	**0.4**	0.8	**0.2**	0.2	**0.1**	0.1	0.1	0.0	0.0	0.0
Amortization of activated guarantees	0.4	0.2	0.1	**0.1**	0.1	**0.2**	0.0	**0.1**	0.3	0.2	0.2	0.1	0.1
Fiscal balance	0.6	-0.2	-8.0	**-5.0**	-4.1	**-3.0**	-3.0	**-1.5**	-1.5	-1.1	-1.1	-1.1	-1.1
Financing	-0.6	0.2	8.0	**5.0**	4.1	**3.0**	3.0	**1.5**	1.5	1.1	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	0.0
Equity investment	0.0	-0.5	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Domestic	1.0	-1.1	3.1	**0.3**	-1.0	**2.2**	-0.2	**0.5**	-0.8	0.0	-0.8	-0.8	0.2
External	-1.7	0.9	4.0	**4.7**	5.1	**0.8**	3.2	**1.0**	2.3	1.1	1.9	1.9	0.9
Program	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.1	**0.0**	0.0	0.0	0.0	0.0	0.0
Project	1.5	1.7	1.3	**1.7**	2.0	**2.1**	2.3	**2.3**	2.6	2.4	2.2	2.0	1.9
Bonds and loans	0.8	3.9	6.4	**5.7**	5.5	**1.6**	2.4	**1.6**	1.5	1.5	1.1	1.0	2.1
Amortization	-4.0	-4.7	-3.7	**-2.7**	-2.4	**-3.0**	-1.6	**-2.9**	-1.8	-2.8	-1.3	-1.2	-3.1
Memorandum items:													
Gross 1 wages and salaries	7.8	8.1	9.0	**8.7**	8.6	**8.6**	8.5	**8.5**	8.3	8.4	8.3	8.3	8.3
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	0.0
Government deposits (stock)	2.1	3.9	3.8	**4.4**	4.3	**4.1**	3.3	**4.1**	2.9	2.6	2.3	2.1	1.9
Gross financing need	8.8	10.7	14.9	**10.1**	9.1	**9.1**	8.0	**8.4**	7.5	5.8	3.9	4.2	4.5
Gross public debt 6/	54.4	52.8	57.9	**58.3**	57.2	**56.5**	55.1	**53.9**	50.8	47.2	44.7	42.3	40.3
Gross public debt (including restitution) 6/	59.2	57.2	62.3	**62.2**	61.1	**60.0**	58.6	**56.9**	53.7	49.7	46.8	44.0	41.7
Nominal GDP (billions of dinars)	5,073	5,422	5,502	**6,147**	6,269	**6,725**	6,931	**7,295**	7,711	8,437	9,172	9,952	10,759

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 Service by Creditor, 2021–23 1/

Central Government Debt

	Debt Stock (end of period) _ Central Government Debt Stock			Debt Service _ Repayments from the Budget					
	2021			2021	2022	2023	2021	2022	2023
	(In US$ bln)	(Percent total debt)	(Percent GDP)	(In US$ bln)			(Percent GDP)		
Total	34.1	100.0	56.5	3.9	4.0	4.8	6.7	6.3	6.9
External	21.0	61.5	34.8	1.8	1.3	1.4	3.1	2.1	2.0
Multilateral creditors[2]	6.4	18.7	10.6	0.4	0.5	0.6	0.8	0.8	0.8
IMF	0.5	1.6	0.9						
World Bank	0.0	0.0	0.0						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	5.8	17.1	9.7						
o/w: IBRD	2.5	7.4	4.2						
EIB	2.0	5.9	3.3						
Others (IDA, EU, CEB, EBRD, EUROFIMA,KfW)	1.3	3.8	2.1						
Bilateral Creditors	5.7	16.8	9.5	0.5	0.7	0.7	0.8	1.0	1.0
Paris Club	0.8	2.5	1.4	0.2	0.2	0.2	0.3	0.3	0.3
o/w: PC Germany KfW	0.0	0.0	0.0						
PC United Kingdom	0.0	0.0	0.0						
Non-Paris Club	4.9	14.4	8.1	0.3	0.5	0.5	0.5	0.7	0.7
Non-Paris Club int									
o/w: UAE	1.9	5.7	3.2						
China	1.8	5.3	3.0						
Russia	0.8	2.5	1.4						
Others	0.3	0.9	0.5						
Bonds	8.3	24.3	13.7	0.8	0.2	0.2	1.4	0.2	0.2
Commercial creditors	0.4	1.2	0.7	0.1	0.0	0.0	0.1	0.1	0.0
o/w: T.C. ZİRAAT BANKASI A.Ş. and DENİZBANK A. Ş.	0.1	0.4	0.2						
Kuwait Fund Belgrade Center Railway Station Project 1	0.0	0.1	0.0						
Other international creditors	0.2	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0
o/w: JICA	0.2	0.5	0.3						
Domestic	13.1	38.5	21.8	2.1	2.7	3.4	3.6	4.2	4.9
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	12.6	37.1	21.0	2.0	2.6	3.2	3.5	4.1	4.6
Loans and other domestic debt	0.5	1.4	0.8	0.0	0.0	0.2	0.0	0.1	0.3
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	1.6	5.3	3.0						
o/w: Public guarantees	1.6	5.3	3.0						
o/w: Other explicit contingent liabilities[4]	0.0	0.0	0.0						

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
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

Table 8. Serbia: Monetary Survey, 2018–27

	2018	2019	2020	2021		2022		2023		2024	2025	2026	2027
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/												
Net foreign assets 2/	1116	1287	1347	1765	1745	2017	1561	2219	1716	1798	1896	2043	2139
in billions of euro	9.4	11.0	11.5	14.9	14.8	16.9	13.3	18.4	14.6	15.3	16.1	17.4	18.1
Foreign assets	1616	1831	1924	2453	2378	2625	2204	2838	2363	2455	2565	2716	2820
NBS	1342	1585	1598	2040	1947	2161	1741	2352	1852	1927	2012	2142	2234
Commercial banks	273	247	326	413	431	464	463	486	511	527	553	574	586
Foreign liabilities (-)	-500	-544	-577	-688	-633	-607	-643	-619	-647	-657	-669	-673	-680
NBS	-3	-2	-1	-93	0	-3	-3	-3	-3	-3	-3	-3	0
Commercial banks	-497	-542	-576	-595	-633	-604	-640	-616	-644	-654	-666	-670	-680
Net domestic assets	1,435	1,486	1,938	1,868	1,969	1,919	2,590	2,036	2,737	2,925	3,136	3,301	3,378
Domestic credit	2,552	2,643	3,090	3,195	3,270	3,497	3,835	3,705	4,054	4,329	4,616	4,901	5,008
Government, net	346	225	379	310	308	454	467	511	434	472	529	586	441
NBS	-233	-360	-273	-333	-387	-345	-336	-397	-361	-363	-378	-385	-392
Claims on government	5	1	93	95	84	95	95	65	65	50	40	30	20
Liabilities (deposits)	238	361	366	428	472	440	431	462	426	413	418	415	412
Banks	578	586	652	643	695	799	802	909	795	834	907	971	833
Claims on government	641	676	747	738	787	894	895	1,004	888	929	1,000	1,063	926
Liabilities (deposits)	63	91	95	95	92	95	92	96	92	95	92	92	92
Local governments, net	-28	-19	-20	-20	-40	-20	-40	-20	-40	-40	-40	-40	-40
Non-government sector	2,235	2,437	2,731	2,905	3,002	3,063	3,409	3,213	3,659	3,897	4,127	4,355	4,607
Households	1,018	1,112	1,244	1,321	1,375	1,390	1,560	1,455	1,672	1,778	1,880	1,981	2,092
Enterprises	1,188	1,291	1,453	1,548	1,595	1,635	1,812	1,718	1,948	2,078	2,203	2,327	2,465
Other	29	33	34	36	32	38	37	40	39	42	44	47	50
Other assets, net	-1,117	-1,156	-1,152	-1,328	-1,302	-1,578	-1,245	-1,669	-1,316	-1,405	-1,480	-1,600	-1,631
Capital accounts (-)	-997	-1,046	-1,018	-1,173	-1,067	-1,409	-962	-1,475	-1,012	-1,078	-1,132	-1,222	-1,235
NBS	-324	-353	-340	-394	-389	-513	-47	-436	-5	-1	-1	-1	-1
Banks	-673	-693	-678	-779	-678	-896	-915	-1,040	-1,007	-1,077	-1,131	-1,222	-1,234
Provisions (-)	-121	-106	-120	-139	-120	-152	-156	-175	-164	-172	-181	-195	-199
Other assets	1	-5	-14	-16	-115	-17	-127	-18	-141	-154	-168	-182	-197
Broad money (M2)	2551	2774	3285	3632	3713	3936	4152	4255	4453	4722	5031	5344	5517
M1	745	867	1182	1317	1353	1434	1504	1558	1673	1816	1973	2141	2218
Currency in circulation	183	210	267	297	295	324	328	352	365	396	431	467	484
Demand deposits	563	657	915	1019	1057	1111	1175	1206	1308	1419	1542	1674	1734
Time and saving deposits	220	273	325	362	353	395	392	429	437	474	515	559	579
Foreign currency deposits	1585	1634	1779	1954	2007	2107	2255	2268	2344	2433	2543	2644	2720
in billions of euro	13.4	13.9	15.1	16.5	17.1	17.7	19.2	18.8	20.0	20.8	21.6	22.5	23.0
Memorandum items:	(year-on-year change unless indicated otherwise)												
M1	20.1	16.3	36.3	11.4	14.5	9.0	11.2	8.6	11.2	8.5	8.7	8.5	3.6
M2	15.0	8.8	18.4	10.6	13.0	8.4	11.8	8.1	7.3	6.0	6.5	6.2	3.2
Velocity (Dinar part of money supply)	5.3	4.8	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.8
Velocity (M2)	2.0	2.0	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.8	1.8	1.9	2.0
Deposits at constant exchange rate	15.9	8.7	17.6	9.9	13.2	8.0	11.8	7.5	7.1	5.9	6.0	6.1	2.9
Credit to non-gov. (current exchange rate)	9.6	8.7	11.3	5.2	10.8	4.3	8.2	4.0	5.4	5.0	4.8	4.4	4.9
Credit to non-gov. (constant exchange rates) 3/	10.2	9.2	11.3	4.5	10.8	3.9	8.1	3.4	5.6	5.1	4.3	4.5	4.5
Domestic	10.1	9.5	12.0	5.8	9.9	5.1	13.5	4.3	7.5	6.6	5.5	5.6	5.4
Households	12.9	9.5	11.8	5.8	10.6	5.0	13.4	4.3	7.3	6.4	5.4	5.5	5.3
Enterprises and other sectors	7.9	9.4	12.1	5.9	9.4	5.2	13.6	4.4	7.7	6.7	5.5	5.8	5.5
External	10.5	8.6	9.9	1.8	12.7	1.4	-2.7	1.2	1.2	1.4	1.3	1.3	1.9
Credit to non-gov. (real terms) 4/	7.5	6.7	10.0	-1.7	2.8	1.6	0.2	1.0	1.1	1.3	1.3	1.1	1.9
Domestic credit to non-gov. (real terms)	7.4	7.1	10.7	-0.6	1.9	2.7	5.1	1.8	2.9	2.7	2.3	2.3	2.7
Households	10.3	7.3	10.4	-0.8	2.5	2.5	5.0	1.7	2.7	2.6	2.2	2.1	2.6
Enterprises and other sectors	5.1	6.9	10.9	-0.4	1.8	2.8	5.2	2.0	3.1	2.8	2.4	2.4	2.8
External	7.6	6.0	8.5	-4.0	4.5	-0.8	-9.8	-0.8	-3.2	-2.4	-1.5	-2.0	-0.5
12-m change in NBS's NFA, billions of euros	0.0	0.3	0.5	0.5	0.8	0.1	-0.3	0.2	0.0	0.0	-0.1	-2.0	0.0
Deposit euroization (percent of total) 5/	66.9	63.7	58.9	58.6	58.7	58.3	59.0	58.1	57.3	56.2	55.3	54.2	54.0
Credit euroization (percent of total) 5/	66.9	66.7	62.0	61.2	60.9	60.4	60.1	59.4	59.1	56.1	54.6	53.1	53.1

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

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

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

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

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, 2018–27

	2018	2019	2020	2021		2022		2023		2024	2025	2026	2027
				CR 21/272	Prel.	CR 21/272	Proj.	CR 21/272	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/												
Net foreign assets	1339	1583	1598	**1947**	1852	**2158**	1738	**2349**	1849	1924	2009	2139	2230
(In billions of euro)	11.3	13.5	13.6	**16.4**	15.8	**18.1**	14.8	**19.5**	15.8	16.4	17.0	18.2	18.8
Gross foreign reserves	1342	1585	1598	**2040**	1945	**2161**	1741	**2352**	1852	1927	2012	2142	2234
Gross reserve liabilities (-)	-3	-2	-1	**-93**	-92	**-3**	-3	**-3**	-3	-3	-3	-3	-3
Net domestic assets	-607	-806	-625	**-836**	-699	**-951**	-478	**-1041**	-469	-480	-496	-510	-568
Net domestic credit	-282	-453	-285	**-442**	-494	**-438**	-431	**-606**	-464	-479	-495	-509	-567
Net credit to government	-233	-360	-273	**-333**	-387	**-345**	-336	**-397**	-361	-363	-378	-385	-392
Claims on government	5	1	93	**95**	84	**95**	95	**65**	65	50	40	30	20
Liabilities to government (-)	-238	-361	-366	**-428**	-472	**-440**	-431	**-462**	-426	-413	-418	-415	-412
Liabilities to government (-): local currency	-137	-222	-171	**-171**	-181	**-171**	-181	**-171**	-181	-171	-181	-181	-181
Liabilities to government (-): foreign currency	-101	-140	-195	**-257**	-290	**-269**	-249	**-291**	-245	-241	-237	-233	-231
Net credit to local governments	-46	-36	-38	**-38**	-51	**-38**	-51	**-38**	-51	-51	-51	-51	-51
Net claims on banks	-16	-69	-14	**-83**	-6	**-68**	6	**-182**	-2	-15	-16	-24	-74
Capital accounts (-)	-324	-353	-340	**-394**	-204	**-513**	-47	**-436**	-5	-1	-1	-1	-1
Reserve money	732	777	973	**1111**	1154	**1207**	1260	**1308**	1380	1445	1513	1629	1662
Currency in circulation	183	210	267	**297**	295	**324**	328	**352**	365	396	431	467	484
Commercial bank reserves	269	341	431	**522**	537	**569**	570	**618**	639	659	675	738	743
Required reserves	171	192	220	**211**	247	**228**	278	**245**	289	300	313	326	335
Excess reserves	98	149	210	**311**	289	**341**	293	**373**	351	359	362	412	407
FX deposits by banks, billions of euros	2.4	1.9	2.3	**2.5**	2.7	**2.6**	3.1	**2.8**	3.2	3.3	3.5	3.6	3.7

