INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/287

REPUBLIC OF SERBIA

September 2016

FOURTH AND FIFTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REPHASING OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF SERBIA

In the context of the Fourth and Fifth Reviews Under the Stand-By Arrangement and Rephasing of the Arrangement, 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 August 31, 2016, following discussions that ended on June 21, 2016, 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 August 16, 2016.
- A **Statement by the Executive Director** for Republic of Serbia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Republic of Serbia*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Serbia*
Technical Memorandum of Understanding*
*Also included in Staff Report

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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August 31, 2016

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IMF Executive Board Completes Fourth and Fifth Reviews of Serbia's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) on August 31, 2016 completed the combined fourth and fifth reviews of Serbia's economic performance under the Stand-By Arrangement (SBA). The completion of the review will make available the cumulative amount of SDR 608.01 million (about €761.6 million). The Serbian authorities have indicated their intention to continue treating the arrangement as precautionary.

The Executive Board approved the 36-month, SDR 935.4 million (about €1.2 billion at the time of approval) SBA for Serbia on February 23, 2015 (see Press Release No. 15/67).

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

"Serbia's economic recovery has exceeded expectations, supported by efforts to strengthen public finances, advance structural reforms, and boost investment confidence. However, vulnerabilities remain, including from elevated public debt and lingering structural challenges in an uncertain external environment. Full implementation of program commitments is critical to strengthen the foundations for robust and inclusive growth, restore public debt sustainability, and rebuild policy buffers.

"The fiscal over-performance has continued in 2016, supported by strong revenue and tight control of current expenditures. The challenge is to sustain the fiscal adjustment to place the high public debt firmly on a downward path. The completion of the first phase of public sector rightsizing will help contain the public sector wage bill in 2016, and further optimization will be guided by in-depth functional analysis. While the execution of capital expenditure has improved this year, measures are needed to strengthen the project appraisal process, enhance feasibility studies and risk analysis, and establish a single pipeline of public investment projects for the budget.

“The cautiously accommodative monetary policy stance is appropriate in view of strong fiscal consolidation and low inflation. The central bank’s continued commitment to the inflation-targeting regime and exchange rate flexibility is welcome.

“Positive momentum in the financial sector reforms needs to be maintained by fully implementing the non-performing loans strategy. In addition, it is critical to implement the reform agenda of the state-owned financial institutions to reduce financial vulnerabilities and fiscal risks.

“Decisive implementation of the identified structural reforms is essential for reducing fiscal risks and supporting competitiveness and growth. While there has been good progress, full implementation of state-owned enterprise restructuring and resolution plans is needed to avoid further increase of fiscal risks and to achieve the program objectives.”

INTERNATIONAL MONETARY FUND

REPUBLIC OF SERBIA

August 16, 2016

FOURTH AND FIFTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REPHASING OF THE ARRANGEMENT

KEY ISSUES

Recent economic developments. The program is delivering good results, particularly in achieving key macroeconomic objectives. Significant fiscal tightening and efforts to address structural weaknesses have helped boost confidence and restore growth. This has been supported by a healthy credit recovery on the back of substantial monetary policy easing as inflation has been persistently low. Notwithstanding this progress, public debt remains elevated and delays continue in some structural reforms, in part due to recent elections.

Program status. The 36-month Stand-By Arrangement (SBA) with access of SDR 935.4 million (143 percent of quota, or about €1.2 billion) approved on February 23, 2015 is broadly on track. All end-2015, end-March 2016, and end-June performance criteria (PCs) were met, most with significant margins. While many structural benchmarks (SBs) have been met, although some with delays, a few have been reset. Completion of the combined reviews will make available the cumulative amount of SDR 608.01 million. The authorities request rephasing of the arrangement, which they intend to continue treating as precautionary.

Policy recommendations. Steadfast implementation of structural measures is needed to underpin the programmed adjustment and restore public debt sustainability. Accelerating SOE restructuring is critical for limiting fiscal risks and improving efficiency. There is potential to improve the monetary policy operational framework and increase exchange rate flexibility. In the financial sector, full implementation of the wide-ranging policy agenda is vital for strengthening supervision, improving intermediation, and mitigating vulnerabilities in state-owned financial institutions. Further structural reforms are required to improve the business climate and support Serbia's medium-term growth.

New program commitments. New benchmarks are proposed in the areas of SOE and financial sector reforms. Performance criteria through December 2016 and indicative targets through June 2017 are proposed based on 2016–17 quarterly projections. Prior actions were set on key structural, fiscal, and financial measures.

Approved By
Thanos Arvanitis and Petya Koeva Brooks

Discussions were held in Belgrade during June 9–21, 2016. The staff team comprised James Roaf (head), Ruben Atoyan, Chuling Chen, (all EUR), Christine Richmond (FAD), Constant Verkoren (MCM), Katsiaryna Svirydzenka (SPR), Daehaeng Kim (resident representative), Desanka Nestorović and Marko Paunović (Belgrade office). HQ support was provided by Min Kyu Song and Patricia Mendoza (both EUR).

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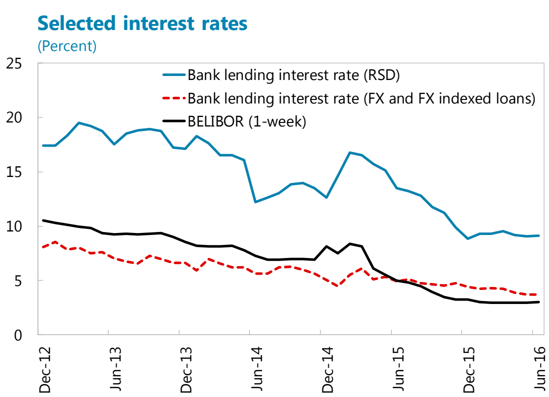
RECENT DEVELOPMENTS

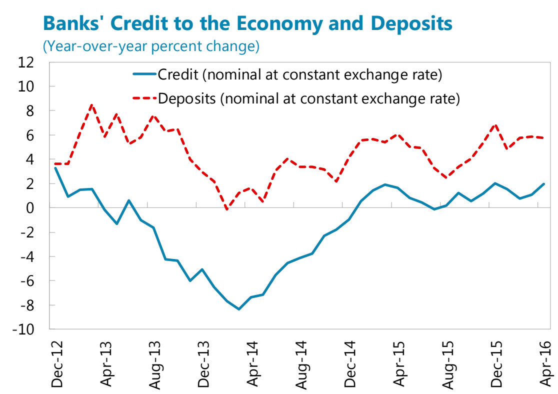
1. **The recovery is gaining momentum, supported by stronger private investment and net exports.** Recent macroeconomic developments have exceeded expectations (Tables 1–7). Growth reached 3.5 percent (y/y) in 2016Q1 with a flash estimate of 1.8 percent (y/y) for Q2, supported by strong investment and net exports (Figure 1). Industrial production in the first six months of 2016 grew 6.1 percent (y/y), and exports increased by 10.2 percent. Labor participation rates continued to improve, and nominal average wages grew by more than 4 percent for the January to June period compared to 2015.

2. **Elections held in April demonstrated continued support for reforms.** In parliamentary elections held two years ahead of schedule, the coalition led by Prime Minister Vučić retained its parliamentary majority. A new coalition government was established in August, with a high degree of continuity in ministerial positions.

3. **Substantial monetary policy easing to counter persistently low inflation has supported credit recovery.** The NBS cut the key policy rate in February and again in July, to 4 percent, and lowered reserve requirements on FX deposits, pushing the one week interbank money market rate to about 3 percent, while dinar lending interest rates have declined to historic lows (Figure 3). The accommodative monetary policy stance has supported a revival of credit growth (2.2 percent y/y at end-March), as demand for loans increased and banks eased their credit conditions. Core inflation has been stable, but headline inflation has undershot projections due to low imported inflation and favorable food prices (Figure 4).



Source: National Bank of Serbia.



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

4. **The external position continues to strengthen.** The current account deficit narrowed to 4.8 percent of GDP in 2015 on account of strong exports of services and remittance inflows, and net FDI increased to 5½ percent of GDP. This strong performance continued into the first quarter of 2016, with goods exports surprising on the upside, driven by past FDI. Private sector deleveraging has slowed, mainly reflecting higher rollover rates in the banking sector as well as a reduction in deposits abroad. With moderate portfolio outflows against the background of

global investors' repositioning, the dinar has depreciated by about 3 percent against the euro since September last year, cushioned by the NBS forex sales aimed at smoothing excessive exchange rate volatility (Figure 3). These pressures proved to be temporary and, since July, the NBS has been purchasing forex from the market. Fitch upgraded Serbia's rating from 'B+' to 'BB-' and S&P raised their rating outlook to "stable." Yields on government securities continued to decline (Figure 3). A three-year bilateral currency swap between the NBS and the People's Bank of China up to the value of CNY 1½ billion (about €200 million) was signed in June.

5. The 2015 fiscal outturn showed significant over-performance, which has continued into 2016. The 2015 general government fiscal deficit was 3.7 percent of GDP—the best result since 2008—representing a structural adjustment of 2.6 percent of GDP. The strong fiscal performance continued in H1 2016. Revenue is the main source of over-performance, including buoyant VAT and excises as well as non-tax revenue related to the 4G spectrum frequency sale. Current expenditure remained below the programmed level largely due to savings on interest payments. Capital expenditure exceeded programmed levels, supporting trends witnessed in recent months (Figure 5). The general government debt-GDP ratio declined below 74 percent at end-June, partly due to temporary factors (including the drawdown of government deposits and exchange rate dynamics).

Serbia: General Government Fiscal Operations, RSD billion

	January - December 2015			January - March 2016			January - June 2016		
	Prog.	Act.	Diff.	Prog.	Act.	Diff.	Prog.	Act.	Diff.
Total revenue	**1,610.3**	**1,631.7**	**21.4**	**362.6**	**399.6**	**37.0**	**775.1**	**844.5**	**69.4**
Tax revenue	1,389.1	1,400.5	11.4	324.5	338.1	13.6	691.6	727.2	35.6
of which: VAT	412.0	416.1	4.1	99.5	103.8	4.3	201.1	218.8	17.6
of which: Social security contributions	442.3	442.6	0.3	104.6	105.4	0.8	218.9	220.3	1.4
of which: Excises	230.3	235.8	5.5	51.9	57.4	5.6	114.2	122.9	8.7
Non-tax revenue	211.3	220.9	9.6	36.3	59.4	23.1	79.5	108.5	29.0
Capital revenue	0.1	3.2	3.1	0.0	0.7	0.7	0.0	5.4	5.4
Grants	9.7	7.2	-2.5	1.8	1.4	-0.4	4.0	3.4	-0.6
Total expenditure	**1,773.1**	**1,780.3**	**7.2**	**416.5**	**415.4**	**-1.0**	**853.4**	**862.7**	**9.3**
Current expenditure	1,639.3	1,632.9	-6.4	392.8	388.6	-4.1	794.6	792.3	-2.2
Capital expenditure	103.3	114.5	11.2	16.4	17.4	1.1	42.5	48.8	6.3
Net lending	2.5	2.7	0.2	0.5	0.6	0.1	1.3	1.7	0.3
Amortization of activated guarantees	28.0	30.1	2.1	6.8	8.7	1.9	15.0	19.9	4.9
Fiscal balance	**-162.8**	**-148.6**	**14.2**	**-53.9**	**-15.9**	**38.0**	**-78.3**	**-18.2**	**60.1**
Memo:									
Wage bill (excluding severance)	361.8	356.0	-5.8	83.2	84.6	1.4	171.7	172.1	0.4
Primary current expenditure of the Republican budget	904.0	902.1	-1.9	206.1	197.6	-8.5	426.6	416.0	-10.6
General government debt (percent of GDP)	75.9	77.4	1.5	75.5	73.8	-1.7	77.1	73.2	-4.0

Sources: Ministry of Finance, IMF staff calculations.
Note: Programmed as of the Third Review.

PROGRAM PERFORMANCE

6. **Quantitative program conditionality has been met, but there have been delays on some structural benchmarks** (MEFP Tables 1–2). The authorities reiterated their commitments to all program objectives and targets.

- **All quantitative and continuous PCs were observed**. The end-December, end-March, and end-June PCs on NIR, the fiscal deficit, and current primary spending have all been met. While inflation has been below the NBS target, it remained within the outer limit of the program inflation clause in December and within the inner limit in March and June. Discussions were conducted with IMF staff on the reasons for deviation from the inner limit in December and policy responses, as envisaged under the program.