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, 2016–22

	2016	2017	2018	2019	2020	2021				2022
						Mar	Jun	Aug	Dec	Feb
Capital adequacy										
Regulatory capital to risk-weighted assets	21.8	22.6	22.3	23.4	22.4	22.3	22.2	22.2	20.8	20.8
Regulatory Tier 1 capital to risk-weighted assets	20.0	21.6	21.1	22.4	21.6	21.4	21.1	21.1	19.7	19.7
Nonperforming loans net of provisions to regulatory capital	27.1	17.7	9.7	6.3	6.7	7.0	6.9	6.7	7.6	7.4
Regulatory Tier 1 capital to assets	11.6	13.7	13.5	14.4	13.1	13.0	12.6	12.3	11.8	11.7
Large exposures to capital	86.0	69.3	77.4	66.5	73.8	80.0	82.4	82.6	86.0	86.0
Regulatory capital to assets	12.7	14.4	14.2	15.1	13.6	13.5	13.3	13.0	12.4	12.3
Asset quality										
Nonperforming loans to total gross loans	17.0	9.8	5.7	4.1	3.7	3.9	3.6	3.5	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	0.0	0.1
Central bank	1.7	2.1	0.7	2.8	1.1	1.1	1.1	1.0	1.5	3.7
General government	1.5	1.3	1.1	1.5	1.6	1.5	1.4	1.6	1.7	1.6
Other financial corporations	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.5	0.6	0.6
Nonfinancial corporations	52.6	50.5	50.0	49.2	49.6	49.1	48.6	48.7	49.3	47.9
Agriculture	3.6	3.5	3.5	3.5	3.3	3.1	3.0	3.1	3.0	2.7
Industry	16.5	16.2	16.5	15.0	15.0	14.7	14.5	14.9	15.5	18.0
Construction	4.1	4.0	4.2	4.8	5.1	5.0	4.9	4.9	4.9	4.7
Trade	14.3	14.6	14.0	13.7	13.3	13.2	13.1	12.8	12.5	10.5
Other loans to nonfinancial corporations	14.1	12.2	11.8	12.3	13.0	13.1	13.1	13.1	13.4	12.0
Households and NPISH	41.5	42.9	44.3	43.8	45.0	45.0	45.6	45.2	45.0	43.4
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	17.4	17.0
Foreign sector	1.4	2.0	2.6	1.5	1.6	2.3	2.2	2.7	1.9	2.8
IFRS provision for NPLs to gross NPLs	67.8	58.1	60.2	61.5	59.0	58.8	58.2	59.1	56.3	56.7
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	3.2	3.1
Earnings and Profitability										
Return on assets	0.7	2.1	2.2	1.8	1.1	1.2	1.2	1.2	1.2	1.5
Return on equity	3.3	10.5	11.3	9.8	6.5	7.3	6.9	7.4	7.8	10.2
Liquidity										
Customer deposits to total (noninterbank) loans	108.1	106.9	110.6	109.2	116.4	117.8	118.1	117.6	119.5	118.7
Foreign-currency-denominated loans to total loans	69.4	67.5	68.5	67.1	64.7	64.1	63.2	63.4	63.2	62.5
Average monthly liquidity ratio	2.1	2.0	2.0	2.2	2.2	2.3	2.3	2.2	2.1	2.3
Average monthly narrow liquidity ratio	1.7	1.7	1.7	1.8	1.9	2.0	1.9	1.8	1.7	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	61.4	61.8
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	39.1	39.1

Source: National Bank of Serbia.

Table 11. Schedule of Reviews Under the Policy Coordination Instrument, 2021–23 1/

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

1/ At the time of approval of the PCI.

Annex I. Serbia's Energy Challenges

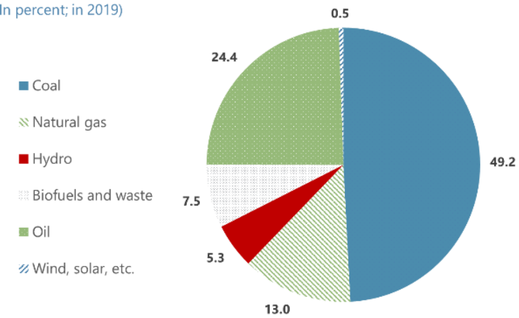
1. **Serbia has benefitted from comparatively low-cost energy with significant domestic production**. Serbia has typically been broadly self-sufficient in electricity generation from coal (70 percent) and hydropower (27 percent) with electricity imports in the winter off-set by exports in the summer. The coal is mostly sourced domestically, and nearly all coal is utilized for electricity. Natural gas is mostly imported and benefits from a long-term contract with Russia for 6 million cubic meters per day (more than 85 percent of average daily final consumption) at favorable prices (about US$270 per 1000 cubic meters compared to Russian gas at the German border in 4Q:2022 averaging US$ 1,115) with the balance produced domestically and procured on the open market. Crude oil for Serbia's refinery is mostly imported, while on average the refinery meets Serbia's oil products needs as indicated by a broadly balanced import/ export balance for oil products. Energy prices are below comparators, while Serbia's energy intensity is higher than peers.

2. **However, during the winter season 2021–22 Serbia's energy sector faced a confluence of challenges when electricity shortages and high gas demand coincided with soaring world market prices, leading to large increases in energy imports**. According to the external trade data, energy imports increased by about EUR 1.2 billion (2.0 percent of 2022 GDP) and nearly tripled during October–March compared to the previous winter season.

3. **Serbia's self-sufficiency in electricity generation was challenged when it experienced both technical failures in its thermal power plant and shortages of suitable coal**. The state-owned power utility company Elektroprivreda Srbije (EPS) is responsible for both power generation and most coal mining in two large open pit mines. In December 2021 to January 2022 the thermal power plant capacity was reduced by breakdowns arising from the use of low-quality coal, a fire, and several equipment malfunctions. This followed on electricity generation shortfalls due to delayed maintenance already from 4Q:2021. To avoid blackouts, EPS imported about 25 percent (and occasionally up to 45 percent) of daily electricity consumption at record-high prices from December through January with smaller volumes thereafter. Plant capacity was mostly restored by February 2022 while coal quantities remained insufficient. The difficulties are reflected in GDP, where the production volume of *electricity, gas, steam, and air conditioning supply* declined by 9.4 percent in 4Q:2021 yoy, and by 18.7 percent in January 2022 yoy.

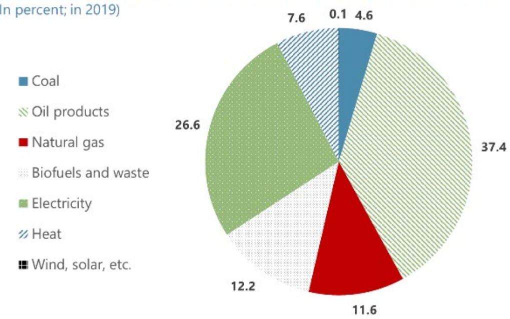
Figure 1. Serbia: Energy

Serbia: Total Energy Supply (TES) by Source
(In percent; in 2019)



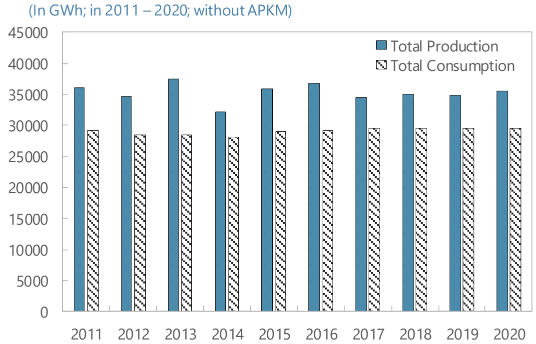
Sources: International Energy Agency and IMF staff calculations.

Serbia: Total Final Consumption (TFC) by Source
(In percent; in 2019)



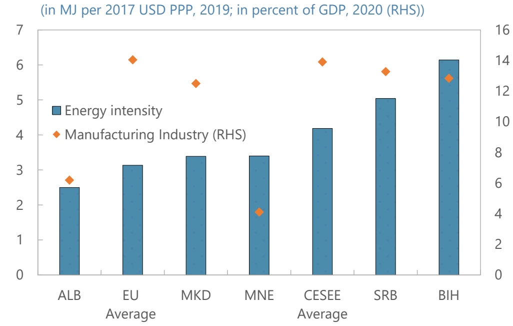
Sources: International Energy Agency and IMF staff calculations.

Serbia: Annual Electricity Production and Consumption
(In GWh; in 2011 – 2020; without APKM)



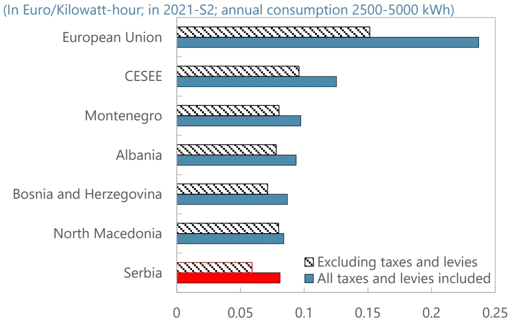
Source: Energy Agency of the Republic of Serbia.

Energy Intensity and Manufacturing Industry
(in MJ per 2017 USD PPP, 2019; in percent of GDP, 2020 (RHS))



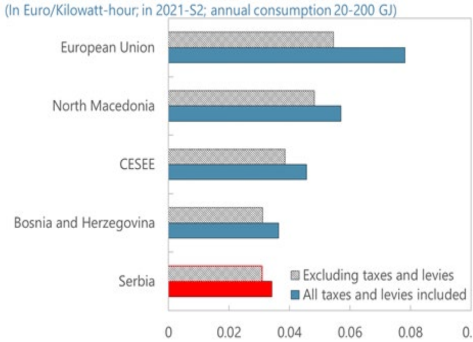
Sources: World Bank WDI, International Energy Agency and IMF staff calculations

Electricity Prices for Household Consumers
(In Euro/Kilowatt-hour; in 2021-S2; annual consumption 2500-5000 kWh)



Sources: Eurostat and IMF staff calculations.

Gas Prices for Household Consumers
(In Euro/Kilowatt-hour; in 2021-S2; annual consumption 20-200 GJ)



Sources: Eurostat and IMF staff calculations.

Source: International Energy Agency, Eurostat, World Bank and IMF staff calculations.

Energy Exports and Imports, Winter Seasons 2020/21 & 2021/22
(mil. EUR, unless indicated)

	Exports		Imports		Net Exports			
	4Q2020-1Q2021	4Q2021-1Q2022	4Q2020-1Q2021	4Q2021-1Q2022	4Q2020-1Q2021	4Q2021-1Q2022	Change	In %
Energy total (EU definition)	**220.9**	**375.6**	**836.2**	**2,424.4**	**-615.3**	**-2,048.8**	**-1,433.5**	**233.0**
SITC 3 Mineral fuels, lubricants and related materials	**221.5**	**376.2**	**841.3**	**2,443.4**	**-619.8**	**-2,067.2**	**-1,447.4**	**233.5**
32 Coal, coke and briquettes	2.2	1.3	76.6	216.3	-74.4	-215.0	-140.6	189.0
33 Petroleum, petroleum products and related materials	134.7	278.9	508.3	1,105.5	-373.6	-826.6	-453.0	121.3
34 Gas, natural and manufactured	12.0	19.7	224.9	925.2	-212.9	-905.5	-692.6	325.3
35 Electric current	72.4	76.1	31.5	196.5	40.9	-120.4	-161.3	-394.4

Sources: Serbia Statistical Office and IMF staff calculations.

4. **Serbia's gas imports simultaneously surged to meet higher demand due to inclement weather as well as to compensate somewhat for lower coal plant capacity.** Serbia's gas supply contract with Russia was extended to end-May 2022, after it was about to expire at end-2021. However, Serbia's daily gas consumption reached 12 million cubic meters at times during the last winter, well exceeding the import level in previous years and the contract with Russia of 6 million cubic meters. Srbijagas, the state-owned natural gas trade and distribution company, initially relied on strategic reserves of gas, but eventually had to secure additional gas imports.

5. **Oil and petroleum product import costs had started to increase already earlier in 2021 in accordance with global prices**. The refinery, Serbia's largest gas station network and several other important companies in the sector are majority-owned by Gazprom with Serbian government or public enterprise participation, and in principle operate on a commercial basis.

6. **While global energy costs increased, domestic price increases were moderated by the government**.

- For **electricity**, the regulated prices for households were adjusted in February 2021 by 3.4 percent to 7.352 RSD/kWh[1]
- With continued regional price increases, that were being passed through to commercial customers, starting from November 2021, the government issued several government conclusions that recommended price limits for commercial customers, which were accepted by EPS. Accordingly, for November–December 2021 prices were kept at the level of the previous expired contract. For January–June 2022, the contract price for commercial customers was set at 75 EUR/MWh (excl. VAT) for renewing contracts as well as a ceiling for existing contracts. While this was well above prices of 45–55 EUR/MWh that existed in 1Q:2021, it remained below open market prices which, in recent months, at times were in excess of 200 EUR/MWh.
- In the **natural gas market**, about 16 percent is sold to households and small commercial customers on the regulated market, while usually industrial customers and district heating

[1] Furthermore, the price regime involves progressive pricing for households, such that the price per kWh increases with higher consumption.

companies make purchases on the open market. For natural gas, too, the authorities decided to stabilize prices from January 2022.

- In the **fuel market**, price regulations were introduced in February 2022 for gasoline and diesel. Initially a price cap was applied, while from March 2022 a price adjustment mechanism is applied that guarantees a fixed margin to gas stations. In addition, farmers have access to reduced-price diesel for the agricultural season.

7. The energy supply challenges amid controlled domestic prices created higher costs for the energy companies and fiscal costs. Liquidity support from the government to Srbijagas were a loan of 35 billion RSD (about 300 million EUR) recorded above-the-line as a subsidy in December 2021, a below-the-line budget loan of 200 million EUR in January 2022, and a state guarantee for commercial loans of 200 million EUR in January 2022.

8. Uncertainty remains high, but mitigation has started. Energy demand eases in the summer months, providing a window to resolve the technical problems that hampered electricity generation during the last winter. The new 3-year natural gas supply contract with Russia will help contain Serbia's gas import costs. Serbia's underground gas storage is being expanded, providing more flexibility when to purchase gas. Furthermore, the authorities' decisions on price and tariff adjustments will be taken once a new government is in place. Moreover, more fundamental governance reforms at EPS and Srbijgas have been initiated. Finally, underpinning energy security and the greening of energy generation will require a new investment strategy, that should be formulated and rolled out without delay.

Annex II. War in Ukraine—Spillover Channels to Serbia

Serbia is partly insulated from the terms of trade shocks due to the war in Ukraine, as it is a wheat and energy producer, and broadly self-sufficient in food. Hence, the economic effects of the war will likely materialize primarily through the downturn in key trading partners, the impact of higher global commodity prices on inflation, and higher risk premiums. Direct commercial relationships with Russia and Ukraine pose considerable risks, in particular for natural gas imports and the refinery. The financial sector has little direct exposure to Russia or Ukraine. Serbia has not joined EU sanctions against Russia.

1. **Trade and supply chains.** The indirect impact through lower external demand from the EU is likely more significant than the direct impact (Table), as Russia and Ukraine account for a modest share of Serbia's total trade. Nevertheless, some specific sectors and companies are affected, and have been impacted by trade disruptions, financial costs, and the need to develop alternative input and sales markets. Examples include apple exporters that have been producing for the Russian market, and Serbia's steel mill that sourced inputs from Ukraine.