- **Most structural benchmarks have been implemented, but some with delays.** The authorities met three end-December and end-March structural benchmarks, on the issuance of supervisory guidance for loan-loss provisioning under IAS 39, introduction of tax amendments to reduce impediments to NPL resolution, and enhancement of supervisory standards for restructured/distressed assets. They have implemented with delay the end-March structural benchmark on railways rightsizing and are expected to implement in late August the end-December structural benchmark on strengthening the project appraisal process. They have also made significant progress in the resolution of 17 strategically important SOEs (end-December and end-May structural benchmarks). However, delays continued on amending the Law on Tax Procedure and the Criminal Code, planning the general government rightsizing plan for the second half of 2016, introducing a new framework for real estate appraisals, and strengthening the insolvency framework (end-March and end-June structural benchmarks).

OUTLOOK AND RISKS

7. **The economic outlook has improved further compared to the third review scenario** (Tables 1–7).

- **Real GDP growth** was revised up to 2½ percent in 2016 and to 2¾ percent in 2017, with the largest contribution coming from private investment supported by a continued rebound in private consumption.

- **Average CPI inflation** in 2016 is projected to be 1.3 percent, about 1.5 percentage points lower than previously projected. Inflation is projected to gradually rise to 3 percent in 2017 on account of stronger demand and higher energy prices.

- **The current account deficit** is projected to continue adjusting to about 4¼ percent of GDP and 3¾ percent of GDP in 2016 and 2017, respectively, on account of buoyant exports (supported by recent FDI inflows to tradable sector) and strong remittances.

8. **The outlook is subject to a range of risks**. While the UK referendum on EU membership had limited immediate financial market impact, Serbia remains susceptible to possible spillovers from regional developments and market volatility. Also, political resistance to reform from vested interests and hesitation in delivering on structural reforms and fiscal measures—particularly in the area of SOE restructuring and continued public administration reforms—may reduce growth prospects, erode confidence, and compromise the quality and durability of fiscal adjustment. This, together with continued inflation undershooting, could make debt reduction harder. The flow of migrants has stopped for now. On the upside, growth could surprise again, outperforming projections as confidence continues to improve.

PROGRAM POLICY DISCUSSIONS

A. Fiscal Policy: Structural Measures to Ensure Public Debt Sustainability

9. **The authorities' fiscal policies remain guided by consolidation required to place public debt firmly on a downward path by 2017.** The discussions focused on policies to achieve this objective through structural measures to mitigate fiscal risks stemming from SOEs, improve public investment efficiency, build sufficient fiscal buffers, and strengthen the pension system.

10. **The 2016 general government deficit projection was revised down to 2½ percent of GDP, 1½ percent of GDP better than programmed.** This reflects significant revenue over-performance, both due to tax and non-tax sources. Expenditure is on track, and the completion of the first wave of public sector rightsizing in 2016:Q1—with more reliance on attrition and relocation of employees to outside the public sector—will allow for greater full-year savings (including lower severance expense) than originally expected. This will result in a primary structural adjustment of about 1 percent of GDP in 2016. The general government debt-to-GDP ratio is expected to decline for the first time since 2008 on account of stronger than projected growth and lower fiscal deficits, although it will still remain high at around 77 percent of GDP at end-2016.

11. **Debt sustainability analysis highlights risks.** These risks stem from the possible recurrence of fiscal and macroeconomic shocks observed in the past, and potential idiosyncratic fiscal risks from the resolution of one-off liabilities, bank recapitalization costs, shortfalls in public sector rightsizing, incomplete SOE reform, or reversal of oil price declines (Annex I). Total external debt, at 84 percent of GDP—of which 53 percent of GDP is public debt—is also subject to significant risks from fiscal and macroeconomic shocks, including sensitivity to the real exchange rate (Annex II).

12. To preserve fiscal gains, the authorities committed to take action on several fronts:

- *Reducing the wage bill.* As of end-March, public sector employment (including local public utilities) had been reduced by more than 16,000 employees relative to end-2014.[1] Public sector employment is expected to be reduced further by an additional 6,500 staff in 2016H2. For 2017, rightsizing efforts will continue, particularly in the areas of education and health, but will be more targeted, and developed in conjunction with World Bank functional analyses. Staff and the authorities agreed that this targeted separation approach will aim at containing the still high wage bill (as a share of GDP) through streamlining noncore administrative staff and improving efficiency of service deliveries. Efforts to improve monitoring are advancing and reporting time lags are being reduced. Adoption of the Law on Wages in February 2016—which mapped government wages to a simplified job catalogue—sets the stage for reduced disparities of pay for similar work across different ministries and prevents ad hoc wage increases across sectors. Staff urged the authorities to advance secondary legislation to ensure the new system can come into effect on January 1, 2017.

- *SOE restructuring and resolution.* Decisive implementation of SOE restructuring and resolution plans (especially in SOEs that pose significant fiscal risks such as Srbijagas and RTB Bor) is needed. The authorities reiterated their commitment that there will be no state aid in 2016 beyond what has already been budgeted to companies undergoing restructuring or resolution (including Srbijagas, Petrohemija, RTB Bor, and Resavica). However, the government is considering to assume about EUR 100 million (0.3 percent of GDP) of old debt owed by Petrohemija to its oil supplier, NIS, in the context of privatization or other resolution of Petrohemija that eliminates further fiscal risks.

- *Others.* In August the government adopted amendments to the Law on Local Government Financing that are estimated to deliver fiscal savings of about RSD 5 billion per year from 2017 on. By end-August, the authorities intend to implement the second round of pharmaceutical procurement reform developed in cooperation with the World Bank. Lastly, the authorities committed to complete a diagnostic analysis of the Development Agencies by early 2017 and initiate their subsequent reform.

13. In light of fiscal risks and external financial market volatility, staff urged the government to keep sufficient fiscal buffers. Since end-2013, Republican budget cash buffers generally stayed above RSD100 billion. However, they were allowed to fall by more than half during the first half of 2016. Staff recommended the government to rebuild cash buffers towards previous levels (thus accepting a slightly higher level of gross public debt), taking account of debt servicing requirements and the size of the domestic market, and making full use of coordination between the Treasury and the NBS via the Liquidity Committee that was

[1] Adoption of a government decision to reduce headcount by 14,500 was a prior action for the third review.

re-established in March 2015. Going forward, detailed cash flow analysis, including of periods of stress, could refine the appropriate buffer level.

14. Measures are also being taken to improve the execution of capital expenditure. Capital spending in 2016H1 outpaced the quarterly pattern seen in recent years, but structural deficiencies in implementing public investment remain. The authorities agreed to: (i) adopt by-laws aimed at strengthening the project appraisal process in line with IMF advice; (ii) conduct adequate feasibility studies and risk analysis to ensure that investment projects contribute to Serbia's growth potential without incurring excessive debt; and (iii) establish a single pipeline as the only source of public investment projects that can be included in the budget. Additionally, the MOF will start to provide training across budget units to build capacity and support efforts to move towards program budgeting.

15. The state tax administration (STA) reform agenda focuses on branch reorganization, establishing risk-based analysis, and reduction of non-core activities.

- To support the STA's efforts to focus energy on core activities, staff agreed that, as part of the Structural Transformation Program, non-core activities which do not generate sizable revenues should be reduced. STA estimates that up to 50 percent of hours are spent on non-core activities, with baby VAT refunds particularly burdensome. The authorities agreed to substitute these refunds with increased parental allowance payments. Staff encouraged the authorities to engage in a dialogue across ministries with a view to transfer enforcement responsibilities or consolidate small taxes.

- Staff noted that a recently approved 90-day temporary concession for tax debtors with less than RSD 2 million principal arrears could give rise to moral hazard and a sizable administrative burden on STA without resulting in sizable revenue recovery. The authorities agreed that STA should use its enforcement powers to block taxpayer accounts and seize assets in a more timely manner, which would also allow for blocking business license renewals for tax delinquents.

16. Staff and the authorities discussed measures to strengthen the pension system. The authorities reiterated their commitment not to backtrack on the parametric pension system reform carried out in 2014. Staff urged the authorities to identify further measures aimed at strengthening sustainability of the pension system, including by revamping hardship and survivor pensions (Box 1). The authorities pointed to efforts to check disability pension eligibility, which has already produced a noticeable decline on the number receiving disability pensions, and welcomed staff's suggestion to revisit the list of hardship professions.

Box 1. Serbia's Pension Reform and Options for Further Improvement

Serbia's pension spending is among the highest in Europe. Despite the recent parametric reform followed by indexation freeze and progressive pension cuts in 2014, pensions accounted for 12.3 percent of GDP in 2015, well above the authorities' medium-term target of 11 percent of GDP. The pension deficit is also still high at 5.3 percent of GDP. Unfavorable demographics will worsen the situation further—the old age dependency ratio is projected to increase from 29 percent in 2016 to 41 percent in 2036. With the labor tax wedge already relatively high at about 38 percent, the focus of the reform to ensure the sustainability of the pension system should be on the expenditure side.

Pension bill in percent of GDP, 2013

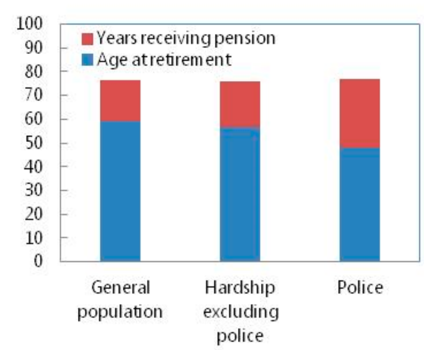
Source: Eurostat

The pension reform in 2014 tackled the most pressing issues, including the introduction of an early retirement penalty (4.1 percent per year up to total 20.4 percent) and the gradual unification of the statutory retirement age between men and women (65 by 2032). Minor changes to the hardship pension benefits were made, including abolition of hardship benefits for administrative jobs and introduction of the minimum service years in the hardship jobs. However, many inefficiencies of the pension system still remain to be tackled.

There is scope for savings in pension spending in the near term by reducing inefficiencies. The Pension Fund administers the ***caregivers' allowance for pensioners*** (about 0.4 percent of GDP per year), and considerable savings can be achieved by introducing means-testing and more effective oversight. Compliance of ***farmers' pension contributions*** (about 25 percent) can be improved by reintroducing the requirement of the contribution to be eligible for agriculture subsidies. ***Pension contributions of hardship workers*** should be increased in line with the regular pension contribution rate that was raised in recent years. ***Minimum pensions*** could be made proportional to the years of service to incentivize entry to formal employment. The Pension Fund could continue improving monitoring of ***disability and survivors' pensions***.

More comprehensive parametric reforms would also be needed to ensure pension sustainability in the long term, including: (i) linking the statutory ***retirement age*** to growing life expectancy; (ii) eliminating ***extra service credits for women*** in line with the gradual unification of the retirement conditions for men and women; (iii) rationalizing the list of occupations eligible for extra ***hardship pension credits*** and increasing the effective retirement age of hardship workers, including police; and (iv) streamlining the eligibility for ***survivors pensions'*** and rationalizing the survivors' pension benefit. The parametric reforms should accompany comprehensive overhaul of social programs to gradually replace untargeted social protections currently provided by the pension system with more efficient social assistance programs.

Years recieving pension, 2012



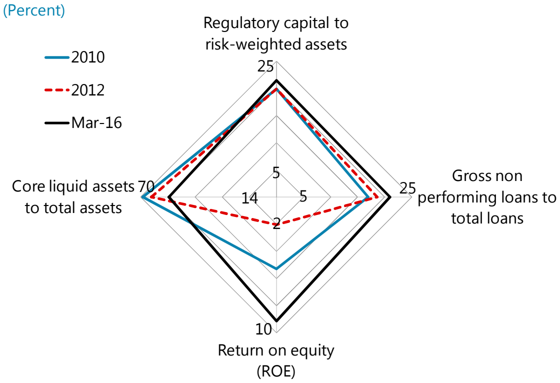
Source: Authorities

B. Monetary and Financial Sector Policies: Strengthening Operational Frameworks, Buttressing Soundness, and Improving Intermediation

17. Staff and the NBS agreed on a cautiously accommodative monetary policy stance, especially during a period of heightened uncertainty in global financial markets. Since the inception of the program, as fiscal adjustment took hold and external financing conditions remained stable, the NBS has reduced the key policy rate by 400 basis points. In response to the deviation of inflation from the inner limit in December and subdued inflation outlook, the NBS cut the policy rate by 25 bps in both February and July, accompanied by a welcome narrowing of the interest rate corridor, in order to support the return of headline inflation into the tolerance band. Interbank interest rates, however, have remained near the bottom of the corridor, reflecting the significant excess of liquidity in the banking system. The NBS agreed that that the interest rate corridor could continue to be gradually narrowed and the gap between the key policy rate and market rates reduced, to strengthen the signaling role of the policy rates and improve transparency. The NBS will continue using repo operations to mop up excess liquidity in the system. Staff also recommended considering further gradual reduction of the dinar portion of reserve requirement on foreign currency deposits, to bring it closer in line with regional peers. The NBS remained committed to its managed float exchange rate policy, although staff suggested that over time the frequency of interventions could be reduced, allowing the exchange rate to be more market-based, with the NBS interventions limited to preventing excessive volatility. The stock of international reserves remains comfortable, above 160 percent of the IMF metric.

18. The banking sector remains stable amidst difficult operating conditions. Banking sector assets, largely consisting of loans and receivables, remain stable and the year-on-year increase in classified assets has leveled off. The banking sector's pre-tax result for 2015 improved to about RSD 10 billion (up from RSD 3½ billion at end-2014), driven by declining interest expenses and exchange rate gains. At the same time, impairment charges increased significantly as banks stepped up provisioning efforts in response to last year's Special Diagnostic Studies. Profitability remains concentrated in the large banks, with the five most profitable banks accounting for almost 80 percent of banking system assets. Capital adequacy of the banking sector increased to about 21 percent as the increase in impairments resulted in lower capital deductions under the NBS' asset classification rules. (Table 11). As in previous years, liquidity ratios continue to amply exceed minimum requirements.

Financial Soundness Indicators, 2000-16
(Percent)



Source: National Bank of Serbia.

19. Measures to address the distressed debt overhang are yielding results, but full implementation of the NPL resolution strategy is vital for buttressing soundness and improving intermediation. At end-March 2016, gross nonperforming loans (NPL) accounted for about 21 percent of total loans, nearly 2 percentage points lower than the peak observed in mid-2015 (Box 2). This drop is largely driven by foreign-owned banks, while NPLs in state-owned banks continued to increase. Implementation of the comprehensive strategy for NPL resolution continues to advance, with the NBS adopting important enhancements of its prudential rules and reporting requirements. However, other key initiatives, including the finalization of amendments of the corporate insolvency law and the adoption of new legislation on real estate appraisers—which is a cornerstone of the efforts to improve the valuation of banks' real estate collateral—remain outstanding. Staff welcomed the publication of periodic progress reports on the implementation of the strategy, and suggested additional disclosure of NPL trends.

20. The NBS is pushing ahead with a range of initiatives to enhance its regulatory and supervisory framework. Draft regulations that will align Serbia's regulatory framework for banking supervision with Basel III were released for public consultation in July. As part of the Basel III implementation, the NBS will also introduce new macro-prudential instruments (e.g., countercyclical capital and systemic risk buffers). In parallel, the NBS is enhancing its supervisory capacity, supported by a comprehensive action plan that focuses on the supervisory review process, the framework for corrective and remedial action, supervisory reporting, and capacity. With regard to recovery and resolution planning, staff welcomed the NBS' efforts to foster dialogue with the banking industry on identified gaps and prepare additional guidance for the banks.

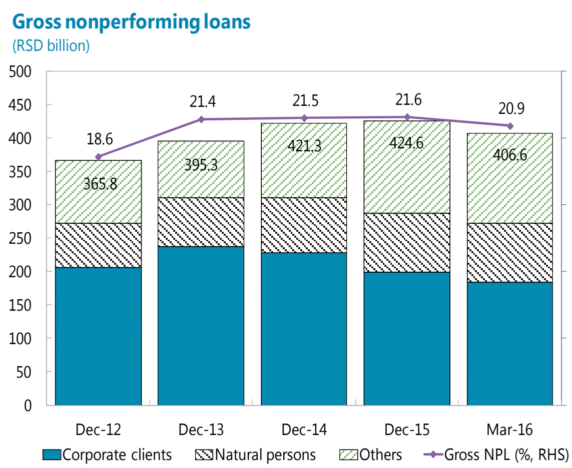
21. Progress has been made in implementing the strategy for state-owned financial institutions. The privatization plan for Komercijalna Banka, Serbia's second-largest bank, has been formally agreed, and the authorities remain committed to effect the privatization by end-2017. An independent diagnostic review of the state-owned insurance company Dunav Osiguranje has been initiated, based on terms of reference that have been agreed with staff, and is expected to be completed by end-November 2016 (**new structural benchmark**). In August, the government adopted new strategic guidelines for Banka Postanska Stedionica, which envisage a reorientation of the bank's strategy towards the retail segment, entrepreneurs, and small companies (**prior action**). The adoption of the strategic guidelines will be followed by further initiatives to strengthen the bank's corporate governance, risk management framework, and IT infrastructure. Decisions on the smaller state-owned banks are expected to be taken during the second half of 2016. As a precursor to institutional enhancements of the Development Fund, the authorities—in consultation with staff—will initiate an independent assessment of its financial position, business strategy, and risk control framework.

22. The authorities plan to strengthen implementation of the AML/CFT framework. The Council of Europe's MONEYVAL has recently adopted an assessment of Serbia's AML/CFT regime against the revised FATF standard. The assessment praised the authorities of Serbia for improving legal and institutional frameworks, but found that Serbia does not fight money laundering and financing of terrorism on a systematic and consistent basis. In particular, shortcomings are identified with regard to the investigation of money laundering offenses and the effectiveness of the prosecution and sanctioning regime. The authorities intend to coordinate the remediation of the identified AML/CFT deficiencies via the Standing Coordination Group, an existing multi-agency body that is tasked with monitoring the implementation of the national AML/CFT Strategy and coordinating related activities.

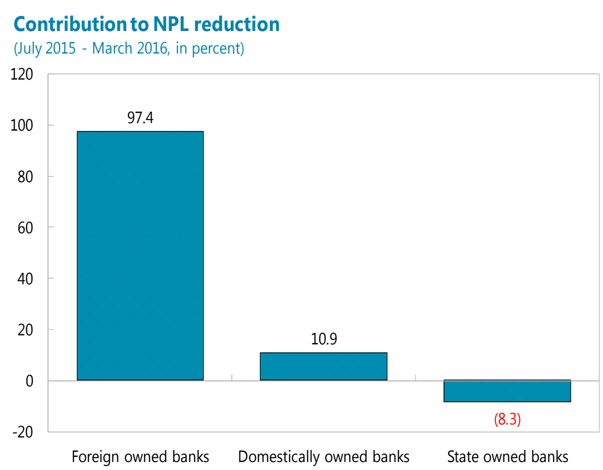
Box 2. Progress in NPL Resolution

Persistently high levels of NPLs required a comprehensive resolution strategy. NPLs in Serbia have been on the rise since 2009, reaching 22.8 percent of total assets in mid-2015. In response, an inter-agency working group proposed a suite of actions to improve the framework for the resolution of distressed debt and encourage balance sheet clean-up by banks. Actions include enhanced supervisory oversight of provisioning practices, an improved framework for the valuation of banks' real estate collateral, insolvency reforms, the removal of obstacles to the sale of NPLs, and tax amendments that seek to reduce disincentives for write-offs (see IMF Country Report No. 15/296).

Recent data points to a reversal of NPL trends. By end-March 2016, the NPL ratio had fallen back to 20.9 percent, with NPLs also falling in nominal terms by RSD32 billion from the peak. In gross terms, corporate sector NPLs fell about RSD40 billion and those for natural persons declined by almost RSD3 billion, while there was an increase in NPLs attributed to companies in bankruptcy proceedings. Foreign-owned banks contributed about 98 percent of the decline, while the amount of outstanding NPLs for state-owned banks increased over the same period. The increase in NPLs for state-owned banks over the same period underscores the importance of decisive implementation of the state-owned bank strategy program.



Sources: National Bank of Serbia



Sources: National Bank of Serbia and staff calculations

A comprehensive study of impediments and disincentives for the sale of NPLs, conducted under the auspices of the EBRD, highlighted areas where further action is necessary to support the development of a secondary market. The report, released for public consultation by the MOF, highlighted a number of issues that warrant further follow-up, including a lack of guidance on the application of tax provisions regarding write-off, a need for clarity on the implications of banking and business secrecy rules in the context of NPL sales, legal impediments in litigation, and legal risks in collateral transfers. While these findings warrant further attention, banks are already reporting increased transaction volumes, suggesting that investor appetite is gradually increasing.

C. Structural Reforms: Overcoming Opposition to Reforms

23. SOE reforms are progressing but face resistance. Discussions focused on the implementation of past commitments with a particular focus on the energy and transport sectors as well as companies in the portfolio of the former Privatization Agency:

- **EPS.** The EPS supervisory board has adopted, in consultation with the World Bank, a credible 2016-19 optimization plan with at least 1,000 net staff position reduction in 2016 (**prior action**). Staff also emphasized the importance of appointing professional management, and recommended careful assessment of future investment plans to safeguard the long term financial viability of the company. Following a 4.5 percent of household tariff increase in August 2015, another increase of 3.8 percent will be effective from October 2016 to reduce financial gaps and narrow the disparity between domestic and regional markets. The authorities acknowledged delays and agreed to press ahead with the implementation of the financial restructuring plan.

- **Srbijagas.** The authorities adopted a financial consolidation plan for Srbijagas in March 2016, and are preparing a more detailed debt restructuring plan (**end-October structural benchmark**). Staff emphasized that this plan needs to be underpinned by specific measures aimed at increasing collections and reducing costs. Staff argued against further debt-to-equity swaps (due to fiscal risks arising from such transactions) and recommended permanent market resolutions in the form of either bankruptcy or privatization for Srbijagas' main debtors (Azotara, MSK and Petrohemija). Authorities concurred with staff on the focus of the debt restructuring plan and committed to no additional assumption of debt beyond that agreed in the budget.

- **Railways of Serbia.** Staff welcomed the adoption of the systemization plan in June 2016 (**end-March structural benchmark**), which specified the rightsizing targets for 2016–17 (2,700 and 3,000 staff positions, respectively). The decision to close around 800 kilometers of rail lines by end-2016 and opening of the cargo market to private operators will improve the efficiency and strengthen competition. With completion of the asset split between the four new companies, staff urged timely disposal of surplus assets and use of the proceeds for clearing historical debts. The authorities reiterated their determination to reduce state subsidies to the Railways and ensure the rail companies remain current in electricity payment.

- **SOEs in the former Privatization Agency portfolio.** As of June 2016, about 190 of the original 500-plus companies remain to be resolved, of which about 80 and 50 are in privatization and bankruptcy process, respectively. With debt enforcement protection finally lifted for the 17 strategic companies, staff urged decisive actions regarding the companies that remain to be resolved, in particular in the mining and petrochemical sectors, with a view to eliminate fiscal risks. Realistic assumptions should be used to assess the bankruptcy and privatization prospects, while taking account of social and regional implications. The authorities expressed concern over resistance from interested groups.

Box 3. Resolution of Socially-Owned Enterprises in the Privatization Agency (PA) Portfolio

At the start of Serbia's IMF-supported program, state-controlled enterprises represented a major cause of fiscal costs and risks. At end-2014, Serbia had over 1,400 state-controlled enterprises with more than 250,000 employees. This included almost 800 state and local public enterprises (utilities), as well as more than 600 socially-owned enterprises, most of which were slated for restructuring and privatization in the PA portfolio, while the rest would be transformed into state-owned companies. Direct fiscal costs associated with these companies rose to over 2 percent of GDP in 2014, through direct subsidies, net lending, and payments of called guarantees. On top of this were large indirect and deferred costs such as arrears on taxes, arrears to other public enterprises, and subsidized or directed bank lending.

Along with individual plans for major utilities and transport companies, the authorities' program focused on the companies in the PA portfolio. Critical steps were the lifting of the moratorium on bankruptcy for state-owned enterprises in May 2015, and a January 2016 law to prevent arrears between SOEs. These measures established a level playing field across private and public companies, helping force the resolution of the PA portfolio companies. However, additional preparation was required for 17 strategic enterprises with total employment of about 22,000, some located in depressed regions. For these companies the bankruptcy moratorium was extended to May 2016. Meanwhile, with its task drawing to a close, the PA itself was merged into the Ministry of Economy in December 2015. Financing for severance pay for employees was provided for via a Transition Fund in the Republican budget. Active labor market policies are intended to help manage the social impact of redundancies.