Serbia: Exports and Imports, 2020-21 (mil EUR)

	Exports		Imports		Share in total exports (%)		Share in total imports (%)	
	2020	2021	2020	2021	2020	2021	2020	2021
Total	**17,055**	**21,621**	**22,958**	**28,601**	**100.0**	**100.0**	**100.0**	**100.0**
European Union	11,070	13,941	13,494	16,338	64.9	64.5	58.8	57.1
Germany	2,197	2,743	3,122	3,771	12.9	12.7	13.6	13.2
Other European countries	4,469	5,311	4,051	5,306	26.2	24.6	17.6	18.6
Russian Federation	800	840	1,388	1,534	4.7	3.9	6.0	5.4
Ukraine	110	154	148	228	0.6	0.7	0.6	0.8

Source: Statistical Office of the Republic of Serbia

2. **Tourism.** The tourism sector may feel some impact of fewer visitor from Russia and Ukraine. However, Air Serbia has continued flight connections with Russia.

Serbia: Tourism 2021

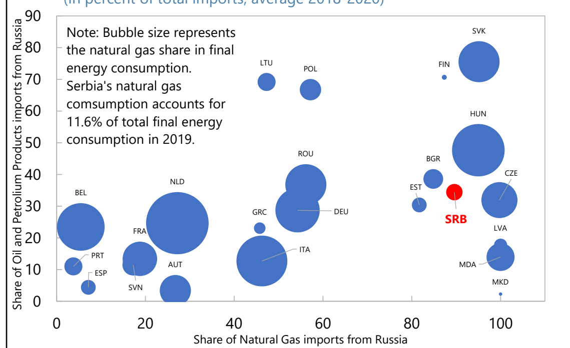
	Arrivals	Overnight Stays	Share Overnight Stays
Total	871,000	2,430,000	
Russia	63,000	174,000	7.2
Ukraine	15,000	60,000	2.5

Source: Statistical Office of the Republic of Serbia

3. **Commodity prices and inflation.** The surge in global commodity prices feeds into Serbian inflation through higher imported prices despite the regulated prices for energy and price caps for a few food items. More generally, with Serbia's intensive trade and migration linkages with the EU, Serbian consumer price levels are linked to EU-wide tradable prices.

4. **Energy flow exposures.** Serbia has usually been self-sufficient in electricity production, with coal and hydropower as the main primary energy sources. In the recent past, Russia supplied 30 percent of oil (or about 11 percent of final energy consumption) and 91 percent of natural gas gross imports (about 8½ percent of final energy consumption). With domestic production covering less than 20 percent of demand for gas and limited natural gas storage capacity, natural gas supply interruptions are a risk. Since the Serbia-Bulgaria pipeline interconnection to BalkanStream opened in 2021, there is an alternative to the Serbia-Hungary interconnector through Ukraine. In the future, Serbia could also tap into LNG capacities being developed in the Mediterranean (expected by 2023).

5. **Oil and natural gas sector.** The company NIS (Naftna industrija Srbija), owned by Gazpromneft (50 percent) and the Government of Serbia (about 30 percent) operates a major oil refinery, is extracting crude oil and natural gas in Serbia, manages the largest network of gas stations in Serbia and is in the process of acquiring the petrochemical company Petrohemija. A Gazprom/ Srbijagas-owned company operates the underground natural gas storage facility. The EU sanctions against Russia that became effective on May 15 have not interfered with the supply of oil to the refinery, through Croatia.



Oil and Natural Gas Imports from Russia

(In percent of total imports, average 2018-2020)

Sources: IEA, Eurostat, and IMF staff calculations.

6. **Refugees and migration.** So far there have not been many refugees entering Serbia from Ukraine. There are some reports of Russian citizens and companies setting up in Serbia.

7. **Financial sector.** Following the acquisition of Sberbank Srbija (3.8 percent of banking assets) by AIK Banka, there is only one very small Russian-owned bank in Serbia (API Bank with 0.2 percent of total assets). Credit and loan exposure to Russia is very small. While Serbian banks are not obligated to apply financial sector sanctions against Russia, banks do implement the EU sanctions given the requirements of their correspondent banks and EU bank headquarters.

8. **Risk premiums and financial exposures.** Sovereign risk premiums peaked at more than 500 bps after the outbreak of the Ukraine war and have since declined, but less so than for peers, reflecting Serbia's international relationships.

9. **FDI and project linkages with Russia.** Russia accounted for about EUR 2.2 billion or 8.3 percent of total FDI during 2010–3Q:2021. Challenges may arise for the execution of public infrastructure projects that have been awarded to a Russian contractor, e.g., in the railway sector.

Annex III. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Outbreaks of lethal and highly contagious Covid-19 variants.	**Medium** Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, and financial tightening.	Short to medium term	**Medium** Renewed set-backs to economic growth and risks of reaching the limits of fiscal space for supporting the economy, negatively affecting companies and individuals. Mitigation arises from experience, better preparedness of health care systems, and more informed individual judgment on precautions, as well as better fine-tuning of any lockdown measures.	• Extend fiscal support measures, and target to companies and individuals most in need. • Prioritize health-related spending, including vaccination. • Adjust the monetary policy stance as needed to balance the need to control inflation and the risks to growth.
Rising and volatile food and energy prices	**High** Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, wars, export restrictions, and currency depreciations This disrupts the green transition and leads to bouts of price and real sector volatility.	Short to medium term	**High** Cost push inflation continues and threatens to de-anchor inflation expectations and create a price-wage spiral. Sharp increases in energy prices could make some businesses unviable and prompt social unrest. Fiscal costs of subsidies or tax reductions to limit price increases could be prohibitively high and weaken the fiscal position.	• Adjust energy tariffs gradually in line with changes in costs. • Provide targeted support to the most vulnerable households. • Ensure reliable domestic electricity generation and other energy production. • Accelerate monetary tightening if there are signs of de-anchoring of inflation expectations. • Accelerate transition to green energy sources for enhanced energy independence.

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

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
De-anchoring of inflation expectations in the U.S. and/or advanced European economies.	**Medium (for U.S)** **Medium-Low (for Euro area)** Worsening supply-demand imbalances, higher commodity prices, and higher nominal wage growth lead to persistently higher inflation and inflation expectations, prompting central banks to tighten policies faster than currently anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs	Short to medium term	**High** The sharp tightening of global financing conditions and spiking risk premia could push up the cost of borrowing, lead to depreciation pressures, put stress on leveraged firms and households, result in reserve outflows, lower confidence, and lower growth.	• Keep domestic financial markets liquid. • Tighten monetary policy further as needed to anchor inflation expectations. • Fiscal discipline and decisive progress on structural reforms should anchor confidence and improve competitiveness.
Russia's invasion of Ukraine leads to escalation of sanctions and deglobalization	**High** Sanctions on Russia are broadened to include oil and gas sectors, and Russia is disconnected almost completely from the global financial system and large parts of the trade system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers.	Short-to medium term	**Medium** Adverse spillovers and commodity price shocks will reduce trade, lower investor confidence and stall FDI, thus worsening growth prospects of the Serbian economy while giving rise to further inflationary pressures. **High** Gas supply disruptions or restrictions on import of oil or equipment arising from international sanctions. **Medium** Opportunities may arise as firms aim to shorten or near-shore supply chains and choose to reallocate to Serbia.	• Targeted progress on structural reforms should anchor confidence and improve competitiveness. • Accelerate monetary tightening if there are signs of second-round effects. • Expand oil and gas storage and prepare/implement contingency plans for alternative supplies over the medium term.
Domestic policy errors or loss of fiscal discipline	**Medium** Hesitation to deliver on specific structural reforms.	Short-to medium term	**High** Loss of fiscal discipline would undermine market confidence and the restoration of fiscal buffers. Unfinished structural reform agenda would reduce growth prospects, preserve over-	• Stick to strong fiscal and structural reform policies and reinforce institutions as a foundation for inclusive and sustainable growth.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
			reliance on the public sector and large informal economy, and leave unaddressed contingent liabilities.	
The energy crisis is not under control in time for the next winter.	**Medium** Electricity generation capacity is not restored to required levels, and production levels remain unreliable.	Short- to medium term	**High** Failure to address the production shortfalls or to adjust energy tariffs would undermine the financial viability of the energy companies and create fiscal costs and risks. Failure to reform the energy sector and put in place an improved investment strategy would jeopardize energy security and environmental sustainability over the medium term	• Strengthen the management of the key energy SOEs. • Implement a short-term action plan to restore electricity generation capacity • Adjust energy tariffs on a regular basis to help ensure medium-term cost recovery.

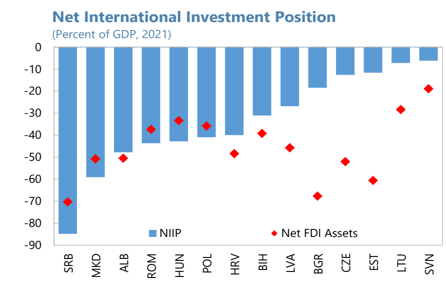
Annex IV. External Sector Assessment

Overall Assessment. *Serbia's external position in 2021 was moderately stronger than the level implied by medium-term fundamentals and desirable policies, based on the results of the IMF's EBA-lite current account model.*[1] *However, current account projections, foreign exchange market pressures and other measures do not indicate net imbalances. The CA deficit in 2021 was slightly larger than in 2020 reflecting adjustments mostly in its services and income balances. Although Serbia has a large negative net international investment position, the large share of FDI liabilities, low external financing requirements, and adequate reserve coverage provide adequate buffers.*

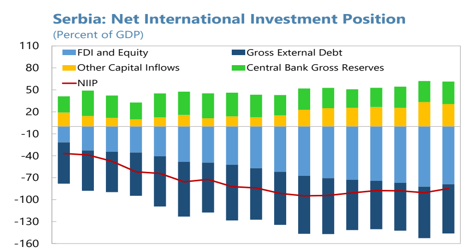
Potential Policy Responses. *Macroeconomic policies require continued adaptation in the short run, balancing the need to support recovery in the face of new shocks, including the Ukraine war, with the importance of reducing inflation. Over the medium term, external rebalancing will be achieved through structural fiscal reforms that rebuild fiscal buffers and anchor fiscal performance, providing further space to undertake an ambitious structural reform agenda to underpin high and inclusive growth.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Serbia's net international investment position (NIIP) has remained highly negative. The NIIP improved to -83.9 percent of GDP in 2021 from -90.3 percent of GDP in 2020, below the -33.8 percent of GDP average of countries in the region. Its structure indicates that FDI inflows contributed much to the buildup of equity within net FDI liabilities—the main IIP component—standing at 79 percent of GDP in 2021. Local currency debt held by nonresidents has remained around 5 percent of GDP. In terms of maturity, nearly all external debt is long-term.



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



Sources: Country authorities; and IMF staff calculations.

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

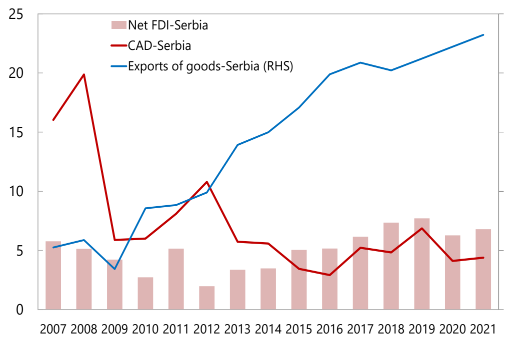
2021 (% GDP)	NIIP: -83.9	Gross Assets: 62.8	Debt Assets: 53.6	Gross Liab.: 146.7	Debt Liab.: 67.3

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

Current Account

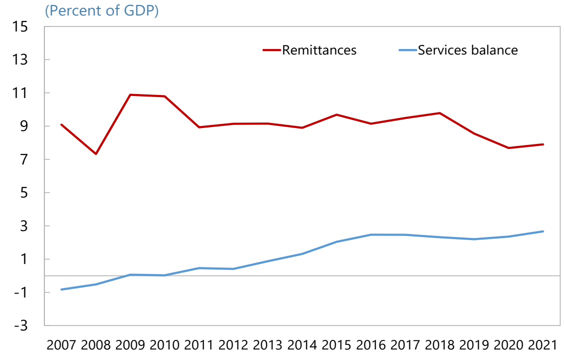
Background. The CA deficit edged up to 4.4 percent of GDP in 2021 (from 4.1 percent in 2020), largely from a slightly higher primary income deficit, as the trade balance remained at the level reached in 2020 (11.1 percent of GDP) with increases in both exports and imports. From a longer-term perspective, the current account (CA) deficit has substantially narrowed since 2008, when it reached 19.9 percent of GDP. While this has mainly been driven by a continuous increase in exports of goods, other factors, including the improving services balance over the last 7 years, also contributed.

Current Account Deficit, Exports of Goods and Foreign Direct Investment
(Percent of GDP)



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

Serbia: Remittances and Services Balance
(Percent of GDP)



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

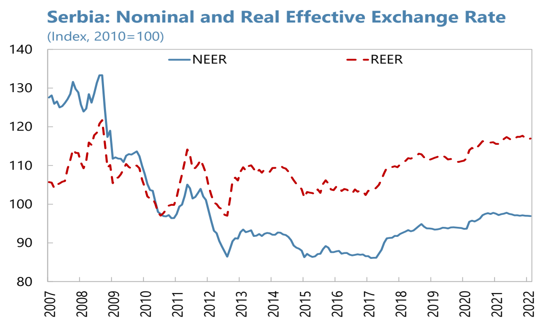
Assessment. The EBA-lite current account (CA) approach estimates the CA norm at -5.6 percent of GDP, indicating a current account gap of 1.2 percent of GDP. Under the current methodology, the Covid-19 adjustor is zero, reflecting no temporary effects on the CA of tourism for 2021. Policy gaps contribute 2.6 percentage points to the model-estimated current account gap and the remainder (-1.4 percentage point) reflects unidentified country-specific factors and/or regression residuals.

	CA model	REER model
CA-Actual	**-4.4**	
Cyclical contributions (from model) (-)	0.0	
COVID-19 adjustor (+) 1/	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-4.3**	
CA Norm (from model) 2/	**-5.6**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-5.6**	
CA Gap	**1.2**	**-0.1**
o/w Relative policy gap	2.6	
Elasticity	-0.39	
REER Gap (in percent)	**-3.2**	**0.2**

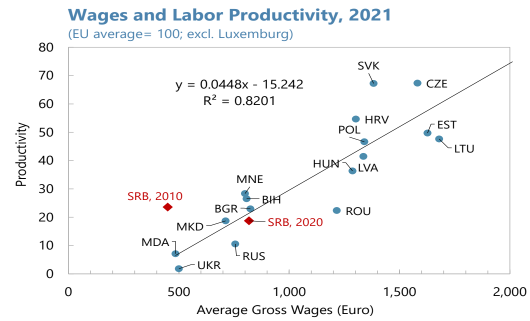
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The dinar's nominal and real effective exchange rate indexes appreciated on average by 1.2 percent and 1.8 percent, respectively, during 2021. At end-December 2021, the real effective exchange rate was about 1 percent stronger than the end-2020 level, and 9.2 percent above the post-global financial crisis average.



Source: IMF, INS database.

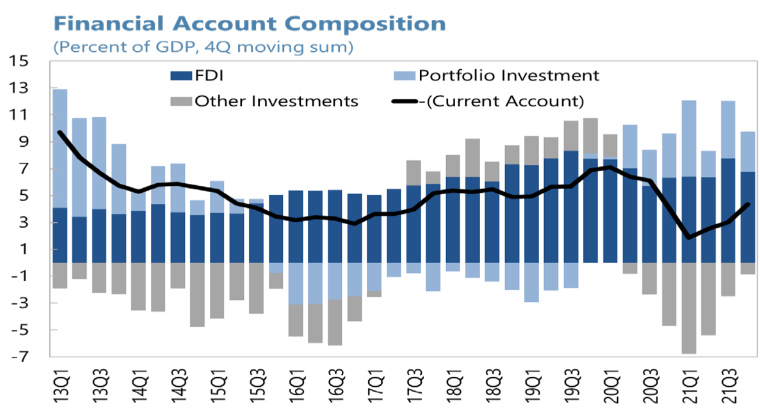


Sources: Haver Analytics; IMF, World Economic Outlook; and IMF staff calculations.

Assessment. Assuming an elasticity of -0.39, the IMF staff CA gap of 1.2 percent of GDP implies a REER gap of -3.2 percent. However, the IMF's EBA-lite Index-Real Effective Exchange Rate model does not suggest the need for a more appreciated exchange rate, reflecting methodological differences and model-related uncertainty. Since 2015 the increase in real wages have exceeded productivity growth, creating pressures for the REER to appreciate. Considering the model results, competitiveness indicators, macroeconomic context, and NIIP level, the REER gap is assessed to be in the range between -3.2 and 0.2 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net FDI and portfolio inflows dominate the financial account. Since 2015, net FDI inflows have consistently exceeded the current account deficit, rising to historically high levels (reaching 6.3 and 6.8 percent of GDP in 2020 and 2021, respectively). Serbia successfully placed three Eurobonds in 2021, totaling EUR 2.75 billion (5.1 percent of GDP). There are no CFMs.

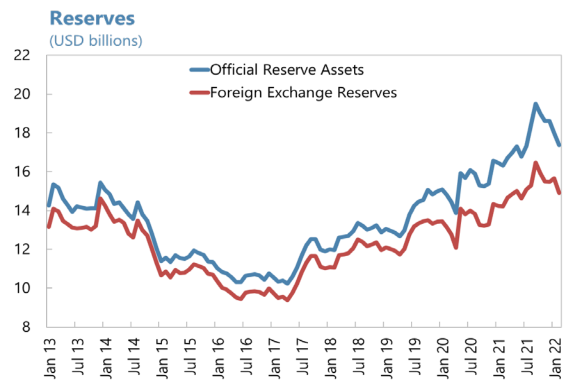


Sources: Haver Analytics; and IMF Staff calculations

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

FX Intervention and Reserves Level

Background. Foreign exchange reserves increased by nearly EUR 3 billion in 2021, supported by Eurobond issuances and the SDR allocation, and stood at EUR 16.5 billion, or 5.3 months of prospective imports at year-end. While appreciation pressures prevailed for most of 2021, towards the end of the year and in early 2022 the central bank switched to foreign exchange sales, in large part due to high energy import costs. Despite net sales in the last quarter of year, the Central Bank of Serbia was a net purchaser of Euros in 2021. Recently, reserves fell to EUR 14.1 bn by end-April reflecting ongoing energy import costs and sharply increased purchases of euros by households from banks in March after the start of the Ukraine war, but they have broadly stabilized since then.



Sources: Haver Analytics; and IMF Staff calculations

Assessment. Serbia has an adequate international reserve position, with official reserves within the recommended bounds of the IMF reserve adequacy metric. Specifically, gross reserves at end-2021 corresponded to 133.4 percent of the ARA metric (assuming the current stabilized de-facto exchange-rate classification).

Annex V. Debt Sustainability Analysis

Serbia's public debt as a share of GDP declined in 2021, helped by robust economic growth and stronger-than expected fiscal performance. Under the baseline scenario, the public debt-to-GDP ratio is projected to decline steadily over the medium-term, reaching 40 percent in 2027. Gross public financing needs are expected to remain relatively modest. Public debt is assessed to be sustainable with high probability. The main vulnerabilities stem from a high non-resident share in public debt holdings and exposure to exchange-rate risk. Debt levels are also sensitive to macro-fiscal and contingent liability shocks, which could push public debt above 60 percent of GDP in 2023 and 2024.

1. **The public debt-to-GDP ratio decreased in 2021 and is expected to remain on a declining trajectory over the medium term.** Strong economic recovery and a falling fiscal deficit led to a decline in public debt by 0.7 percentage points in 2021 to 57.2 percent of GDP, including slightly lower contingent liabilities at around 2.6 percent of GDP[1] Under the baseline, public debt is projected to decline gradually over the medium term. The DSA baseline is in line with staff's macroeconomic projections. Real GDP is expected to reach 3.5 percent in 2022, and the fiscal deficit is projected to contract to 3 percent of GDP, from 4.1 percent in 2021. Gross financing needs in 2022 are estimated at 8.0 percent of GDP, fully covered by issuance on domestic markets, project loans and budget support from IFIs, use of the SDR allocation and deposit drawdowns. Over the medium term, the output gap is expected to close, inflation to move to the NBS tolerance band, and the fiscal deficit to narrow towards 1 percent of GDP.

2. **Vulnerabilities remain concentrated in the large shares of foreign currency debt and debt held by non-residents.** Compared to the last DSA, the risks related to gross financing needs and short-term debt have diminished. Conversely, external financing needs continue to be elevated, just below the 15 percent threshold for EM economies. Debt held by-non-residents stands at 68 percent, and the share of debt denominated in foreign currency stands at 71 percent (and of Euro-denominated debt at 60 percent) at end 2021. Nonetheless, the large share of multilateral and institutional creditors to whom external debt is owned, the long average maturity of outstanding debt, and the fixed interest rate structure remain important mitigating factors.[2]

3. **Macro-fiscal stress tests highlight risks from lack of fiscal discipline, low growth, and contingent liabilities.** Over the medium-term, the positive outlook for both the debt profile and financing needs hinges on strong growth and fiscal outcomes. Conversely, under the historical scenario debt-to-GDP ratio remains at around 60 percent with higher financing needs

[1] Public debt includes general government debt, and public guarantees covering SOEs, local governments, and other entities. Public guarantees on banks loans to SMEs are not included and estimated at 0.85 percent of GDP as of end-April 2021.

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

than under the baseline.[3] The set of macroeconomic stress tests also underscores the importance of a return to fiscal discipline and sustained economic growth, with real GDP growth and primary balance shocks creating rapidly rising debt levels and financing needs. The calibrated contingent liabilities shock—which is much more severe than the shock from the current energy crisis in Serbia, with fiscal costs of about 1 percent of GDP thus far—increases gross financing needs by about 6 percent of GDP in 2023. While Serbia's public debt would not be unsustainable under this scenario, it could still send a negative signal to the markets at an uncertain time for the global economy, thus highlighting the importance of avoiding such an event.

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

External Debt

5. **In 2021, total external debt resumed its gradual decline that had started in 2015.** The external-debt-to-GDP ratio reached 71.3 in 2021 and is projected to gradually decline in the following years, reaching 50.0 percent by 2027. In this context, gross external financing needs are expected to be around 13.5 percent of GDP in 2022 and decline over the medium term.

6. **The structure of total external debt remains favorable.** As of end-2021, about 83 percent of Serbia's external debt was long term, with 50 percent issued by the public sector and 33 percent by the private sector, while about 17 percent was short term debt (on a remaining maturity basis), with 3 percent issued by the public sector and 14 percent by the private sector. In addition, about 37 percent of Serbia's external debt was held by official creditors and 63 percent by private creditors, comprising Eurobond issuances, accounting for 19 percent of total external debt, and banks and other financial institutions, accounting for the remaining 44 percent. Local currency debt held by nonresidents stood at around 3 percent of GDP.

7. **The projected paths for economic growth, the current account, and net FDI inflows are the main factors driving the dynamics of Serbia's external-debt-to-GDP ratio.** Economic

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

activity rebounded to 7.4 percent in 2021, helping reduce the external-debt-to-GDP ratio, while the current account deficit remained more or less unchanged at 4.4 percent of GDP in 2021 (from 4.1 percent in 2020). Over the medium term, the current account deficit is projected to stabilize around 5 percent of GDP and economic activity is expected to remain strong, both helping keep external-debt-to-GDP on a declining path through 2027. Net FDI inflows, increased slightly to 6.8 percent of GDP in 2021, and are expected remain above 5 percent of GDP through 2027.

8. The external debt path is particularly sensitive to possible real exchange-rate depreciation shocks. As shown among the shock scenarios, a 30 percent real depreciation of the dinar in 2023 would cause the external debt-to-GDP ratio to reach close to 100 percent in 2022 and to stabilize at 80 percent by 2027. However, the large share of multilateral and institutional creditors to whom external debt is owned, the long average maturity of outstanding debt, and the prevalent fixed interest-rate structure are important factors mitigating this vulnerability.

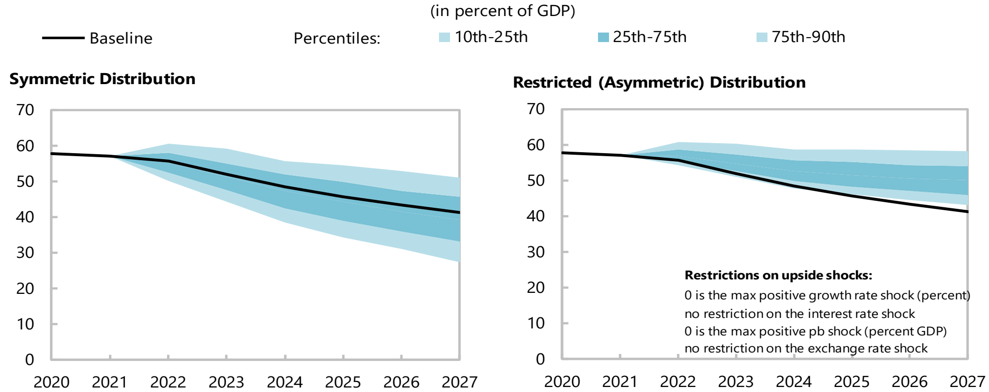
Annex V. Figure 1. Serbia: Public Sector Debt Sustainability Analysis (DSA) - Risk Assessment

Heat Map

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

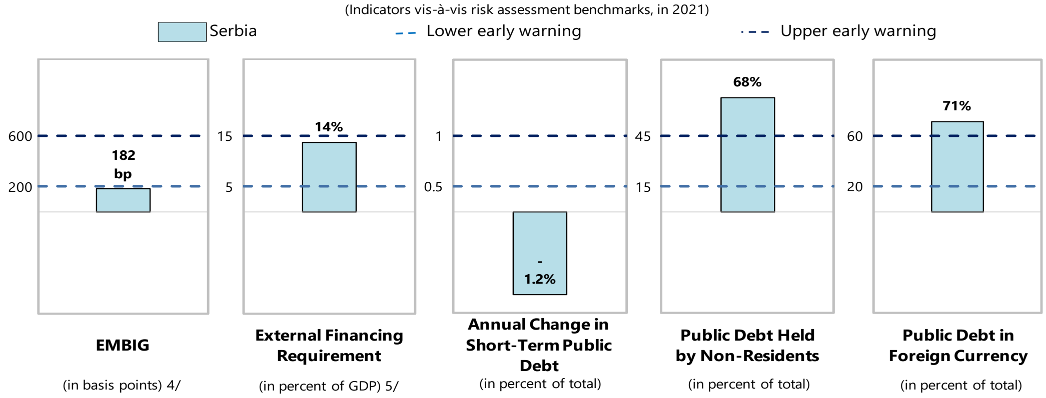
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

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

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

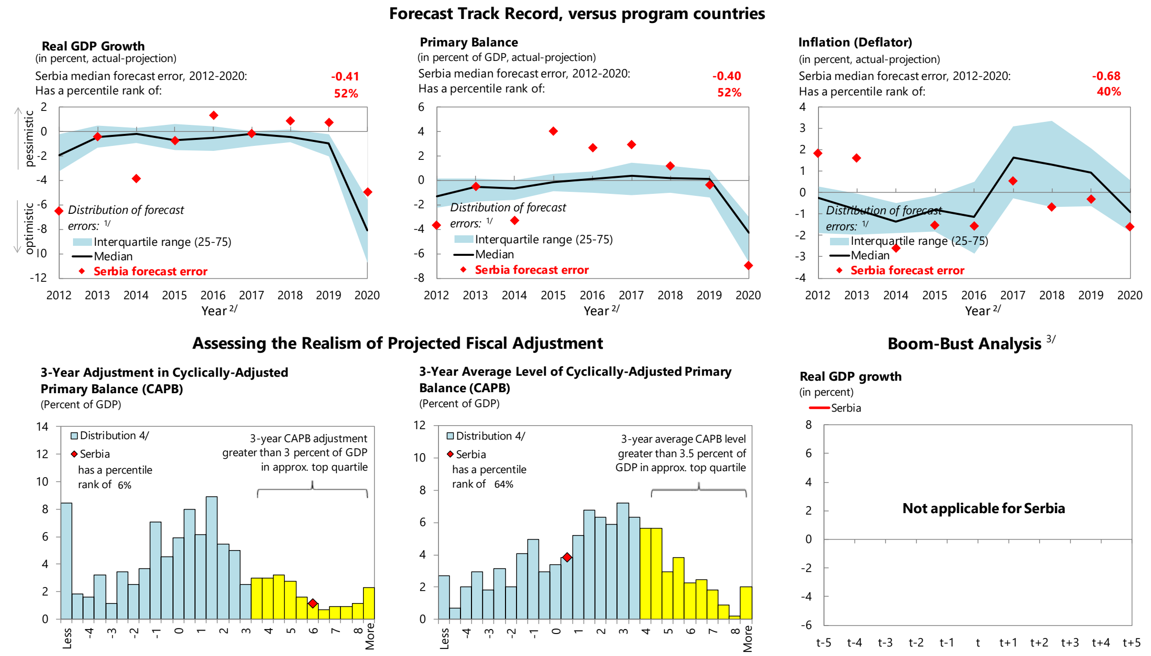
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 21-Jan-22 through 21-Apr-22.