Significant progress has been made in addressing the SOEs in the former PA portfolio, but some strategic enterprises remain to be resolved. By June 2016, more than 220 companies entered bankruptcy, and more than 40 were privatized. Some 19,500 employees from around 250 companies have received severance payments. Around 190 companies with some 45,000 employees remain. Most of the 17 strategic enterprises are in the process of resolution; however, some still face major challenges and hurdles:

- The copper mine/smelter RTB Bor, the principal employer in its region with nearly 5,000 workers, has submitted a pre-pack agreement to the court. However, there are concerns that the assumptions underlying the restructuring plan are optimistic, which could imply build-up of further quasi-fiscal costs in the future.

- The government intends to restructure Resavica coal mines, which receives budget subsidies covering the entire wage bill for its nearly 4,000 workers at the same time as having its coal price capped by regulations, by closing four pits and lifting the price regulation. However, agreement has yet to be reached with trade unions.

- The government has agreed in principle to assume about €100 million restructured debt of Petrohemija petrochemical plant (1,500 employees) to its oil supplier NIS, with the intention of ensuring its commercial viability, and hopefully eventual privatization.

24. **The authorities continue efforts to improve the business climate and increase employment.** Staff welcomed the authorities' program to combat the gray economy but encouraged more coordinated actions across government to ensure implementation. Staff endorsed the authorities' incentive programs aimed at improving SME's access to finance and urged actions to make fees and charges more transparent and predictable.

PROGRAM MODALITIES

25. Staff proposes updated program conditionality (MEFP Tables 1–2):

- **Prior actions** were set on (i) government adoption of amendments to the Local Government Financing Law (missed SB and key fiscal measure for 2017), (ii) government adoption of the strategic guidelines for BPS (missed SB and important to limit fiscal risks and improve governance), and (iii) approval by the supervisory board of EPS of a credible 2016–19 optimization plan (important measure to minimize fiscal risks from and ensure financial sustainability of EPS).

- **Performance criteria** are proposed for September and December 2016 and **indicative targets** are proposed for March and June 2017, in line with quarterly projections. The fiscal performance criteria lock in revenue over-performance from the first five months of 2016 and reflect updated severance payment assumptions; while the loosening of the NIR target is designed to allow additional buffers in light of uncertainties in the external environment. Additional adjusters are set on the general government fiscal deficit and the primary current expenditure of the Republican Budget to allow (i) an assumption of the debt of Petrohemija to NIS in the context of the former's resolution in a manner that ensures no further fiscal support, and (ii) on-lending to Srbijagas, Galenika, and Jat Tehnika for the repayment of expensive guaranteed debt that is already being serviced by the government.

- **Three structural benchmarks are proposed to be reset**. The end-March 2016 structural benchmarks on (i) amending the law on tax procedure and the criminal code, (ii) introducing a new legal and operational framework for real estate appraisals, and (iii) on conducting a review of the corporate insolvency law and submission of proposed amendments to the National Assembly are proposed to be reset for end-December 2016, due to time needed for public consultation. The end-June structural benchmark on the action plan for implementation of 2016 general government rightsizing plan is proposed to be replaced with a more targeted approach based on functional analysis.

- **New structural benchmarks** are proposed (i) for end-September 2016 on the government's issuance of explanations on the tax deductibility of distressed debt write-offs and ambiguities on the scope of business secrecy and data protection laws in the context of NPL sales; (ii) for end-October 2016 on the adoption, in consultation with the World Bank, of the financial restructuring plan for Srbijagas; and (iii) for end-November 2016 on the completion of special diagnostic review of Dunav Osiguranje.

26. The authorities request a rephasing of the arrangement. In light of the delay in completing the fourth and fifth reviews, the authorities propose to reduce by one the number of purchases under the arrangement, while evenly distributing the amount of the dropped purchase over the six remaining purchases under the SBA (Table 9).

27. Serbia's capacity to meet potential repayment obligations to the Fund remains strong. The authorities confirmed their intention to treat the SBA as precautionary. The potential balance of payments need would arise from adverse trade and financial spillovers, including from countries in the region, or from tighter global liquidity conditions. In case of full drawing of the amount under the SBA (143 percent of quota), repayments to the Fund at the end of the projection period would remain modest at about 1 percent of GDP, or 6 percent of gross reserves (Tables 10–11). Public sector and external debt stocks are expected to remain high during the program period. Public debt is projected to peak at about 77 percent of GDP in 2015–16 and external debt is expected to continue decreasing from its 2015 peak of 88 percent of GDP, in a scenario without Fund disbursements. The authorities have demonstrated continued commitment to the program. In addition, Serbia has a strong record of repayment to the Fund.

28. The 2015 safeguards assessment found that the autonomy of the NBS was reinforced through amendments of the NBS Law and strong controls were maintained over key operations. All recommendations from the assessment have been implemented. These include establishing an audit committee to strengthen oversight, reinforcing the independence of the internal audit function, and enhancing the technical procedures for the selection of external auditors.

29. Serbia has small sovereign arrears outstanding and is making good faith efforts to reach agreement with creditors. Serbia owes US$31 million in arrears to the Czech Republic and Slovakia, which continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative and the authorities are making best efforts to resolve the arrears. It also intends to resolve US$45 million in arrears to Libya, which arose in 1981 due to unsettled government obligations related to a loan for importing crude oil, after establishing the appropriate government counterpart.

STAFF APPRAISAL

30. Serbia's Fund-supported program is broadly on track, following the delay due to the April elections, and continues to deliver strong results. Macroeconomic conditions have all been met, most with sizable margins. Implementation of the agreed structural agenda—delayed by the elections—is being restored, although more decisive action is required in some areas. Improved confidence, exports and investment point to stronger growth in 2016 than originally projected, while inflation remains low and interest rates have continued to fall.

31. Fiscal policies for the remainder of the program will continue to be guided by the need to ensure public debt sustainability. The authorities deserve credit for their strong fiscal efforts. If the current performance is maintained, the bulk of the overall structural adjustment in the program of 4 percent of GDP should have been accomplished by the end of 2016. The challenge ahead is to sustain this adjustment to set the still high public debt on a declining path. This should include continued tight control of current expenditures, including pensions and the public wage bill, careful assessment of major infrastructure projects, and avoidance of additions to debt from incomplete SOE reform.

32. A cautiously accommodative monetary policy stance is warranted in the current environment, while the policy framework can be strengthened further. The NBS continues to demonstrate its commitment to the inflation targeting regime and exchange rate flexibility. At the same time, gradual narrowing of the NBS interest rate corridor while reducing the gap between market rates and the key policy rate would improve transparency of monetary policy. And some greater tolerance of short-term fluctuations in the dinar would also be welcome, including to help develop the foreign exchange market.

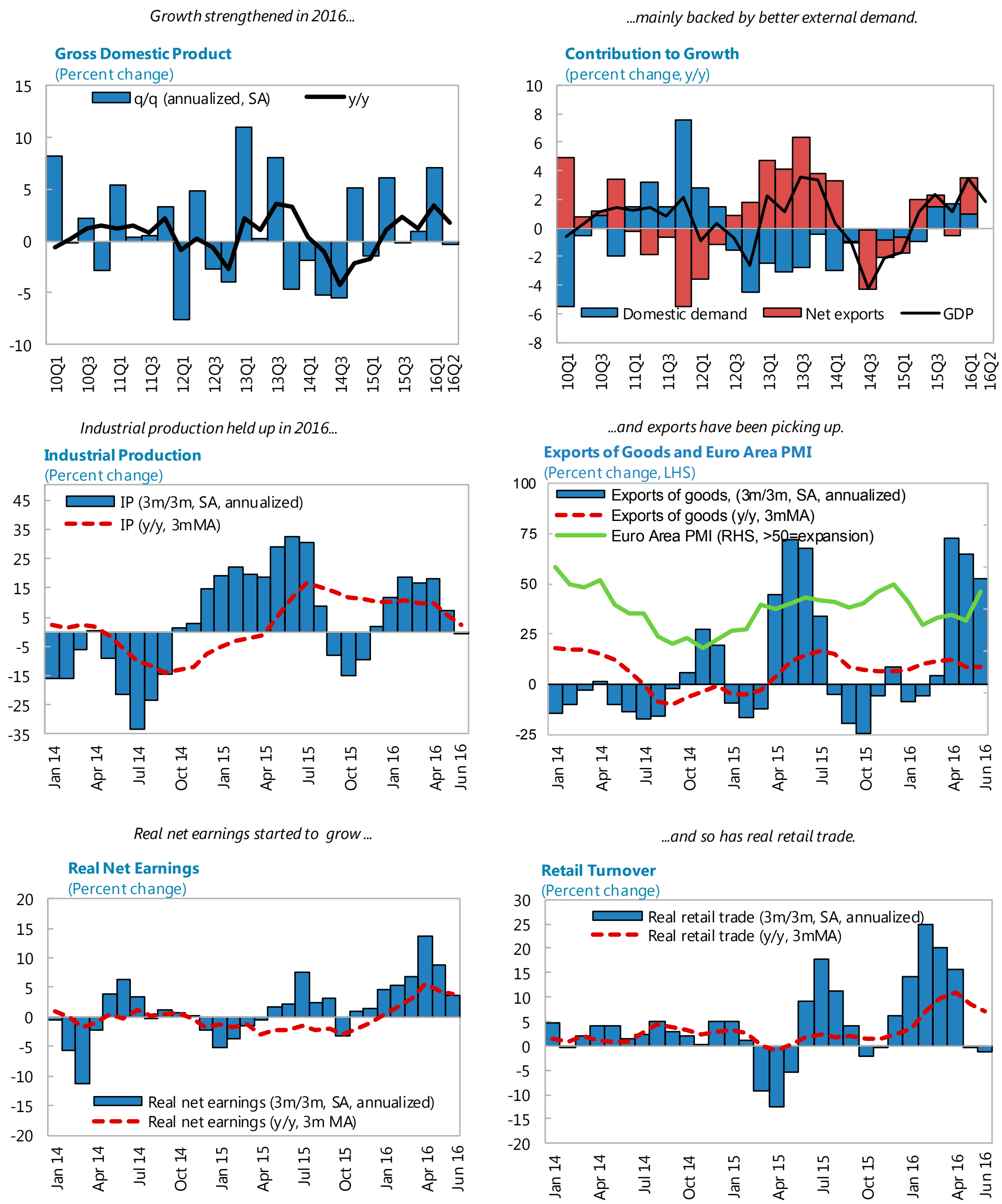
33. Positive momentum in the area of financial sector reforms needs to be maintained to reduce risks and improve intermediation. The evidence that NPLs are at last starting to fall is encouraging, and highlights the importance of following through with the NPL strategy, requiring full coordination across government, the NBS, and the banks. It will also be critical to implement fully the agenda for reform of state-owned financial institutions.

34. The new government needs to engage fully in structural reform. Progress has generally continued in the very ambitious reform agenda covered by the program, albeit with delays due in part to the elections. But some areas—including in restructuring the electricity and mining companies, and in line ministries' planning for further public administration reform—reforms slipped, and need to be brought fully back on track.

35. Notwithstanding the important progress achieved, the program continues to face significant risks from domestic and external factors. Probably the greatest risk is political resistance to reform from vested interests, which could reduce growth prospects and affect the durability of fiscal adjustment. Serbia also remains vulnerable to a range of external risks, including from global financial conditions, possible spillovers from regional developments, or a resumption of migrant flows. These risks highlight the importance that the new government remain steadfast in its determination to continuing strong policies and structural reforms to strengthen the resilience of the Serbian economy. It also points to the need to base the program on cautious macroeconomic and fiscal projections.

36. Staff supports the authorities' request for the completion of the combined Fourth and Fifth Reviews under the Stand-By Arrangement, and a rephasing of the arrangement, given the program performance so far and the policy commitments going forward.

Figure 1. Serbia: Real Sector Developments, 2010–16

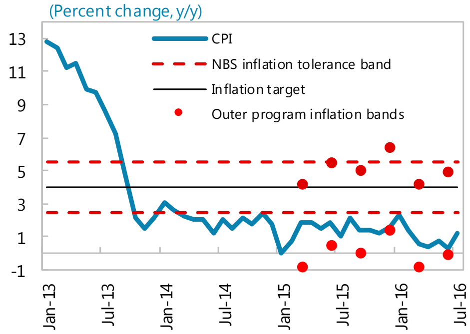


Sources: Haver, SORS and IMF staff calculations.

Figure 2. Serbia: Inflation and Monetary Policy, 2012–16

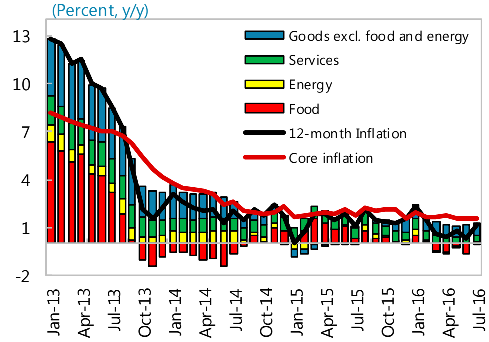
Headline inflation remained low…

Inflation
(Percent change, y/y)



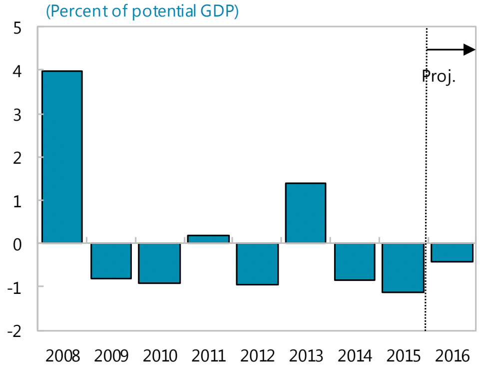
…mainly due to weak food and energy prices.

Contribution to Annual Inflation
(Percent, y/y)



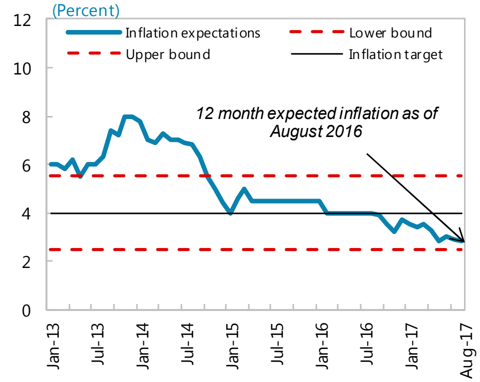
Still open output gap contributes to low inflationary pressures…

Output Gap
(Percent of potential GDP)



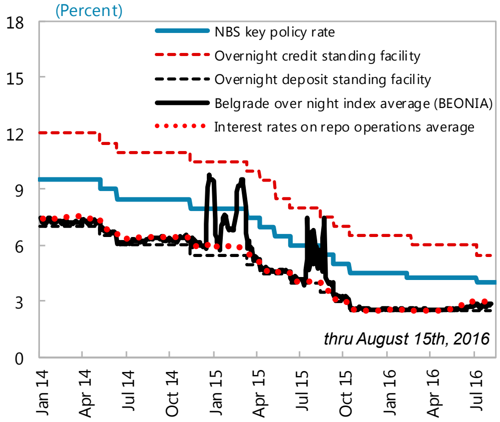
…and inflation expectations continue to drop.

One-Year Ahead Inflation Expectations
(Percent)



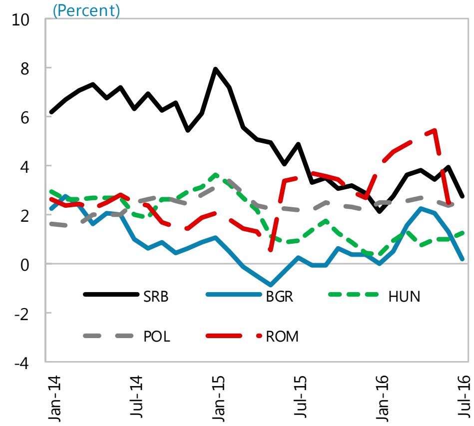
The NBS has reduced the key policy rate to a historic low…

Interest Rates
(Percent)



…bringing it closer to peer countries in real terms.

Policy Rate in Real Terms in Selected Countries 1/
(Percent)

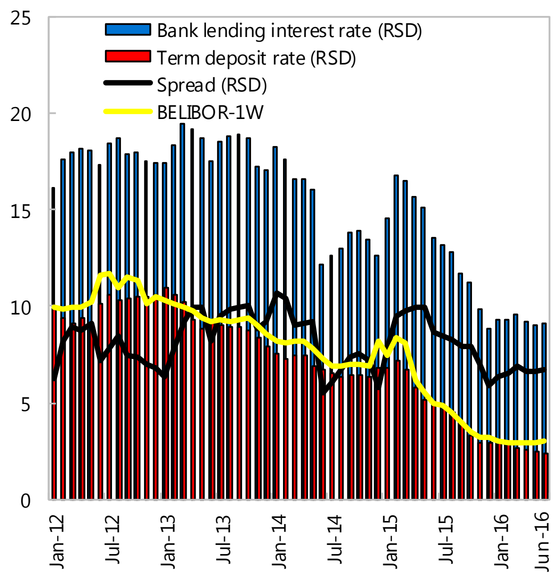


Sources: Haver; Bloomberg; National Bank of Serbia (NBS); SORS; and IMF staff estimates and projections.
1/ Nominal policy rate adjusted by inflation over the past 12 months.

Figure 3. Serbia: Selected Interest Rates, 2012–16

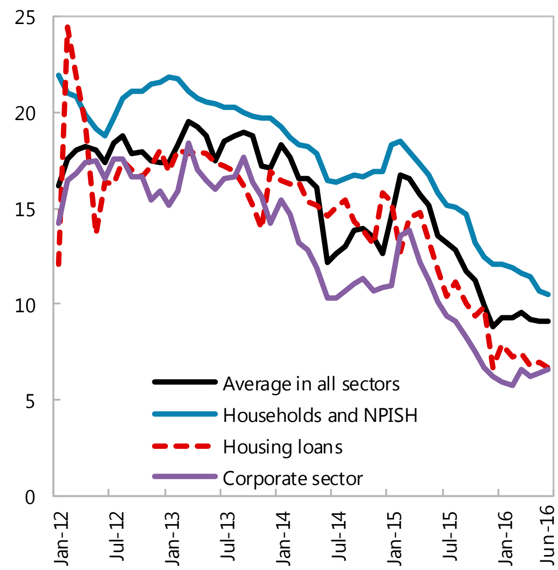
Easing of monetary policy has led to a decline in dinar interest rates...

Selected interest rates (RSD)
(Percent)



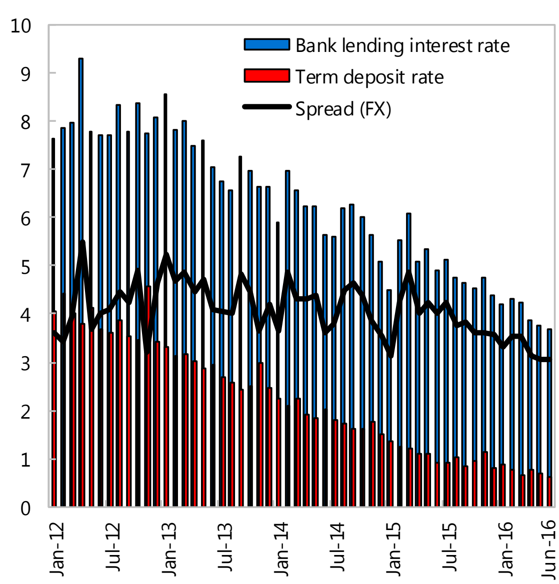
...in both corporate and household markets.

Bank lending interest rates: RSD
(Percent)



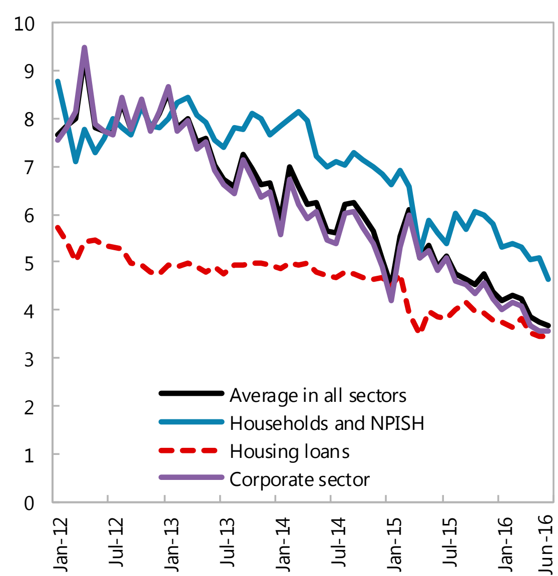
FX (or FX-linked) interest rates have been declining, too...

Selected interest rates (FX and FX-linked)
(Percent)



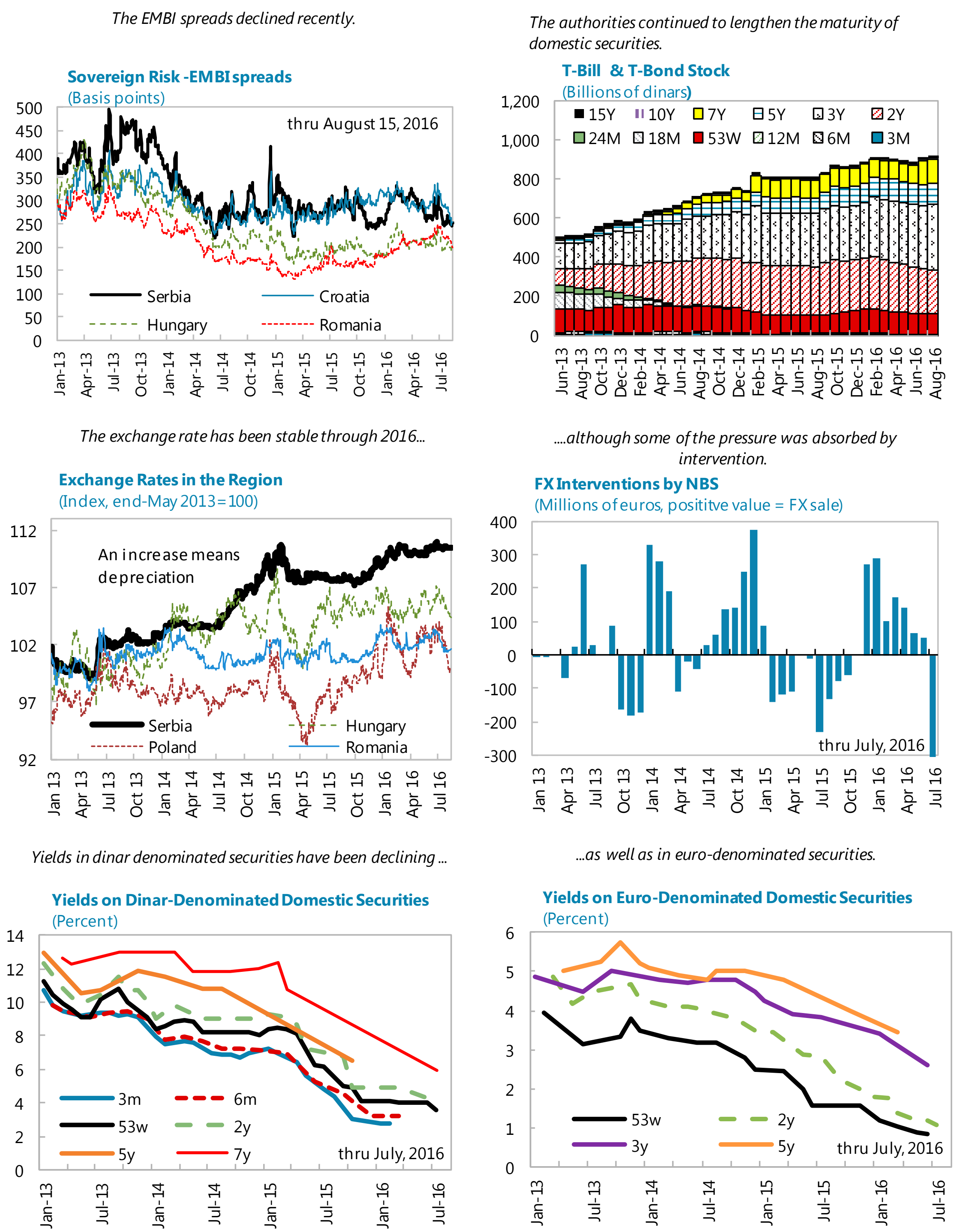
...most recently on account of lower lending rates to the corporate sector.

Bank lending interest rates: FX and FX-linked
(Percent)



Source: NBS.

Figure 4. Serbia: Recent Financial and Exchange Rate Developments, 2013–16



Sources: Serbian Authorities; Bloomberg; and Haver.