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

Annex V. Figure 2. Serbia: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Serbia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex V. Figure 3. Serbia: Public DSA—Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

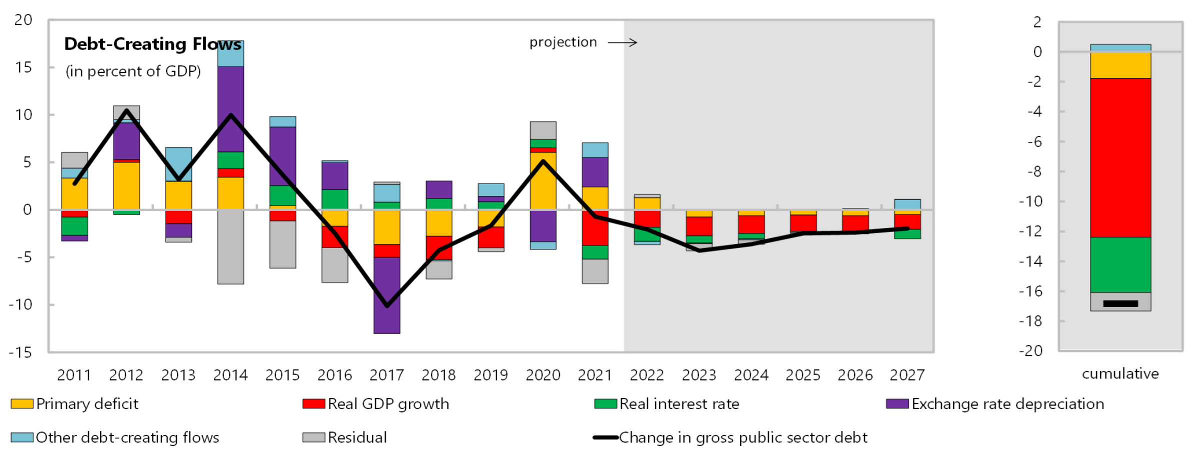
	Actual			Projections					
	2011-2019 [2]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	58.8	57.9	57.2	55.1	50.8	47.2	44.7	42.3	40.3
Of which: guarantees	5.9	3.0	2.6	2.4	2.1	2.0	1.8	1.7	1.5
Public gross financing needs	12.7	14.9	9.1	8.0	7.3	5.8	4.0	4.3	3.9
Real GDP growth (in percent)	2.1	-0.9	7.4	3.5	4.0	4.0	4.0	4.0	4.0
Inflation (GDP deflator, in percent)	3.7	2.4	6.1	6.8	7.0	5.2	4.5	4.3	3.9
Nominal GDP growth (in percent)	5.9	1.5	13.9	10.6	11.2	9.4	8.7	8.5	8.1
Effective interest rate (in percent) [4]	4.7	4.1	3.6	4.1	5.7	4.2	4.8	4.7	1.5

As of April 27, 2022

Sovereign Spreads		
EMBIG (bp) 3/		174.0
5Y CDS (bp)		154.0
Ratings	Foreign	Local
Moody's	Ba2	Ba2
S&Ps	BB+	BB+
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	1.3	5.1	-0.7	-2.1	-4.3	-3.6	-2.5	-2.4	-2.0	-16.8	
Identified debt-creating flows	3.1	3.3	1.9	-2.4	-3.6	-3.2	-2.4	-2.2	-2.0	-15.6	
Primary deficit	0.6	6.0	2.4	1.3	-0.8	-0.6	-0.5	-0.6	-0.5	-1.8	-1.5
Primary (noninterest) revenue and grants	39.7	41.0	43.3	41.3	41.6	41.7	41.6	41.6	41.6	249.4	
Primary (noninterest) expenditure	40.3	47.0	45.7	42.6	40.8	41.1	41.0	40.9	41.2	247.6	
Automatic debt dynamics [5]	1.1	-2.0	-2.1	-3.3	-2.7	-2.4	-1.7	-1.5	-2.6	-14.3	
Interest rate/growth differential [6]	-0.4	1.4	-5.2	-3.3	-2.7	-2.4	-1.7	-1.5	-2.6	-14.3	
Of which: real interest rate	0.7	0.9	-1.4	-1.5	-0.8	-0.6	0.0	0.1	-1.0	-3.7	
Of which: real GDP growth	-1.2	0.5	-3.8	-1.8	-2.0	-1.9	-1.7	-1.6	-1.6	-10.6	
Exchange rate depreciation [7]	1.6	-3.4	3.1	...	...	...	...	...	...	...	
Other identified debt-creating flows	1.3	-0.8	1.6	-0.3	-0.1	-0.1	-0.1	0.0	1.1	0.5	
Privatization/Drawdown of Deposits (+ reduces financing need) (negative)	0.4	-1.3	1.1	-0.6	0.0	0.0	-0.1	0.0	1.1	0.4	
Contingent liabilities	1.0	0.5	0.5	0.3	-0.1	-0.1	0.0	0.0	0.0	0.1	
Please specify (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	-1.8	1.9	-2.6	0.3	-0.7	-0.5	-0.1	-0.2	0.0	-1.2	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

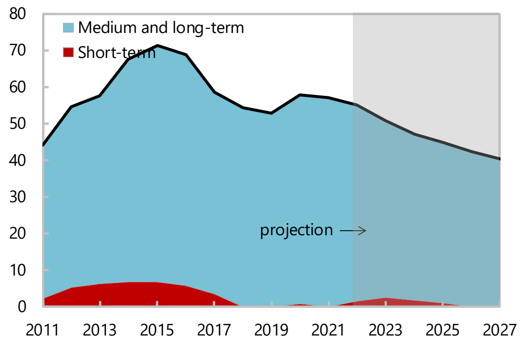
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex V. Figure 4. Serbia: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

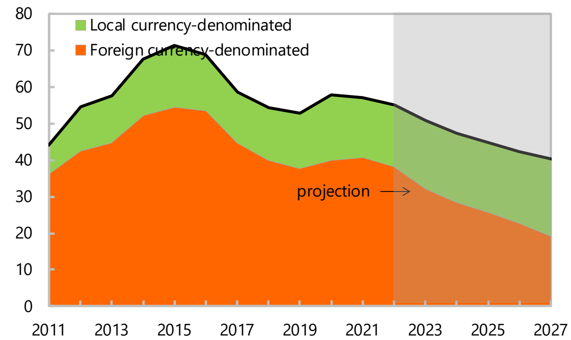
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

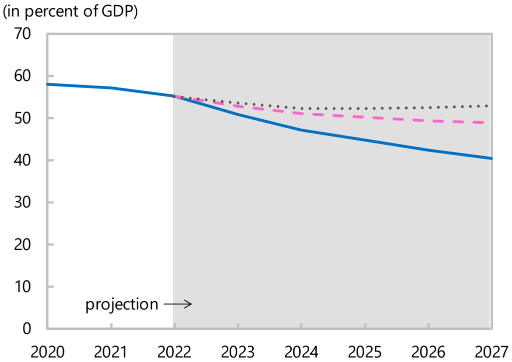


Alternative Scenarios

Baseline Historical Constant Primary Balance

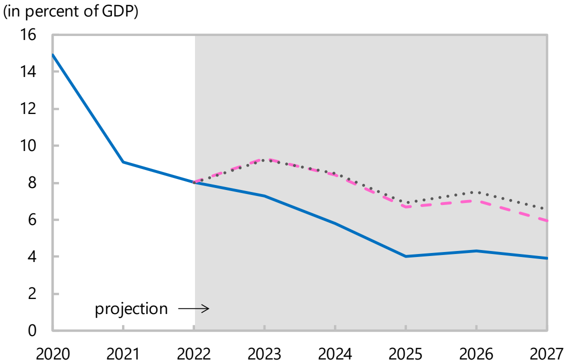
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

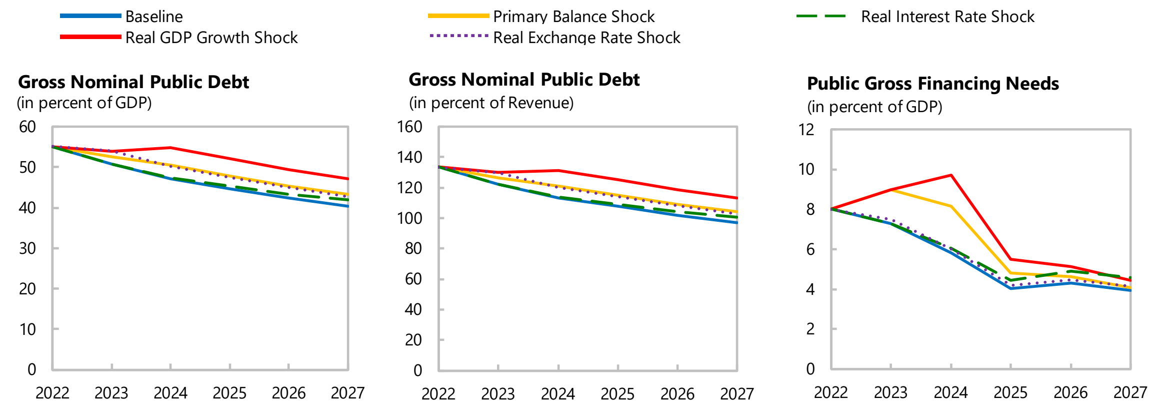
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	3.5	4.0	4.0	4.0	4.0	4.0
Inflation	6.8	7.0	5.2	4.5	4.3	3.9
Primary Balance	-1.3	0.8	0.6	0.5	0.6	0.5
Effective interest rate	4.1	5.7	4.2	4.8	4.7	1.5
Constant Primary Balance Scenario						
Real GDP growth	3.5	4.0	4.0	4.0	4.0	4.0
Inflation	6.8	7.0	5.2	4.5	4.3	3.9
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	4.1	5.7	4.1	4.6	4.5	1.8

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	3.5	2.3	2.3	2.3	2.3	2.3
Inflation	6.8	7.0	5.2	4.5	4.3	3.9
Primary Balance	-1.3	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	4.1	5.7	4.5	5.2	5.3	2.9

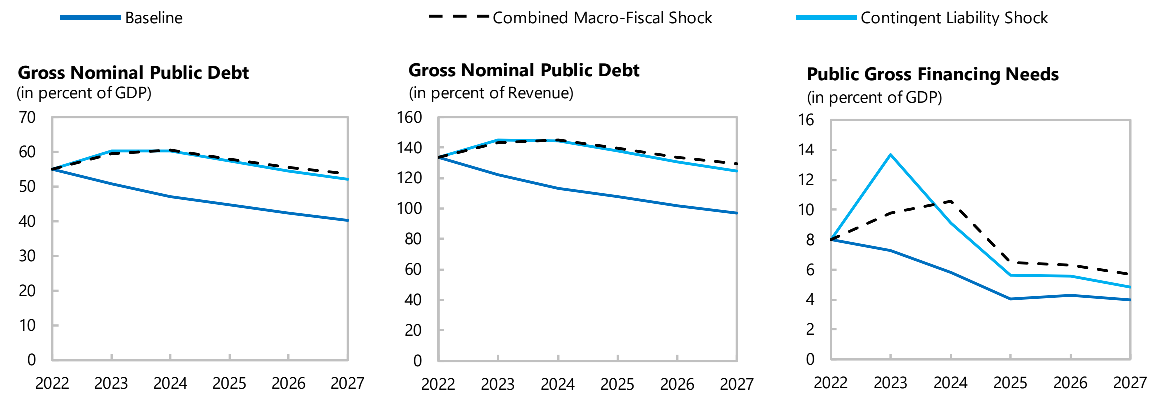
Source: IMF staff.

Annex V. Figure 5. Serbia: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	3.5	4.0	4.0	4.0	4.0	4.0
Inflation	6.8	7.0	5.2	4.5	4.3	3.9
Primary balance	-1.3	-0.9	-1.1	0.5	0.6	0.5
Effective interest rate	4.1	5.7	4.2	4.7	4.7	1.7
Real Interest Rate Shock						
Real GDP growth	3.5	4.0	4.0	4.0	4.0	4.0
Inflation	6.8	7.0	5.2	4.5	4.3	3.9
Primary balance	-1.3	0.8	0.6	0.5	0.6	0.5
Effective interest rate	4.1	5.7	4.7	5.6	5.9	3.1
Combined Shock						
Real GDP growth	3.5	1.2	1.2	4.0	4.0	4.0
Inflation	6.8	6.3	4.5	4.5	4.3	3.9
Primary balance	-1.3	-0.9	-2.3	0.5	0.6	0.5
Effective interest rate	4.1	6.1	4.6	5.5	5.7	3.4

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	3.5	1.2	1.2	4.0	4.0	4.0
Inflation	6.8	6.3	4.5	4.5	4.3	3.9
Primary balance	-1.3	-0.7	-2.3	0.5	0.6	0.5
Effective interest rate	4.1	5.7	4.2	4.7	4.7	1.8
Real Exchange Rate Shock						
Real GDP growth	3.5	4.0	4.0	4.0	4.0	4.0
Inflation	6.8	10.6	5.2	4.5	4.3	3.9
Primary balance	-1.3	0.8	0.6	0.5	0.6	0.5
Effective interest rate	4.1	6.1	4.1	4.6	4.6	1.5
Contingent Liability Shock						
Real GDP growth	3.5	-1.6	-1.6	4.0	4.0	4.0
Inflation	6.8	5.6	3.8	4.5	4.3	3.9
Primary balance	-1.3	-4.8	0.6	0.5	0.6	0.5
Effective interest rate	4.1	6.3	4.3	4.7	4.7	1.9

Source: IMF staff.

Annex V. Table 1. Serbia: External Debt Sustainability Framework, 2017–27

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	68.8	66.1	65.7	70.3	71.3			**66.2**	**62.3**	**58.0**	**55.2**	**52.7**	**50.0**	**-8.7**
2 Change in external debt	-7.6	-2.7	-0.4	4.6	1.0			-5.2	-3.9	-4.4	-2.8	-2.4	-2.8	
3 Identified external debt-creating flows (4+8+9)	-6.9	-11.2	-1.8	-4.4	-13.2			-2.0	-2.3	-1.8	-2.0	-2.2	-2.4	
4 Current account deficit, excluding interest payments	3.1	3.3	5.5	2.7	3.0			5.0	4.8	5.4	4.7	4.7	4.5	
5 Deficit in balance of goods and services	7.7	9.5	10.0	8.8	8.5			10.4	9.7	9.3	8.6	8.2	8.0	
6 Exports	49.3	49.3	50.8	47.6	53.6			53.4	50.9	49.9	49.6	49.4	49.3	
7 Imports	57.0	58.9	60.8	56.4	62.0			63.7	60.5	59.2	58.2	57.6	57.3	
8 Net non-debt creating capital inflows (negative)	-6.1	-7.3	-7.5	-6.3	-6.8			-5.7	-5.7	-5.5	-5.3	-5.2	-5.2	
9 Automatic debt dynamics 1/	-3.9	-7.2	0.3	-0.8	-9.5			-1.3	-1.5	-1.6	-1.4	-1.6	-1.6	
10 Contribution from nominal interest rate	2.1	1.6	1.4	1.4	1.4			1.1	0.9	0.6	0.7	0.4	0.4	
11 Contribution from real GDP growth	-1.5	-2.7	-2.8	0.6	-4.4			-2.4	-2.3	-2.2	-2.1	-2.0	-1.9	
12 Contribution from price and exchange rate changes 2/	-4.6	-6.1	1.7	-2.8	-6.5			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-0.7	8.5	1.4	9.0	14.3			-3.2	-1.5	-2.6	-0.8	-0.2	-0.4	
External debt-to-exports ratio (in percent)	139.7	133.9	129.5	147.7	133.2			124.0	122.5	116.2	111.2	106.8	101.3	
Gross external financing need (in billions of US dollars) 4/	7.7	8.1	8.5	9.2	9.8			8.9	8.7	10.0	8.5	8.5	10.7	
in percent of GDP	17.3	15.9	16.5	17.3	15.6	10-Year	10-Year	13.5	11.7	12.1	9.4	8.6	10.0	
Scenario with key variables at their historical averages 5/								**66.2**	**68.0**	**67.4**	**67.7**	**68.3**	**68.4**	**-5.7**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.1	4.5	4.3	-0.9	7.4	2.2	2.8	3.5	4.0	4.0	4.0	4.0	4.0	
GDP deflator in US dollars (change in percent)	6.3	9.7	-2.5	4.5	10.1	1.3	8.9	0.6	8.6	6.9	5.3	4.8	4.1	
Nominal external interest rate (in percent)	3.0	2.6	2.1	2.2	2.3	2.8	0.5	1.6	1.5	1.1	1.3	0.8	0.7	
Growth of exports (US dollar terms, in percent)	13.1	14.8	4.6	-2.9	33.1	8.5	13.7	3.8	7.6	9.0	8.8	8.5	8.2	
Growth of imports (US dollar terms, in percent)	16.1	18.5	5.0	-4.0	30.1	6.1	12.9	7.1	7.2	8.7	7.7	7.9	7.7	
Current account balance, excluding interest payments	-3.1	-3.3	-5.5	-2.7	-3.0	-3.4	2.3	-5.0	-4.8	-5.4	-4.7	-4.7	-4.5	
Net non-debt creating capital inflows	6.1	7.3	7.5	6.3	6.8	5.3	1.9	5.7	5.7	5.5	5.3	5.2	5.2	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,