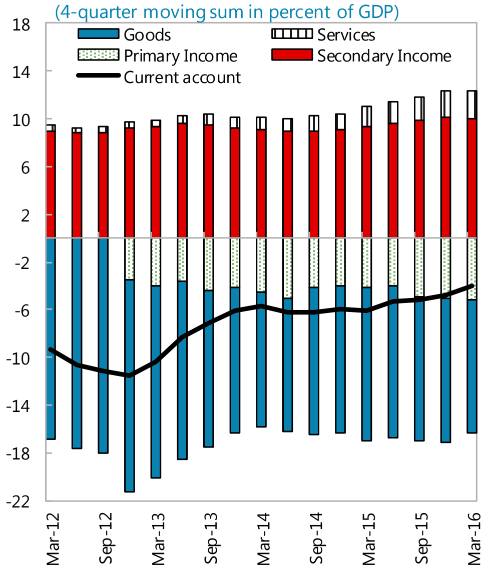
1/ Sum of dinar and FX-denominated securities at current exchange rate.

Figure 5. Serbia: Balance of Payments and NIR, 2012–16

The current account deficit narrowed in 2015…

Current Account Balance

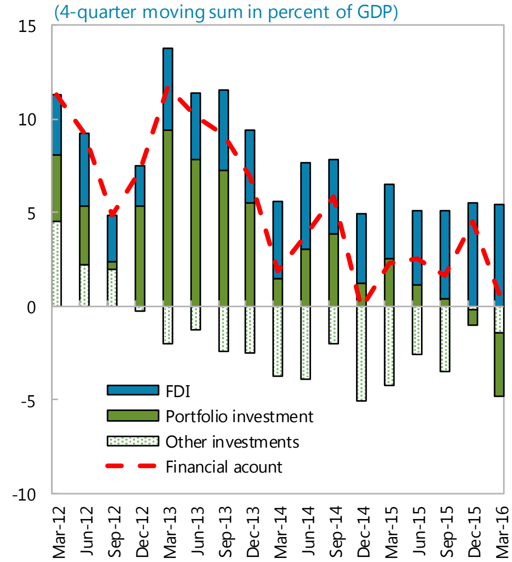
(4-quarter moving sum in percent of GDP)



…and was fully covered by FDI inflows.

Financial Account Composition

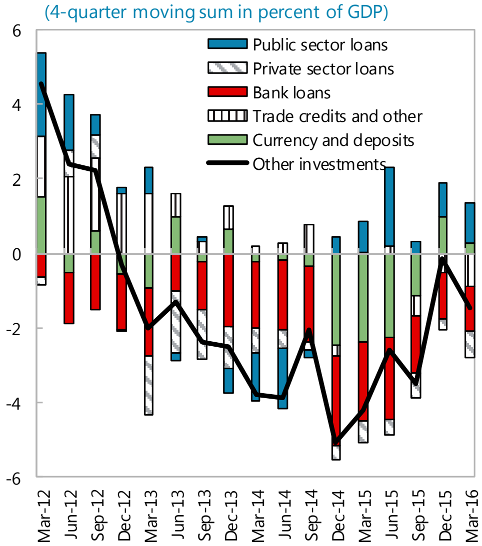
(4-quarter moving sum in percent of GDP)



Outflows in other investments are largely driven by banks.

Other Investments 1/

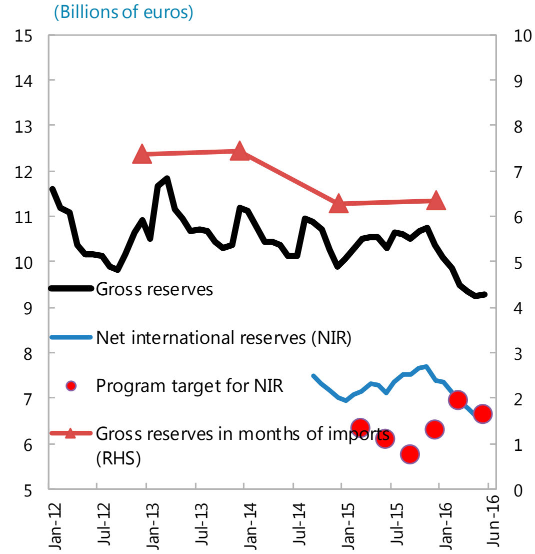
(4-quarter moving sum in percent of GDP)



International reserves remain at comfortable levels.

Foreign Exchange Reserves

(Billions of euros)



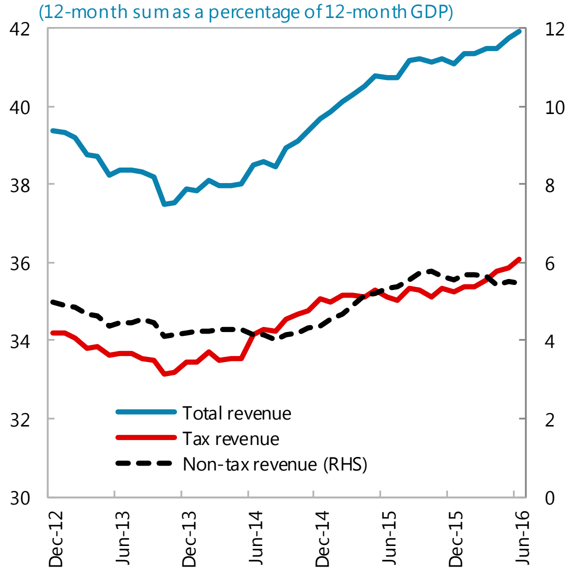
Sources: Haver; and IMF staff calculations.

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

Figure 6. Serbia: Fiscal Developments, 2012–16

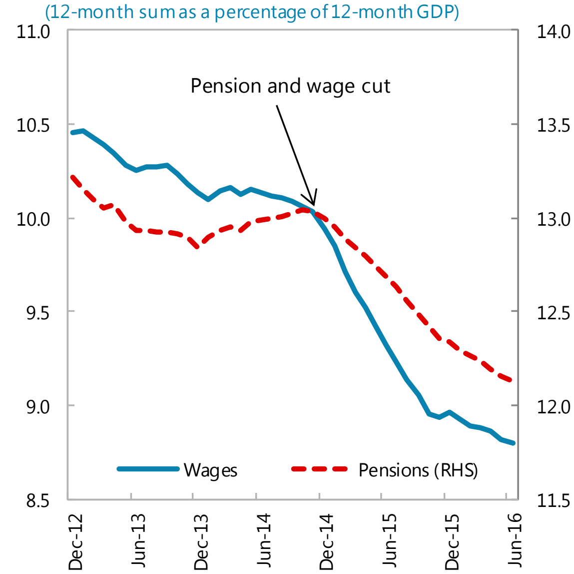
Revenues have been increasing as a share of GDP, with non-tax revenue playing an important role…

Total Revenue and its Composition
(12-month sum as a percentage of 12-month GDP)



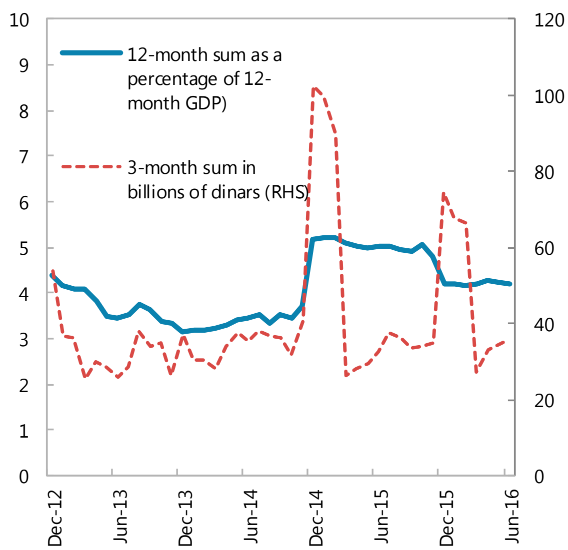
…while wage and pension expenses are falling as a share of GDP.

Wages and Pensions
(12-month sum as a percentage of 12-month GDP)



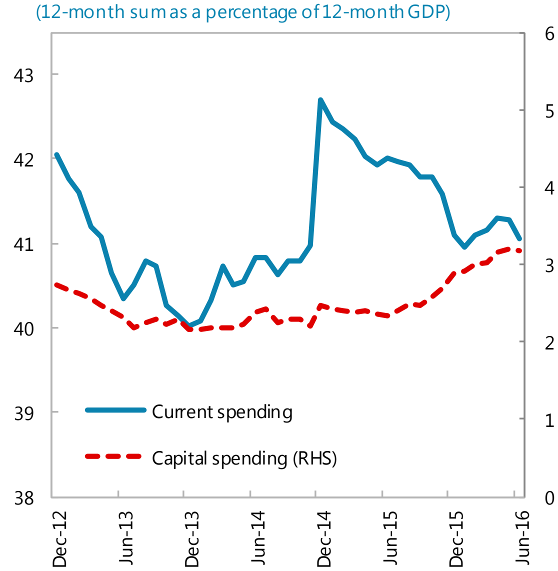
State aid increased in late 2014 and 2015 due to one-off items, and subsided thereafter…

State Aid 1/



…supporting the adjustment of current spending and creating space for capital spending to expand.

Current and Capital Spending
(12-month sum as a percentage of 12-month GDP)



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

Table 1. Serbia: Selected Economic and Social Indicators, 2011–17

	2011	2012	2013	2014	2015		2016		2017
					3rd rev.	Actual	3rd	Proj.	Proj.
	(Percent change, unless otherwise indicated)								
Real sector									
Real GDP	1.4	-1.0	2.6	-1.8	0.8	0.7	1.8	2.5	2.8
Real domestic demand (absorption)	3.1	-0.5	-1.9	-1.1	0.7	0.4	1.4	1.7	2.1
Consumer prices (average)	11.1	7.3	7.7	2.1	1.5	1.4	2.8	1.3	3.2
GDP deflator	9.6	6.3	5.4	2.7	1.5	0.9	2.6	1.8	2.5
Unemployment rate (in percent) 1/	23.6	24.6	23.0	20.1	19.2	18.5	...	...	...
Nominal GDP (in billions of dinars) 2/	3,408	3,584	3,876	3,908	3,964	3,973	4,138	4,147	4,369
	(Percent of GDP)								
General government finances									
Revenue	38.2	39.4	37.9	39.7	40.6	41.1	39.8	41.3	40.4
Expenditure	43.1	46.6	43.5	46.3	44.7	44.8	43.8	43.7	42.6
Current	38.9	42.5	40.8	42.7	41.3	41.1	40.1	39.9	38.4
Capital and net lending	4.1	3.8	2.5	2.8	2.7	3.0	2.9	3.0	3.5
Amortization of called guarantees	0.2	0.3	0.2	0.8	0.7	0.8	0.8	0.8	0.7
Fiscal balance 3/	-4.9	-7.2	-5.6	-6.6	-4.1	-3.7	-4.0	-2.5	-2.2
Primary fiscal balance (cash basis)	-3.6	-5.3	-3.2	-3.7	-0.7	-0.5	-0.5	1.0	1.3
Structural primary fiscal balance 4/	-3.6	-4.0	-3.1	-2.6	-0.3	0.0	0.5	0.9	1.3
Gross debt	46.6	58.3	61.4	72.0	75.9	77.4	78.1	76.8	75.1
	(End of period 12-month change, percent)								
Monetary sector									
Money (M1)	16.8	3.8	23.7	9.7	10.8	17.0	11.4	13.9	12.5
Broad money (M2)	10.4	9.2	4.2	8.3	5.2	7.2	7.3	8.8	8.2
Domestic credit to non-government 5/	8.1	3.3	-5.1	-1.0	0.1	2.0	2.5	4.5	6.0
	(Period average, percent)								
Interest rates (dinar)									
NBS key policy rate	11.5	10.1	11.0	9.0	6.6	6.1	...	...	...
Interest rate on new FX and FX-indexed loans	8.2	8.0	7.3	6.0	5.1	5.0	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Balance of payments									
Current account balance	-8.6	-11.5	-6.1	-6.0	-4.7	-4.8	-4.6	-4.2	-3.9
Exports of goods	25.3	26.5	30.8	31.9	34.7	34.5	36.5	36.2	38.3
Imports of goods	-41.2	-44.2	-42.9	-44.3	-46.4	-46.7	-47.9	-47.1	-49.2
Trade of goods balance	-15.9	-17.8	-12.1	-12.3	-11.8	-12.1	-11.4	-10.9	-10.9
Capital and financial account balance	13.3	7.9	9.5	1.4	4.3	4.6	6.6	3.5	4.4
External debt (percent of GDP)	74.5	84.3	79.4	83.1	83.4	87.5	83.4	84.0	80.9
of which: Private external debt	40.0	42.7	36.8	34.6	33.4	33.9	30.2	31.0	28.9
Gross official reserves (in billions of euro)	12.1	10.9	11.2	9.9	10.4	10.4	11.0	10.1	10.3
(in months of prospective imports)	8.5	7.4	7.4	6.3	6.2	6.4	6.3	5.7	5.4
(percent of short-term debt)	259.8	208.9	278.8	292.1	313.5	281.4	273.8	248.9	244.5
(percent of broad money, M2)	85.2	76.8	76.2	65.8	65.6	64.6	66.1	59.1	56.0
(percent of risk-weighted metric) 6/	...	...	187.8	165.0	212.4	170.2	211.5	163.4	161.7
Exchange rate (dinar/euro, period average)	102.0	113.0	113.1	117.2	120.5	120.8	...	...	...
REER (annual average change, in percent; + indicates appreciation)	9.3	-7.4	7.8	-2.0	-1.6	-1.6	0.2	-0.8	1.0
Social indicators									
Per capita GDP (in US$)	6,424	5,656	6,352	6,199	5,101	5,120	5,273	5,316	5,587
Population (in million)	7.2	7.2	7.2	7.1	7.2	7.1	7.2	7.1	7.1

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

1/ Unemployment rate for working age population (15-64).
2/ The GDP series were revised in October 2014 based on ESA 2010 methodology and resulted in an increase of average 7 percent.
3/ Includes amortization of called guarantees.
4/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs.
5/ At program exchange rates.
6/ Formulas for calculation revised as compared to the third review.

Table 2. Serbia: Medium-Term Framework, 2012–21

	2012	2013	2014	2015	2016		2017		2018	2019	2020	2021
				Actual	3rd rev.	Proj.	3rd rev.	Proj.	Proj.	Proj.	Proj.	Proj.
					(percent change)							
Real sector												
GDP growth	-1.0	2.6	-1.8	0.7	1.8	2.5	2.2	2.8	3.5	3.5	4.0	4.0
Domestic demand (contribution)	-0.6	-2.2	-1.2	0.4	1.6	1.9	1.5	2.3	3.6	3.4	4.4	4.5
Net exports (contribution)	-0.4	4.8	-0.6	0.3	0.1	0.6	0.7	0.5	-0.1	0.1	-0.4	-0.5
Consumer price inflation (average)	7.3	7.7	2.1	1.4	2.8	1.3	3.9	3.2	3.5	4.0	4.0	4.0
Consumer price inflation (end of period)	12.2	2.2	1.8	1.6	3.5	2.0	3.9	3.5	3.5	4.0	4.0	4.0
Output gap (in percent of potential)	-1.0	1.4	-0.9	-1.1	-0.8	-0.4	-0.6	-0.3	-0.2	-0.1	0.0	0.0
Potential GDP growth	0.1	0.2	0.4	1.0	1.5	1.8	2.0	2.7	3.4	3.4	3.9	4.0
Domestic credit to non-gov. (program exchange rate) 1/	3.3	-5.1	-1.0	2.0	2.5	4.5	9.8	6.0	4.8	6.2	9.5	8.8
					(percent of GDP, unless otherwise indicated)							
General government												
Revenue	39.4	37.9	39.7	41.1	39.8	41.3	39.0	40.4	40.1	39.8	39.6	39.4
Expenditure	46.6	43.5	46.3	44.8	43.8	43.7	41.6	42.6	41.8	41.4	41.2	40.9
Current	42.5	40.8	42.7	41.1	40.1	39.9	38.0	38.4	38.0	37.6	37.4	37.2
of which: Wages and salaries	10.5	10.1	9.9	9.0	9.0	8.6	8.0	8.2	8.0	7.8	7.7	7.6
of which: Pensions	13.2	12.8	13.0	12.3	12.3	12.1	11.8	11.6	11.2	11.1	11.0	11.0
of which: Goods and services	8.0	7.2	7.9	7.6	7.5	7.9	7.2	7.6	7.7	7.7	7.6	7.5
Capital and net lending	3.8	2.5	2.8	3.0	2.9	3.0	3.0	3.5	3.5	3.5	3.5	3.4
Amortization of called guarantees	0.3	0.2	0.8	0.8	0.8	0.8	0.5	0.7	0.3	0.3	0.3	0.3
Fiscal balance 2/	-7.2	-5.6	-6.6	-3.7	-4.0	-2.5	-2.6	-2.2	-1.7	-1.6	-1.6	-1.5
change (+ = consolidation)	*-2.3*	*1.6*	*-1.0*	*2.9*	*0.1*	*1.3*	*1.3*	*0.3*	*0.5*	*0.1*	*0.0*	*0.0*
Primary fiscal balance	-5.3	-3.2	-3.7	-0.5	-0.5	1.0	0.9	1.3	1.9	2.0	2.0	2.1
change (+ = consolidation)	*-1.8*	*2.1*	*-0.5*	*3.2*	*0.2*	*1.5*	*1.3*	*0.2*	*0.7*	*0.1*	*0.0*	*0.0*
change (+ = consolidation)	*-1.0*	*0.4*	*0.0*	*2.3*	*0.6*	*0.8*	*0.8*	*0.5*	*0.5*	*0.1*	*0.0*	*1.2*
One-off fiscal items, net 3/	-1.0	-0.6	-0.7	0.0	-0.6	0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Structural primary balance	-4.0	-3.1	-2.6	0.0	0.5	0.9	1.3	1.3	2.0	2.1	2.0	2.1
change (+ = consolidation)	*-0.4*	*0.9*	*0.5*	*2.6*	*0.7*	*1.0*	*0.8*	*0.4*	*0.1*	*0.1*	*0.0*	*0.0*
Structural primary balance net of capital expenditures	-0.7	-1.0	-0.2	2.8	3.3	3.9	4.3	4.7	5.4	5.5	5.5	5.5
Gross debt	58.3	61.4	72.0	77.4	78.1	76.8	76.3	75.1	72.5	69.9	67.1	64.6
Effective interest rate on government borrowing (percent)	3.8	4.3	4.5	4.4	4.8	4.7	4.7	4.7	5.1	5.3	5.5	5.5
Domestic borrowing (including FX)	4.9	5.6	5.9	5.7	6.3	6.1	6.6	6.1	6.6	6.8	6.9	6.9
External borrowing	2.9	3.3	3.5	3.5	3.9	3.7	3.7	3.8	4.2	4.4	4.5	4.5
					(percent of GDP, unless otherwise indicated)							
Balance of payments												
Current account	-11.5	-6.1	-6.0	-4.8	-4.6	-4.2	-4.3	-3.9	-3.8	-3.9	-4.0	-4.0
of which: Trade balance	-17.8	-12.1	-12.3	-12.1	-11.4	-10.9	-11.1	-10.9	-10.6	-10.3	-10.3	-10.3
of which: Current transfers, net (excl. grants)	9.0	9.1	8.7	9.7	9.4	9.0	9.2	9.2	8.4	8.0	7.8	7.8
Capital and financial account	7.9	9.5	1.4	4.6	6.6	3.5	3.0	4.4	5.7	5.3	4.9	5.1
of which: Foreign direct investment	2.1	3.6	3.7	5.5	4.7	4.7	4.2	4.2	4.2	4.2	4.2	4.2
External debt (end of period)	84.3	79.4	83.1	87.5	83.4	84.0	78.6	80.9	77.5	73.8	69.8	66.1
of which: Private external debt	42.7	36.8	34.6	33.9	30.2	31.0	28.0	28.9	26.4	24.5	22.8	21.3
Gross official reserves												
(in billions of euros)	10.9	11.2	9.9	10.4	11.0	10.1	10.6	10.3	11.1	11.6	12.0	12.5
(in percent of short-term external debt)	208.9	278.8	292.1	281.4	273.8	248.9	225.0	244.5	325.5	254.8	263.6	274.9
REER (ann. av. change; + = appreciation)	-7.4	7.8	-2.0	-1.6	0.2	-0.8	1.3	1.0	1.6	1.5	1.1	1.1

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

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

2/ Includes amortization of called guarantees.

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

Table 3. Serbia: Growth Composition, 2012–21

	2012	2013	2014	2015		2016		2017		2018	2019	2020	2021
				3rd rev.	Actual	3rd rev.	Proj.	3rd rev.	Proj.	Proj.	Proj.	Proj.	Proj.
						(Percent change, unless otherwise noted)							
Real													
Gross Domestic Product (GDP)	-1.0	2.6	-1.8	0.8	0.7	1.8	2.5	2.2	2.8	3.5	3.5	4.0	4.0
Domestic demand	-0.5	-1.9	-1.1	0.7	0.4	1.4	1.7	1.4	2.1	3.2	3.1	4.0	4.1
Consumption	-1.2	-0.7	-1.2	-0.8	-0.7	0.3	0.7	0.2	0.8	2.5	2.7	3.8	3.9
Non-government	-2.0	-0.6	-1.3	-0.5	-0.6	0.2	0.4	1.0	1.3	2.7	2.8	3.9	4.1
Government	1.9	-1.1	-0.6	-2.2	-1.2	0.9	1.9	-2.8	-1.2	1.9	2.3	3.1	3.1
Investment	2.9	-7.2	-0.4	7.9	5.5	6.3	6.2	6.0	7.3	5.8	4.5	4.7	4.6
Gross fixed capital formation	19.1	-16.3	-3.6	8.2	8.3	6.6	6.7	6.2	7.4	6.0	4.8	4.8	4.8
Non-government	21.3	-13.0	-5.8	8.5	6.9	6.0	6.5	6.0	6.0	6.0	5.0	5.0	4.9
Government	7.6	-35.8	13.6	5.9	17.0	10.7	7.7	7.7	15.6	6.2	3.5	4.0	4.0
Exports of goods and services	0.8	21.3	5.7	7.8	7.8	7.7	9.9	7.0	8.8	7.3	7.8	7.6	7.5
Imports of goods and services	1.4	5.0	5.6	6.0	5.5	5.8	6.8	4.4	6.4	6.1	6.4	7.0	7.1
						(contributions to GDP, percent)							
Gross Domestic Product (GDP)	-1.0	2.6	-1.8	0.8	0.7	1.8	2.5	2.2	2.8	3.5	3.5	4.0	4.0
Domestic demand (absorption)	-0.6	-2.2	-1.2	0.7	0.4	1.6	1.9	1.5	2.3	3.6	3.4	4.4	4.5
Net exports of goods and services	-0.4	4.8	-0.6	0.0	0.3	0.1	0.6	0.7	0.5	-0.1	0.1	-0.4	-0.5
Consumption	-1.2	-0.6	-1.1	-0.8	-0.7	0.3	0.6	0.2	0.8	2.3	2.4	3.3	3.4
Non-government	-1.6	-0.4	-1.0	-0.4	-0.4	0.1	0.3	0.7	1.0	1.9	2.0	2.7	2.9
Government	0.4	-0.2	-0.1	-0.4	-0.2	0.2	0.3	-0.5	-0.2	0.3	0.4	0.5	0.5
Investment	0.6	-1.5	-0.1	1.5	1.1	1.3	1.3	1.3	1.6	1.3	1.0	1.1	1.1
Gross fixed capital formation	3.7	-3.8	-0.7	1.5	1.5	1.3	1.3	1.3	1.5	1.3	1.1	1.1	1.1
Non-government	3.4	-2.5	-1.0	1.4	1.1	1.0	1.1	1.1	1.1	1.1	0.9	0.9	0.9
Government	0.2	-1.2	0.3	0.1	0.4	0.3	0.2	0.2	0.5	0.2	0.1	0.1	0.1
Change in inventories	-3.1	2.2	0.6	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	0.3	7.4	2.3	3.4	3.5	3.6	4.7	3.4	4.5	3.9	4.4	4.4	4.5
Imports of goods and services	0.7	2.6	3.0	3.4	3.2	3.5	4.1	2.7	4.0	4.0	4.3	4.8	5.0
						(Percent change, unless otherwise noted)							
Nominal													
Gross Domestic Product (GDP)	5.2	8.2	0.8	2.2	1.7	4.4	4.4	5.8	5.4	7.2	7.6	8.2	8.2
Domestic demand (absorption), contribution to GDP growth	7.3	3.1	1.1	2.3	0.7	4.0	3.1	5.9	5.5	7.3	7.6	8.6	8.7
Net exports of goods and services, contribution to GDP growt	-2.1	5.1	-0.2	-0.1	0.9	0.4	1.3	-0.4	-0.1	-0.1	0.0	-0.4	-0.5
Non-government	5.2	5.6	1.3	1.0	0.9	3.0	1.7	4.9	4.6	6.3	6.9	8.1	8.3
Government	7.4	3.5	0.6	-4.1	-2.8	3.2	3.7	-0.9	0.6	5.4	6.3	7.3	7.3
Investment	9.9	-9.1	-0.1	15.1	3.1	6.9	6.9	13.3	11.0	9.6	8.5	8.5	8.3
Gross fixed capital formation	21.1	-11.9	-2.4	9.3	10.6	9.0	6.7	9.3	10.2	9.7	8.9	9.0	9.0
Non-government	22.7	-7.6	-5.0	9.6	9.2	8.4	6.5	9.1	8.6	9.7	9.2	9.2	9.1
Government	13.7	-33.5	15.1	6.9	18.6	13.3	7.7	10.9	18.5	9.9	7.6	8.2	8.2
Exports of goods and services	14.3	20.7	6.2	9.4	11.8	10.1	9.0	8.2	11.6	9.2	10.3	10.5	10.4
Imports of goods and services	14.2	4.7	5.3	7.9	7.7	7.7	5.3	7.1	10.1	8.2	9.0	10.0	10.1
Memorandum items:													
GDP deflator (percent)	6.3	5.4	2.7	1.5	0.9	2.6	1.8	3.5	2.5	3.5	4.0	4.0	4.0

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

1/ Contributions to GDP growth.