e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

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

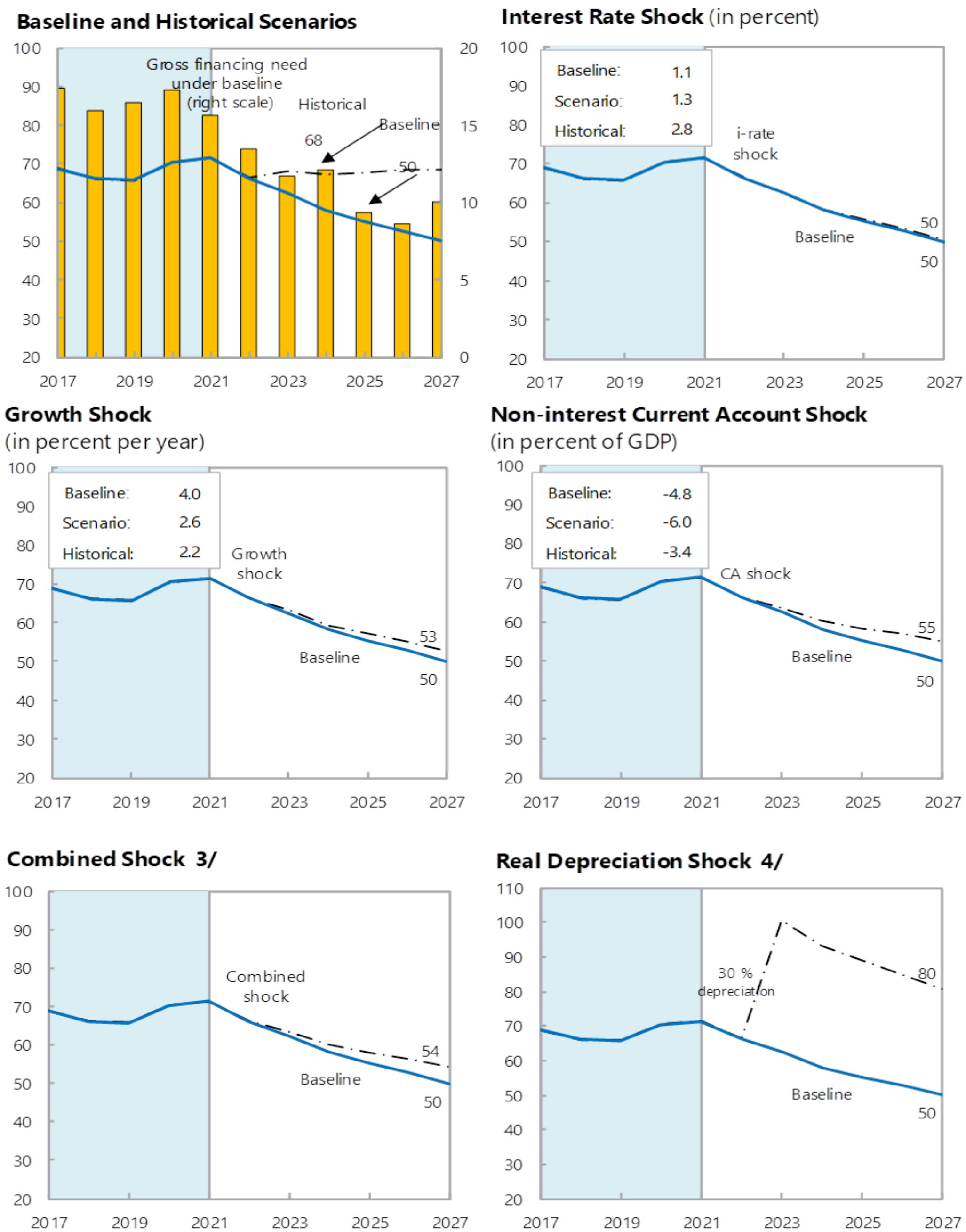
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

of the last projection year.

Annex V. Figure 6. Serbia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



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

Appendix I. Program Statement

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

Belgrade, June 2, 2022

Dear Ms. Georgieva:

The Serbian economy has navigated the COVID-19 pandemic well. Following a mild contraction by 0.9 percent in 2020, real GDP strongly rebounded by 7.4 percent in 2021 and approached its pre-COVID trend. Driven by rising food and global energy prices, inflation picked up to 9.6 percent in April 2022, but core inflation remained significantly lower at 5.5 percent. Financial sector stability has been maintained.

The uncertainty about Serbia's economic outlook, however, significantly increased amid the conflict in Ukraine and its economic spillovers. Our immediate policy focus has been on managing these spillovers including potential supply chain disruptions, inflationary pressures from higher food, global energy and other commodity prices, effects on global financial conditions, confidence, and lower growth of trading partners. As demonstrated during the COVID-19 pandemic, we can deliver a swift and adequate policy response to external shocks, which has underpinned the resilience of Serbian economy. As such, we are fully committed to maintaining macroeconomic and financial stability. Our economic program, supported by a Policy Coordination Instrument (PCI) approved by the IMF Executive Board on June 18, 2021, also aims at 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-supported program. Program implementation has been broadly on track. Most end-December quantitative program targets (QTs) and standard continuous targets were met. However, the energy crisis triggered additional fiscal spending to ensure energy security, and the ceiling on current primary expenditure was missed. We have largely delivered on our commitments under the structural reform agenda despite the challenging COVID-19 environment. While inflation at end-December 2021 stayed within the program inflation consultation band, inflation at end-March 2022 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, as well as our timely policy response.

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 request modification of the QTs for December-2022 as presented in Table 1a.

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 second review of the PCI-supported program. 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
Acting Prime Minister

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

/s/
Siniša Mali
Acting 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, by tailoring the stance of monetary and fiscal policy to the ongoing economic shocks; (ii) 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, as uncertainty dominates the outlook. We are cognizant that risks are tilted to the downside, and 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,** Serbia's economy has recovered rapidly from the pandemic's impact. Following a mild contraction by 0.9 percent in 2020, GDP strongly rebounded by 7.4 percent in 2021 and approached its pre-COVID trend. Employment reached new highs while unemployment returned to pre-pandemic levels. Inflation picked up notably, to 9.6 percent in April 2022, with much of it accounted for by food and energy prices. At the same time, core inflation remained significantly lower at 5.5 percent, underpinned by the relative stability of the exchange rate. The 2021 current account deficit of about 4.4 percent of GDP was fully financed by the net FDI inflows.

5. **In late 2021, Serbia unexpectedly faced lower domestic electricity production which has deepened adverse risks to the outlook.** At the onset of the 2021-22 heating season, Serbia's thermal power plants capacity was dramatically hit by several breakdowns due to the use of low-quality coal and equipment malfunction. In order to avoid blackouts, the state-owned power utility company Elektroprivreda Srbije (EPS) had to import extraordinary quantities of electricity at high prices. At the same time, a surge in demand for gas due to cold weather led to a faster-than-expected depletion of gas reserves and the need for additional gas imports, which necessitated the government's liquidity support to Srbijagas. Going forward, the impact of the

energy sector challenges on Serbia's economic outlook will depend, in particular, on how quickly the issues with domestic electricity production will be resolved, as well as the terms of the new long-term gas contract with Russia.

6. Exceptional uncertainty dominates the outlook, as the impact of the coronavirus and the energy challenges has been amplified by geopolitical tensions. The conflict in Ukraine could weigh on Serbia's economic development through supply chain disruptions, inflationary pressures from higher food and other commodity prices, effects on global financial conditions, confidence, and lower growth of trading partners. The magnitude of these effects will depend on how long the crisis lasts.

- We revised the GDP growth projection for 2022 from 4–5 percent to 3.5–4.5 percent, based on the assumption that geopolitical tensions will not escalate further and that gas and oil supply in Europe will not be halted. On these grounds, we judge the risks to the projection to be tilted to the downside. Compared to the previous projections, we estimate that the contribution of personal consumption and investment to GDP growth will be slightly lower due to smaller real disposable income amid rising costs.

- Inflationary risks have intensified considerably, notably those related to the global prices of energy, primary agricultural commodities, metals, and other industrial raw materials. This notwithstanding, we expect inflation to enter a downward path in the second half of 2022 and return within the target tolerance band in the second half of 2023. Risks, however, are more tilted to the upside, on account of higher primary commodity and energy prices and will depend largely on the duration and impact of the conflict in Ukraine and the outcome of this year's agricultural season.

- The medium-term outlook remains favorable, supported by our commitment to structural reforms. We expect growth at about 4-5 percent of GDP, with inflation hovering around the inflation target. The current account deficit is projected at about 5 percent of GDP in the medium term.

Economic Policies

A. Policy Response to Rise in Global Energy and Food Prices

7. In a context of surging food and global energy prices, we have swiftly introduced a set of measures to cushion their impact on Serbia's households and firms.

- ***Food.*** In late 2021, we imposed a temporary cap on prices of basic foods[1]. We have also imposed a temporary partial ban on exports of cooking oil, wheat, corn, and flour.

[1] These include sugar, flour type T-400, cooking sunflower oil, pork, and 2.8% milk.

- ***Gas.*** We have kept domestic gas prices unchanged so far. Higher import costs, however, put financial strain on Srbijagas (the state-owned natural gas trade and distribution company) and required budgetary liquidity support to ensure continued domestic supply. Accordingly, we extended two loans to Srbijagas, in December 2021 (0.5 percent of GDP) and January 2022 (0.4 percent of GDP). In addition, we extended state guarantees for loans to Srbijagas from commercial banks, totaling up to about 0.4 percent of GDP.[2]

- ***Electricity.*** We have kept electricity prices for households unchanged during the 2021-22 heating season. For the corporate sector, electricity prices were frozen for November-December 2021, but adjusted upward to EUR 75 per MWh for new corporate contracts in January-June 2022. The government extended a liquidity support loan of RSD 7.2 bln to the state-owned power utility company EPS operating under a new management, that is expected to be repaid already in 1H2022.

- ***Fuel.*** We imposed a temporary cap on diesel and gasoline prices margins, and decided to subsidize fuel for farmers for the upcoming agricultural season. Moreover, we suspended import taxes on selected energy commodities, and reduced fuel excises by 20 percent.

We consider these measures to be temporary and justified by the need to moderate the social and economic strain imposed by the extraordinary rise in the global and regional prices for these items, and we will regularly reassess the need for these measures, while considering fiscal implications.

B. Fiscal Policies

8. Fiscal performance in 2021 was strong, boosted by recovering tax revenues amid strong economic activity. Revenues were 0.5 percent of GDP higher than expected driven by overperformance of capital revenues, social security contributions and VAT collections. The energy crisis, however, required unanticipated above-the-line net lending to Srbijagas to secure gas imports, amounting to 0.5 percent of GDP. As a result, the end-December 2021 ceiling on current primary expenditure was breached. Still, the general government recorded a deficit of 4.1 percent of GDP, which is 0.7 percent of GDP lower than projected. As a result, public debt declined somewhat to 57.1 percent of GDP by end-2021.

9. We aim to limit the 2022 fiscal deficit to 3 percent of GDP in line with the 2022 budget. Revenue performance posted strong growth in early 2022, and is expected to remain solid supported by the new fiscalization model that came into force from May 2022. Strong revenue performance also provided room for additional expenditure measures. The new measures include: (1) an increase of one-off aid to new mothers for the first child and an additional one-off payment for a second and third child (0.1 percent of GDP) to help ease the population decline; (2) an RSD 10,000 one-off payment to medical workers (0.02 percent of GDP) given the ongoing

[2] The loan that was extended in December 2021 (0.5 percent of GDP) was recorded as subsidies (above the line) in the fiscal accounts. The loan that was extended in January 2022 (0.4 percent of GDP) was recorded below the line, as we expect it to be repaid in 2H2022.

pandemic; (3) a one-off EUR 100 grant to citizens aged 16–29 (up to 0.2 percent of GDP) to support the youth; (4) a subsidy to the new mothers who are first time home buyers of up to EUR 20.000 and up to 20 percent of real estate value, to boost population growth by addressing bottlenecks identified in the detailed study of barriers to higher birth rates; (5) an RSD 10,000 one-off payment to social sector employees; (6) an RSD 10,000 one-off payment to the education sector employees. We will refrain from any additional untargeted transfers to the population. Should economic disruptions warrant further support to the affected groups or activities, the additional expenditures will be accommodated by reprioritizing the budgeted current and capital spending. Public debt is expected to decline to about 55½ percent of GDP by end-2022 aided by the lower planned fiscal deficit.

10. We recognize the need to adjust energy tariffs across the various energy types and users to ensure cost-recovery and the medium-term financial viability of the energy companies. We will initiate the tariff adjustment process once the new government is formed, for implementation no later than in the second half of 2022. Forthcoming price adjustments will need to help ensure full cost recovery and financial sustainability of the energy companies without putting pressure on the government budget. While making these adjustments, we will soften the impact on vulnerable households. In the meantime, the additional expenditure to the state-owned enterprises (SOEs) in the energy sector will be accommodated by reprioritizing the budgeted current and capital spending, within the agreed 3 percent of GDP fiscal deficit ceiling.

11. Our fiscal financing strategy for 2022 relies on domestic and external sources. It envisages borrowing domestically, drawing on the government's cash deposits, the proceeds of the Eurobond issuances that took place in 2021, and using the recent SDR allocation.

12. We will contain fiscal risks and prepare contingency measures as needed. We will continue to closely monitor revenue and expenditure risks related to the external and domestic challenges and their 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).

13. We will ensure transparency and accountability for pandemic and other emergency spending. Specifically, we will: (i) adhere to the new procurement procedures 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 and timely manner and channeled through the government budget.

14. We are committed to maintaining fiscal discipline over the medium term. We plan to narrow the fiscal deficit further and reduce public debt to 45 percent of GDP or less over the medium term, thereby restoring the fiscal buffer. We will maintain high levels of capital spending, while containing current spending. Specifically, will ensure a further gradual reduction of the public sector wage bill as a percent of GDP.

B. Structural Fiscal Policies

15. We plan to anchor medium-term fiscal discipline by adopting a new set of fiscal rules. In consultation with Fund staff, we will adopt a new deficit-based fiscal rule anchored on public debt **(revised end-October 2022 reform target)**. The new system will: (i) offer a more transparent and credible operational annual ceiling for the overall general government fiscal deficit (1.5 percent of GDP or less, depending on the level of public debt (including restitution bonds) compared with preset debt thresholds); (ii) improve accountability; (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, correction mechanisms, and the accountability framework. We plan to make the new fiscal rule effective with the 2023 budget and incorporate it in the budget system law before end-2022. The date of effectiveness of the rule will be confirmed in consultation with Fund staff in the context of the 3rd PCI review, taking into account the materialization of geopolitical, pandemic and other exogenous risks.

16. We remain committed to modernize tax administration, to strengthen revenue collection and improve the business environment. Our reform efforts will continue being supported by IMF technical assistance (TA) and based on the updated Tax Administration Diagnostic Assessment Tool review. Last year we have adopted a new Transformation Program for the period 2021-25, which provides strategic guidance 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.

- In May 2022, we introduced a new fiscalization model with expanded coverage 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. We have done extensive outreach to taxpayers to facilitate the transition which will continue. We will also introduce an electronic invoice exchange system which will be fully operational by the beginning of 2023.

- We are preparing, with World Bank support, to launch a tender for procuring a new commercial-off-the shelf-system (COTS) system **(end-June 2022 reform target)**. This system, that is expected to become operational gradually starting from 2023, 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 has significantly reduced time required to process the VAT refunds to well below the deadlines prescribed by the law (15/45 days for exporters and others, respectively).

- 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 by end-2022.

17. 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. The work on a methodology to harmonize personnel and financial planning in state administration bodies has already started. 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 maintain 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.

18. We are making progress with establishing the central electronic public wage and employment registry which will improve control and allow implementing the public wage system reform. The central registry *Iskra* is expected to be completed by end-2023 and cover all public sector (except Ministry of Defense, Ministry of Internal Affairs, Security Information Agency BIA and higher education institutions) with more than 450 thousand public sector employees. 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. In line with our commitment, we expanded the system to cover (1) direct budget users; (2) judiciary sector; (3) culture sector; (4) labor employment and social affairs sector (**end-April 2022 reform target**), with a slight delay to address technicalities related to confidentiality requirement for employees in certain public entities. The next step is to further expand the system and make it fully operational for the education sector except higher education institutions (**new end-February 2023 reform target).**

19. We will continue to enhance public financial management (PFM) and implement the PFM reform program for 2021–25.

- To underpin the credibility of the fiscal rule, we will strengthen medium-term budgeting systems, supported by anticipated Fund technical assistance. We will continue to ensure a strict adherence to the budget calendar and transparency of the budget process.

- We are committed to strictly limiting the issuance of state guarantees. In early 2022, we had to issue new state guarantees for Srbijagas' commercial loans (EUR 200 mln) to ensure uninterrupted gas imports in light of high global prices for natural gas. Going forward, 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 also 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.

20. 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. With this in mind, the MOF is closely working with the Ministry of European Integration to redesign the pre-implementation stage regarding the strategic relevance evaluation to ensure its sustainability by end-2022.

- We will continue to build human resource capacity within the PIM Unit.

- We are developing a Public Investment Management System (PIMIS)—including an integrated database of public investment projects. The new system is in the commissioning phase. We plan to have the new system fully operational by end-2022 for the projects in the implementation phase, incorporate the pre-implementation stage and expand its usage to the national level by end-2023 (e.g. line ministries and relevant special organizations), and have local information systems compatible with PIMIS by 2024-25. For now, we are relying on an auxiliary reporting form to monitor the pre-implementation of the projects which were already approved during the previous budget cycles.

- We will continue informing the Government on the projects monitored and appraised by the local and provincial governments. We will continue to monitor the projects of special importance in the implementation stage and inform the government on the PPP projects.

21. 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 in 2022.

- Following the adoption of the Unified Methodology for Fiscal Risks Monitoring, we have started, where needed, preparing Protocols with the relevant institutions to establish formal basis for the MOF to collect the data that is needed for monitoring fiscal risks. These protocols will be signed once the new government is formed by November 2022.

- We developed models and tools to operationalize the use of the new methodology to monitor fiscal risks stemming from SOEs and local governments. With the World Bank support, those models may be enhanced, if needed, while additional models for fiscal risks from litigation and natural disasters are expected to be finalized by end-July 2022. These models are expected to be piloted in September-October 2022. We will provide expanded reporting on fiscal risks from SOEs, local governments, and litigation in the November update of Fiscal Strategy for 2023. 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.

22. 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 have been creating conditions to increase the number of bids per procedure. With this in mind, we have recently upgraded the portal with new modules, functionalities, and options; optimized the portal for mobile devices; and offered the English version of the portal to facilitate the participation of foreign bidders in public procurement procedures. We have also been conducting various trainings for contracting authorities and other economic entities.

- The Public Procurement Office is currently working on developing Open Contracting Data Standard (OCDS), with the UNDP support. The OCDS will ensure that all the data of the Public Procurement Portal is available in a fully machine-readable format, thus enabling all interested parties to use it for various analytical purposes. This initiative will further increase transparency of public procurement which is key to raising its efficiency and promoting competition.

23. We have been working on strengthening state aid controls and enhancing transparency. We will adopt an action plan to align state aid with EU rules, including tax expenditures.

C. Monetary and Exchange Rate Policies

24. Monetary policy decisions in the period ahead will depend on intensity and duration of inflationary pressures stemming from global and domestic developments.

- The uncertainty that plagued the global commodity and financial markets due to the emergence of new coronavirus variants was fueled further by the war in Ukraine. This has pushed the global prices of energy, food, and metals close to or even above their historical highs. The global economic outlook is increasingly uncertain, while the risk that inflationary pressures could turn out to be stronger than anticipated and present over a longer time period is higher. We are also cognizant of uncertainty about the time and pace of monetary policy normalization by the Fed and the ECB, as well as its impact on global financial conditions and capital flows.

- In this context, the National Bank of Serbia (NBS) stands ready to respond using all available monetary policy instruments in case of materialization of any of the risks that could have consequences for medium-term price and financial stability.

- Our current policies are consistent with the objective of putting inflation on a declining path in 2022 and bringing it within the tolerance band (3 percent ±1½ percentage points) by end-2023. 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 9.1 percent in March exceeding the 8.5 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.

25. We have continued tightening monetary conditions considering current and expected monetary trends.

- We have gradually raised the weighted average repo rate in reverse repo auctions, as well as the percentage of excess dinar liquidity withdrawn in those auctions. By end-March, the weighted average repo rate increased to 0.96 percent, which was close to the key policy rate during that time (one percent) and 85 bp higher than in early October 2021 when the process of monetary tightening began. The decision to increase the average repo rate since October was motivated by the heightened cost-push pressures in the international and local environment and the need to restrain inflation expectations of market agents and contain the second-round effects on the prices of other products and services.

- We raised the key policy rate in April and May 2022 by 50 bp each time, to 2 percent, as inflationary pressures in the global and domestic markets proved to be stronger and more persistent than anticipated, calling for additional monetary tightening in order to contain second-round effects on inflation expectations and a further rise in inflation. We also raised the interest rates on deposit and lending facilities to 1 and 3 percent, respectively.

- 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 inflation projection.

26. We aim to maintain relative stability of the exchange rate through the period of heightened uncertainty 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 with a net purchase of EUR 645 million during 2021. Our gross and net FX reserves stood at high levels of EUR 14.1 billion and EUR 11.5 billion, respectively at end-April 2022. We assess the current level of gross FX reserves as adequate and comfortable for precautionary purposes.

27. 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 December 2021, deposit and credit dinarization stood at 40.3 percent (all time high) and 38.3 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, it is planned to apply higher capital requirements on banks' FX-indexed lending to corporates in order to support dinar lending further. While adopted in 2019, the application of this measure has been postponed several times due to the COVID-19 crisis.

- Once the uncertainty associated to geopolitical tensions and 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.

- 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 have been working on aligning IT systems and legal practices with Euroclear standards. Based on our January 2022 agreement with Euroclear, the first auction of dinar-denominated securities covered by the system is expected in early 2023.

- We remain committed to establishing a primary dealer system and develop an adequate supervisory framework. We aim to introduce this system in support of the first auction of dinar-denominated securities using Euroclear. Accordingly, the primary dealer system will be applied at least for one benchmark issuance no later than 1Q2023 (**new end-March 2023 reform target**). The reform target will be revisited in the context of the 3rd PCI review taking into account banks' interest in the system given global financial market developments.

28. During the period of the PCI-supported program 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

29. We have acted swiftly to mitigate spillovers from international sanctions and uncertainty on Serbia's banking system and to preserve financial stability.

- In a highly timely manner, the NBS initiated a resolution procedure in respect of its local branch Sberbank Srbija. This enabled the subsequent direct sale on March 1 of the bank's shares to AIK Banka a.d. Beograd.[3] Thus, within 48 hours, Sberbank Srbija ceased to be a member of the banking group led by Sberbank Europe AG and became a member of a strong domestic banking group. Our proactive communication underpinned the stability of banks' operations and deposits.

- We have timely secured a sufficient amount of foreign cash in vaults and supplied foreign cash to banks as needed to ensure that they are able to respond to all client and exchange

[3] In November 2021, AIK Banka a.d. Beograd had signed the sales and purchase agreement on the acquisition of Sberbank Srbija a.d. Beograd., subject to the approval by the regulators.

offices request and needs. The NBS has also performed enhanced supervision of exchange operations, in order to detect if any exchange offices apply exchange rates that are non-compliant with the regulations issued by the NBS.

30. The banking system remains stable owing to adequate capitalization, high liquidity, and profitability.

- The capital adequacy ratio stood at 20.8 percent in December 2021 which is significantly above the regulatory prescribed threshold (8.0). Average monthly liquidity ratio amounted to 2.11 in December 2021 which is more than double the regulatory prescribed threshold (1.0). In December 2021, the ROA and ROE amounted to 1.2 and 7.8 percent, respectively.

- In December 2021, we decided to keep 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 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. All banks in the Republic of Serbia whose share of FX and FX-indexed loans to corporates and households exceed 10 percent of total loans are obliged to maintain the systemic risk buffer. As of 30 September 2021, all banks except one had to maintain this buffer. All in all, as of end-September 2021, the banking sector allocated 5.51 percent of risk-weighted assets for the capital buffers, including 2.5 percent to capital conservation buffer, 1.23 percent to capital buffer for systemically important banks, and 1.78 percent to systemic risks buffer.

31. We have reviewed the financial sector measures that we adopted in 2020-21 to preserve the stability of the financial system and support the economy and citizens in pandemic conditions.

- We phased out measures allowing for loan rescheduling and refinancing at end-October 2021.

- The State Guarantee Scheme for banks' loans in dinars with sufficiently low interest rates, supported by higher remuneration (by 0.50 percentage points) on allocated required reserves in dinars, will be phased out by July 2022.

- We decided to extend the temporary measures to support housing loans, as well as measures to facilitate households' access to short-term dinar loans until end-2022, in view of the continued need to offer additional support to the economy and citizens.

- Going forward, we will review these measures depending on circumstances.

32. 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.

33. 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 following the adoption of a methodology for implementation of a risk-based premium assessment model in October 2020. The detailed timeline will be determined by end-2022, with due consideration given to its effects on the industry and its participants in the current situation and having in mind the key policy goal of a deposit guarantee scheme of contributing to the stability of the banking system.

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

- As of end-March 2022, the NPL ratio was 3.4 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, as well as potential spillovers from the conflict in Ukraine.

- 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. In order to resolve the residual assets of the DIA portfolio of bad assets, with a nominal value of EUR 492 mln, we will launch the third and final tendering process in June 2022 with a goal to complete it by end-2022.

35. 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 government 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 foreseen by mid-2022.

- On August 30, 2021, a decision was adopted to acquire a subsidiary – Komercijalna Banka Banja Luka, in which the BPS acquired 100 percent ownership. On November 18, 2021, the NBS approved this acquisition,

- 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.

36. We are working on improving the development finance framework. The public debate on the Proposal of the Policy Concept of Development Finance in the Field of Entrepreneurship in the Republic of Serbia was conducted in February 2022. The draft policy concept, together with the report on the conducted public debate was sent to the relevant government bodies for their comments. The adoption by the government will follow.

37. We continue working on enhancing Serbia's capital markets and diversifying sources of long-term financing. Following the adoption of the Capital Market Development Strategy (**end-September 2021 reform target**) and as envisaged by the related action plan, we adopted a new Law on Capital Markets which aligns the Serbian regulatory framework with the EU acquis and the MiFID II requirements. By end-2022, we will develop and initiate a review process of a set of measures to create a conducive tax environment for capital market development. We will also prepare draft changes to primary and secondary legislation that will be necessary to implement those measures. A new unit in the Ministry of Finance to support capital market participants will be functional by the start of 2023. By end-2022, in coordination with relevant institutions of the capital market (Securities Commission, Central Register, Belgrade Stock Exchange, NBS, etc.) we will adopt all the relevant bylaws in alignment with the new Law on Capital Markets and MiFID II requirements. By end-2022, we will complete technical assessment and prepare a project plan, system architecture and implementation timeline for the so-called One Stop Shop that will insure complete transparency and real-time information about capital markets in the Republic of Serbia. Subsequently, we plan to develop a framework for covered bonds.

38. We have made progress in strengthening the AML/CFT framework. We are committed to continue 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.

- As noted in the recent MONEYVAL report following the December 2021 Plenary, Serbia has improved measures to combat money laundering and terrorist financing, demonstrating significant progress in the level of compliance with the FATF (Financial Action Task Force) standards.[4] In this regard, the Republic of Serbia was assessed as "compliant" or "largely compliant" for 39 of the 40 FATF recommendations, following the upgrading of the ratings in areas related to the activities of designated non-financial businesses and professions, as well as to international cooperation. Serbia has no "non-compliant" ratings. Serbia will report back to MONEYVAL on further progress in two years (2023).

- In 2021, we conducted the national risk assessment (NRA) exercise and adopted four national risk assessment reports: (1) Money Laundering (ML) NRA; (2) Terrorist Financing (TF) NRA; (3) ML/TF NRA in the Digital Assets Sector; and (4) NRA in the area of Financing of Proliferation of Weapons of Mass Destruction. In order to reallocate the resources based on the NRA findings, the Government updated its Action Plan for implementing the National 2020-2024 Strategy Against Money Laundering and the Financing of the Terrorism (AML/CFT Strategy) on March 17, 2022.

- All AML/CFT stakeholders are now aligning their operations so as to mitigate the risks found by the NRA. Among other things, we are in the process of analyzing and, where applicable, updating the ML/TF Risk Assessment Guidelines. We have already updated the Rulebook on the methodology for complying with the AML/CFT Law,[5] as well as the guidelines related to the most of the obliged entities under the supervision of the NBS.[6] A very important presentation for financial sector institutions about the 2021 NRA findings, co-organized by the Serbian Chamber of Commerce and Industry (SCCI) and Serbian Financial Intelligence Unit (FIU), was held at the Serbian Chamber of Commerce and Industry on April 8, 2022.

- Serbia remains active in all relevant international organizations, and continues benefiting from a number of AML/CFT projects, including the Council of Europe (CoE)-implemented

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[4] For more info: https://www.coe.int/en/web/belgrade/-/new-moneyval-report-on-serbia-improvements-in-fighting-money-laundering-and-terrorist-financing-have-led-to-upgraded-rating-minor-deficiencies-remain) and 1680a4db3a (coe.int).

[5] Published in the Official Gazette on 11 February 2022, http://www.apml.gov.rs/vesti/clanak/izmene-i-dopune-pravilnika-o-metodologiji-za-izvrsavanje-poslova-u-skladu-sa-zakonom-o-sprecavanju-pranja-novca-i-finansiranja-terorizma.

[6] Published in the Official Gazette RS 49/2021 https://nbs.rs/en/drugi-nivo-navigacije/propisi/propisi-spn/index.html.

AML/CFT Project financed by Sweden, CoE-implemented EU Horizontal Facility program, and various GIZ projects.

- Serbian Financial Intelligence Unit (FIU) hosted a regional conference of the Heads of Regional FIUs on November 4-5, 2021.

E. Structural Policies

39. We are working on enhancing the existing social protection programs to protect vulnerable groups, reduce inequality, and fight poverty. In line with our commitments, we launched a new Social Cards Registry in March 2022. 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 will now focus on preparing plans to enhance the coverage of the social protection system to protect households against poverty, using the new database. In parallel, we are developing another IT system focusing on Social Care that will be integrated with the Social Card Registry.

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

- An urgent priority is the adoption of the National Energy and Climate Plan, which is crucial for the investment in the energy sector, the Energy Development Strategy of the Republic of Serbia until 2040 with projections until 2050 and the Low-Carbon Development Strategy, which must be harmonized. The National Energy and Climate Plan will define the new goals of the Republic of Serbia in 2030 in the field of reducing greenhouse gas emissions, increasing the share of renewable energy sources in gross final energy consumption and goals in the field of energy efficiency.

- In the context of this evolving agenda, we are prioritizing green investments, including in renewable energy and energy efficiency, and we will consider carbon pricing mechanisms once the overarching goals and principles have been designed.

- Following the adoption of a *Green Bond Framework* in 2021 and a subsequent issuance of our first-ever green bond on the international financial markets, we are preparing a *Green Bond Report* to provide 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 report will be published in the second half of 2022.

41. 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 further improve the investment climate, strengthen rule of law, fight corruption, reduce informality, and enhance corporate governance of public and state-owned enterprises.

42. We are committed to fighting the grey economy.

- We have prepared a new draft Program for Fighting the Grey Economy 2022-2025 that will guide our further efforts to counter the grey economy. The draft Program envisages a number of measures with the goal to further strengthen the capacities of inspections and misdemeanor courts, improve tax administration and provide fiscal and administrative relief for legal businesses. The plan will be adopted in in the first half of 2022.

- The new fiscalization model (¶16) that came into force in May 2022 is expected to contribute significantly to reducing the grey economy.

- We are on track to 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 September 2022.

43. We will prioritize restructuring large public utilities companies to enhance efficiency and contain fiscal costs and risks. We are 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, especially in light of the surge in global energy prices and the recent problems with electricity production in the EPS.

- **Elektroprivreda Srbije (EPS).** We are on track with 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 completed the valuation of the company's properties and assets by end-2021.

- **Srbijagas.** The operational unbundling of the company will be completed in line with the Government Conclusion by 2024.

44. We remain committed to resolving enterprises in the portfolio of the former Privatization Agency in accordance with the revised Privatization Law. By February 2022, more than 315 companies entered bankruptcy, and 74 were privatized since end-2014. About 36,600 employees from 365 companies have received severance payments. 62 companies with nearly 26,000 employees remain.

- In December 2021, we successfully reached an agreement for the privatization of Petrohemija and closing is expected in July 2022.

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

- 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.

45. We are committed to the time-bound action plan to implement the ownership and governance strategy for SOEs, which had been approved in 2021. 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.

- In line with our commitments, we developed and made publicly available on the website of the Business Registry Agency a centralized and updated database with a registry of all SOEs and their assets in December 2021.[7] Also, in December 2021, The Ministry of Economy adopted an internal Act of the Baseline for setting mechanisms and criteria for reviewing and approving key decisions of SOEs, 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 January 2022 we created a working group that includes representatives of all relevant institutions to draft this Law.

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

46. 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 annual 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.

- We will ensure continued publication of 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. We will ensure continued publication of these

[7] https://pretraga2.apr.gov.rs/EvidencijaPSRS

monthly and quarterly data. SORS will continue reporting data per GFSM 2014 to the IMF GFS Yearbook publication.

Program Monitoring

47. 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									2023	
	end-Dec.			end-Mar.			end-Jun.		end-Sep.		end-Dec.		end-Mar.	end-Jun.
	Prog. QT	Adj. Prog.	Act.	IT 7/	Adj. IT 7/	Act.	Prog. QT	Rev. Prog. QT	IT 7/	Rev. IT 7/	Prog. QT	Rev. Prog. QT	IT 7/	Prog. QT
	CR 21/272			CR 21/272			CR 21/272		CR 21/272		CR 21/272			
I. Quantitative Targets (QT)														
1 Ceiling on the general government fiscal deficit 2/ 3/ (in billions of dinars)	412.2	409.8	259.4	69.1	84.8	68.0	98.1	98.1	121.9	142.1	200.2	206.7	48.0	63.2
2 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 2/	1256.0	1257.3	1271.0	265.5	266.5	330.5	549.4	549.4	819.5	937.8	1154.2	1244.0	288.1	590.9
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	...	-0.2	1.0	...	-0.5	1.0	1.0	1.0	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	0.0	0.0	0.0
III. Inflation consultation band (quarterly) 5/														
Upper band limit (1.5 percent above center point)	8.5	...	8.5	8.5	...	8.5	6.5	11.5	5.0	10.5	4.0	9.5	8.5	7.5
End of period inflation, center point 6/	*7.0*	...	*7.9*	*7.0*	...	*9.1*	*5.0*	*10.0*	*3.5*	*9.0*	*2.5*	*8.0*	*7.0*	*6.0*
Lower band limit (1.5 percent below center point)	5.5	...	5.5	5.5	...	5.5	3.5	8.5	2.0	7.5	1.0	6.5	5.5	4.5

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: March and September targets, excluding those on inflation, are not monitored as part of program conditionality.

Table 1b. Serbia: Standard Continuous Targets

Not to impose or intensify restrictions on the making of payments and transfers for current international transactions.
Not to introduce or modify multiple currency practices.
Not to conclude bilateral payments agreements which are inconsistent with Article VIII.
Not to impose or intensify import restrictions for balance of payments reasons.

Table 2. Serbia: Reform Targets

	Reform Targets	Target Date	Status	Objective
	Fiscal			
1	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	Not met. The reform was implemented in May 2022 due to a delay for a small number of budget users.	This reform would help rationalize pay and improve incentives across public sector.
2	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).
3	In consultation with Fund staff, adopt the new deficit-based fiscal rule anchored on public debt.	End-October 2022	Revised from end-June 2022	A new, credible fiscal rule will be critical to rebuild fiscal space, maintain fiscal discipline, and anchor fiscal sustainability.
4	Expand and fully operationalize the central electronic public wage and employment registry for the education sector.	End-February 2023		This reform would help rationalize pay and improve incentives across public sector.
	Other			
5	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	Met.	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.
6	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.
7	Adopt a new law on ownership management for SOEs.	End-December 2022		Adopting this law is critical to advance reforms aimed at strengthening SOE governance and management.
8	Apply the primary dealer system at least for one benchmark issuance of dinar-denominated government securities.	End-March 2023		Establishing a primary dealer system will help foster financial market development.

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 third review will assess end-June 2022 test date, the fourth review will assess the end-December 2022 test date, and the fifth review will assess the end-June 2023 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	End-Mar. 2023	End-Jun. 2023
Programmed cumulative dividends	17.1	17.1	17.1	10.5	10.5	15.5	15.5	10.5	10.5
Programmed cumulative debt recovery receipts	2.5	2.5	4	4	4	4	4	4	4
Programmed cumulative debt issuance at a premium	0	0	6	4	4	4	4	4	4
Programmed concession and PPP receipts recorded above the line	0	0	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	End-Mar. 2023	End-Jun. 2023
Programmed cumulative ear-marked grants receipts	9.3	13.9	17.6	1.5	5.0	11.0	23.4	1.5	5
Programmed cumulative receipts from small-scale disposal of assets	0	0	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

Statement by Mr. Trabinski and Mr. Djokovic on Republic of Serbia
June 24, 2022

On behalf of our Serbian authorities, we thank staff for candid policy discussions and for the insightful analysis presented in the report. The authorities highly value the engagement with the Fund and its constructive policy advice. The global and regional environment remained highly volatile, highlighting the need for prudent, yet flexible macroeconomic policies. The authorities agree that the PCI remains instrumental in overseeing policy implementation, especially under the current conditions of prevailing uncertainty, while providing guidance on further reform steps. The overarching goal of the program—safeguarding macroeconomic fundamentals and financial sector stability—is underpinned by critical structural reforms aimed at fostering sustained and equitable growth. The authorities concur that the reforms implemented under the successive Fund-supported programs over the past eight years are yielding dividends in terms of stability, growth, and resilience. Support for reforms remains broad. The re-election of President Vučić and the incumbent coalition led by the Serbian Progressive Party winning the most votes in the recent parliamentary elections ensure the continuation of the prudent policy course.

The recovery was strong in 2021, bolstered by sizable policy support and solid macroeconomic frameworks. The activity rebound of about 7.4 percent was driven by domestic demand and investments. Serbia managed the Covid-19 shock well, recording one of the least severe drop in activity in the region. The cumulative growth in the period 2020-21 was 6.4 percent, one of the highest among regional peers, reflecting an increasingly resilient economy. Over this period, the total stimulus package provided to the economy amounted to about 17.3 percent of GDP. The good performance of the economy in 2021 allowed for a partial removal of pandemic-related support measures and the substantial reduction of the fiscal deficit to about 4.1 percent of GDP. As activity recovered, labor market conditions improved remarkably. Preliminary results of the labor market survey for Q4 2021, which include both formal and informal employment, indicate the activity and employment rates increase y-o-y by 2.1 and 2.4 percentage points respectively, while the unemployment rate declined by 0.9 percentage points. Following the surge of public debt in 2020, owing to the high health expenditures needed to fight the pandemic and large stimulus, public debt fell by 0.7 percent in 2021 and is expected to decline by an additional 2.1 percent this year to an estimated level of 55.1percetnt of GDP. The initial outlook for 2022 was based on the assumption of strong growth momentum, corroborated by the estimated 4.3 percent y-o-y growth outturn in the first quarter. However, prevailing uncertainty, geopolitical tensions, and rising global inflation pose a significant drag to confidence and growth. The outlook for 2022 has been revised downwards to 3.5 percent.

Fiscal policy

The authorities continue to be committed to prudent fiscal policy, with the aim of preserving hard-won stability. Fiscal prudence and keeping the public debt to GDP ratio below the 60 percent ceiling remain a cornerstone of their policy. The authorities are well aware of the risks and costs related to high public debt, given the recent experience of large but necessary fiscal adjustment, which brought public debt from about 76 percent of GDP in 2015 to about 53 percent in 2019. At the same time, given the current headwinds and prevailing uncertainty, they see a need for flexible policy implementation and smoothing the impact of the current shock, commensurate with the available fiscal space and program objectives. The authorities agree that against the backdrop of high inflation, global growth slowdown, and tighter external financing conditions, fiscal policy should be nimble and increasingly targeted in supporting viable companies and vulnerable populations. The government's medium-term fiscal strategy for the period 2023-2025, adopted in May, outlines a credible future fiscal policy path, consistent with the program, and a gradual decline in public debt, with general government fiscal deficits set to 3 percent and 1.5 percent in 2022 and 2023, respectively.

The authorities see scope for further strengthening the fiscal frameworks and advancing structural fiscal reforms. They started drafting the amendments to the existing fiscal rule already in 2019, however, the onset of pandemic delayed their adoption. In 2020, the authorities re-introduced indexation of public pensions using the "Swiss formula", which links pensions to inflation and wage increases. In the second half of this year, the authorities plan to adopt a new deficit-based fiscal rule, which will also incorporate a debt anchor. The new fiscal rule will define escape clauses, correction mechanisms and expenditure caps for public pensions and wages. The new fiscal rule will strengthen fiscal responsibility and debt sustainability while retaining the key role of the Fiscal Council to provide fiscal oversight, including through monitoring the fiscal rules and assessing the credibility of budgets and quality of public policies.

The authorities are continuing to strengthen debt management. On the back of liability management operations, extended maturity of new bond placements, and improved currency composition, they managed to reduce the gross financing needs from about 11 percent in 2019 to about 8 percent at present. Projections indicate that the gross financing needs will continue to decline, consistent with the decline in public debt. The authorities also took advantage of the benign global financing conditions in 2021, and partially pre-financed the financing needs for 2022. Further refinements in debt management include the first Euroclear—an international central securities depository (ICDS)—settlement of dinar-denominated securities and the introduction of a primary dealer system. Since late 2021, Clearstream—an ICDS—has enabled direct settlement of dinar-denominated government securities for foreign investors.

Monetary policy and financial sector

To contain persistent inflationary pressures, exacerbated by the conflict in Ukraine and the sanctions imposed on Russia, the National Bank of Serbia (NBS) continues with the tightening cycle. Using the flexibility built into its monetary regime, the NBS started policy tightening in Q4 2021, by increasing the average repo rate by about 84 basis points followed by three consecutive increases of the reference rate in 2022. On June 9, the monetary council of the NBS increased the dinar reference rate by 50 basis points, to 2.5 percent. The rate hike came on the back of sustained inflationary pressures stemming from the global energy crisis, disrupted supply chains, and higher food and commodity prices, aiming at limiting second round effects while dampening inflation expectations. While the CPI reached 10.4 percent in May, the core inflation remains at 6.2 percent. The authorities note that the relative exchange rate stability over the past 8 years has been instrumental in maintaining price stability and underscore its centrality in the current context of prevailing uncertainty, imported inflation, and heightened volatility of capital flows. The high depreciation pressures on the dinar recorded in March stabilized in April, while in May the dinar was exposed to mild appreciation pressures fueled by an increased supply of foreign cash. International reserves remain adequate by the Fund's ARA metrics, covering about 5 months of imports.

The Serbian banking system remains stable, liquid, profitable, and well capitalized. The capital adequacy ratio stood at 20.8 percent in February, against the statutory threshold of 8 percent. To avoid uncertainty and preserve confidence in the domestic banking system, the NBS intermediated effectively in the acquisition of Sberbank Serbia (3.8 percent of banking assets) by a domestic banking group, following the EU decision regarding the operations of Sberbank Europe AG, parent bank of Sberbank Serbia. NPLs remain low, at about 3.5 percent. The authorities remain vigilant and continue to rigorously monitor NPLs following the expiration of the moratorium of bank loan repayments. The provision of credit to the economy remains adequate. The credit is growing by about 12.4 percent annually, while the share of loans in dinars is increasing, supported by the dinar-denominated loans guarantee scheme—a critical measure enacted to support SMEs during the Covid-19 pandemic. Deposits in dinars are at record-high, bolstered by favorable interest rate differentials, tax exemptions, and a stable exchange rate. To further foster lending in domestic currency and support dinarization, the authorities will introduce higher capital requirements for FX lending to corporates.

Energy sector

A broad range of reforms have been implemented over the past decade to restructure SOEs, to address their organizational, financial, and governance shortcomings, to minimize fiscal risks, and to reduce state aid. However, in late 2021 and early 2022 the SOEs operating in the energy sector—EPS and Srbijagas—faced a series of challenges related to exceptionally high energy demand, high global energy prices as well as a series of operational breakdowns. In order to ensure stability of the energy supply, those companies resorted to expensive energy imports, which resulted in draining liquidity and eventually requesting direct budgetary support and government guarantees. Furthermore, the government decided to temporarily dampen the impact of soaring global energy prices on the population by limiting electricity and gas price increases on the domestic market, exacerbating the liquidity crunch of the energy sector SOEs. The substantially lower energy demand during the summer months will allow the companies to address their operational shortcomings. The authorities are also aware of the need to strengthen the governance of those companies, and the appointment of a new management team in EPS points in that direction. Furthermore, Srbijagas is increasing its storage capacity, which will allow building larger buffers for peak demand over the winter. The electricity tariffs will be adjusted upwards once the new government is in office, with a view to implementing the medium-term tariff strategy that will ensure full cost recovery and financial sustainability of EPS while creating space for critical investments.

Regarding the greening of the economy, in 2021 Serbia adopted the Law on Use of Renewable Energy Sources, a milestone on the path towards the decarbonization of its energy mix and incorporating renewable energy sources, while fostering broader participation of the private sector. Serbia signed the EU-backed Declaration on the Green Agenda for the Western Balkans, which primarily focuses on decarbonization and reducing pollution, and count on the support of the EU and IFIs for its implementation.