Table 4a. Serbia: Balance of Payments, 2012–21

(In billions of euros)

	2012	2013	2014	2015		2016		2017		2018	2019	2020	2021
				3rd rev.	Actual	3rd	Proj.	3rd rev.	Proj.	Proj.	Proj.	Proj.	Proj.
						(Billions of euros)							
Current account balance	-3.6	-2.1	-2.0	-1.5	-1.6	-1.6	-1.4	-1.5	-1.4	-1.4	-1.6	-1.7	-1.8
Trade of goods balance	-5.6	-4.2	-4.1	-3.9	-4.0	-3.8	-3.7	-3.9	-3.8	-4.0	-4.1	-4.4	-4.7
Exports of goods	8.4	10.5	10.6	11.4	11.4	12.3	12.2	13.2	13.5	14.6	16.0	17.4	19.0
Imports of goods	-14.0	-14.7	-14.8	-15.3	-15.4	-16.2	-15.9	-17.1	-17.3	-18.6	-20.1	-21.8	-23.8
Services balance	0.1	0.3	0.5	0.7	0.7	0.8	0.9	0.9	1.1	1.2	1.4	1.5	1.7
Exports of nonfactor services	3.1	3.4	3.8	4.2	4.3	4.6	4.6	4.9	5.1	5.5	6.0	6.6	7.2
Imports of nonfactor services	-3.0	-3.1	-3.3	-3.6	-3.5	-3.8	-3.7	-4.0	-4.0	-4.3	-4.6	-5.0	-5.5
Income balance	-1.1	-1.4	-1.3	-1.6	-1.7	-1.8	-1.8	-1.8	-1.9	-1.9	-2.0	-2.2	-2.3
Net interest	-0.8	-0.9	-0.9	-0.9	-1.0	-1.0	-0.9	-1.0	-0.8	-1.0	-1.1	-1.2	-1.3
Current transfer balance	2.9	3.2	3.0	3.3	3.3	3.3	3.1	3.4	3.3	3.3	3.2	3.3	3.6
Others, including private remittances	2.9	3.1	2.9	3.2	3.2	3.2	3.0	3.2	3.2	3.1	3.2	3.3	3.6
Capital and financial account balance 2/	2.5	3.3	0.5	1.4	1.5	2.2	1.2	1.1	1.6	2.1	2.1	2.1	2.3
Foreign direct investment balance	0.7	1.2	1.2	1.6	1.8	1.6	1.6	1.5	1.5	1.6	1.7	1.8	1.9
Portfolio investment balance	1.7	1.9	0.4	0.0	-0.3	1.3	0.4	0.6	0.8	0.9	0.6	0.0	0.0
of which: debt liabilities	1.7	2.0	0.4	0.0	-0.2	1.3	0.4	0.6	0.8	0.9	0.6	0.0	0.0
Other investment balance	0.2	0.1	-1.1	-0.2	0.0	-0.7	-0.8	-1.1	-0.8	-0.3	-0.1	0.3	0.4
Public sector 2/ 3/	0.5	0.4	0.7	0.3	0.5	0.2	-0.1	-0.7	-0.5	0.0	0.0	0.3	0.4
Domestic banks	-0.4	-0.5	-1.5	-0.2	-0.1	-0.4	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0
Other private sector 4/	0.1	0.1	-0.4	-0.3	-0.4	-0.5	-0.3	-0.2	-0.2	-0.2	-0.1	0.0	0.0
Errors and omissions	0.2	0.2	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.9	1.3	-1.2	0.3	0.3	0.7	-0.2	-0.4	0.2	0.7	0.6	0.4	0.5
Financing	0.9	-1.3	1.2	-0.3	-0.3	-0.7	0.2	0.4	-0.2	-0.7	-0.6	-0.4	-0.5
Gross international reserves (increase, -)	1.1	-0.7	1.8	-0.1	-0.2	-0.7	0.2	0.4	-0.2	-0.7	-0.6	-0.4	-0.5
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of Fund credit, net	-0.2	-0.6	-0.6	-0.1	-0.1	0.0	-0.01	0.00	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	-0.2	-0.6	-0.6	-0.1	-0.1	0.0	-0.01	0.00	0.0	0.0	0.0	0.0	0.0

Sources: NBS; and IMF staff estimates and projections.

1/ Some estimates, in particular for private remittances and reinvested earnings, are subject to significant uncertainty.

2/ Excluding net use of IMF resources.

3/ Includes SDR allocations in 2009.

4/ Includes trade credits (net).

Table 4b. Serbia: Balance of Payments, 2012–21

(Percent of GDP)

	2012	2013	2014	2015		2016		2017		2018	2019	2020	2021
				3rd rev.	Actual	3rd	Proj.	3rd rev.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-11.5	-6.1	-6.0	-4.7	-4.8	-4.6	-4.2	-4.3	-3.9	-3.8	-3.9	-4.0	-4.0
Trade of goods balance	-17.8	-12.1	-12.3	-11.8	-12.1	-11.4	-10.9	-11.1	-10.9	-10.6	-10.3	-10.3	-10.3
Exports of goods	26.5	30.8	31.9	34.7	34.5	36.5	36.2	37.4	38.3	39.0	40.0	40.9	41.7
Imports of goods	-44.2	-42.9	-44.3	-46.4	-46.7	-47.9	-47.1	-48.5	-49.2	-49.7	-50.3	-51.1	-52.0
Services balance	0.4	0.9	1.4	2.0	2.2	2.3	2.7	2.5	3.0	3.2	3.4	3.6	3.7
Income balance	-3.4	-4.1	-4.0	-4.8	-5.0	-5.3	-5.3	-5.1	-5.5	-5.1	-5.1	-5.1	-5.1
Current transfer balance	9.3	9.2	9.0	9.9	10.2	9.7	9.3	9.5	9.5	8.7	8.0	7.8	7.8
Official grants	0.3	0.1	0.3	0.3	0.5	0.3	0.3	0.3	0.3	0.3	0.0	0.0	0.0
Others, including private remittances	9.0	9.1	8.7	9.6	9.7	9.4	9.0	9.2	9.2	8.4	8.0	7.8	7.8
Capital and financial account balance 2/	7.9	9.5	1.4	4.3	4.6	6.6	3.5	3.0	4.4	5.7	5.3	4.9	5.1
Capital transfers balance	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	2.1	3.6	3.7	4.9	5.5	4.7	4.7	4.2	4.2	4.2	4.2	4.2	4.2
Portfolio investment balance	5.3	5.6	1.1	0.1	-0.9	3.9	1.1	1.8	2.4	2.3	1.4	0.0	0.1
Other investment balance	0.5	0.3	-3.4	-0.7	0.0	-2.0	-2.2	-3.0	-2.2	-0.8	-0.3	0.7	0.8
Public sector 2/ 3/	1.5	1.2	2.2	0.9	1.4	0.6	-0.3	-2.1	-1.3	-0.1	0.0	0.8	0.8
Domestic banks	-1.3	-1.3	-4.5	-0.6	-0.2	-1.3	-1.1	-0.2	-0.2	0.0	0.0	0.0	0.0
Other private sector 4/	0.4	0.4	-1.1	-1.0	-1.2	-1.4	-0.8	-0.7	-0.6	-0.6	-0.3	-0.1	0.0
Errors and omissions	0.7	0.5	0.8	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.9	3.9	-3.7	0.9	0.9	2.0	-0.7	-1.3	0.6	1.9	1.4	0.9	1.1
Memorandum items:													
Export growth	-0.5	25.6	1.0	7.0	6.7	8.5	7.6	6.9	10.2	8.6	9.3	9.1	9.1
Import growth	2.0	4.7	0.4	3.4	4.1	6.2	3.5	5.8	8.8	7.6	8.0	8.6	8.8
Export volume growth	-0.8	21.9	1.7	7.0	6.8	7.7	9.9	7.0	8.8	7.3	7.8	7.6	7.5
Import volume growth	0.8	2.7	1.9	5.5	5.7	5.8	6.8	4.4	6.4	6.1	6.4	7.0	7.1
Trading partner import growth	-0.8	2.5	4.5	1.3	0.7	5.1	3.3	5.1	5.1	4.9	4.6	4.6	4.6
Export prices growth	0.3	3.0	-0.7	0.0	-0.1	0.7	-2.1	-0.1	1.3	1.2	1.4	1.4	1.5
Import prices growth	1.2	2.0	-1.5	-2.0	-1.5	0.3	-3.1	1.4	2.3	1.4	1.5	1.5	1.6
Change in terms of trade	-0.9	1.0	0.8	2.0	1.5	0.4	1.0	-1.4	-1.0	-0.2	-0.2	-0.1	-0.1
Gross official reserves (in billions of euro)	10.9	11.2	9.9	10.4	10.4	11.0	10.1	10.6	10.3	11.1	11.6	12.0	12.5
(In months of prospective imports of GNFS)	7.4	7.4	6.3	6.2	6.4	6.3	5.7	5.7	5.4	5.4	5.2	4.9	4.7
(in percent of short-term debt)	208.9	278.8	292.1	313.5	281.4	273.8	248.9	225.0	244.5	325.5	254.8	263.6	274.9
(in percent of broad money, M2)	76.8	76.2	65.8	65.6	64.6	66.1	59.1	60.2	56.0	55.8	55.1	53.3	52.0
(in percent of risk-weighted metric) 5/	...	187.8	165.0	212.4	170.2	211.5	163.4	195.6	161.7	170.2	168.4	167.8	187.4

Sources: NBS; and IMF staff estimates and projections.

1/ Some estimates, in particular for private remittances and reinvested earnings, are subject to significant uncertainty.

2/ Excluding net use of IMF resources.

3/ Includes SDR allocations in 2009.

4/ Includes trade credits (net).

5/ Formulas for calculation revised as compared to the third review.

Table 5. Serbia: External Financing Requirements, 2012–21

	2012	2013	2014	2015	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
	(percent of GDP)									
1. Gross financing requirements	22.5	23.4	12.6	15.6	14.4	16.0	17.0	13.8	15.6	15.7
Current account deficit	11.5	6.1	6.0	4.8	4.2	3.9	3.8	3.9	4.0	4.0
Debt amortization	14.6	15.2	12.0	10.3	10.9	11.6	11.3	8.5	10.7	10.6
Medium and long-term debt	12.6	13.8	11.4	10.0	10.2	10.7	10.5	7.7	10.0	9.9
Public sector	5.1	6.9	6.6	5.9	5.2	7.5	7.5	3.9	6.7	7.3
Of which: IMF	0.7	1.8	1.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Eurobonds	0.0	0.0	0.0	0.1	0.2	2.2	2.7	0.1	3.5	4.3
Of which: Domestic bonds (non-residents)	n.a.	2.5	3.0	3.3	2.7	1.7	2.2	1.8	1.6	1.5
Commercial banks	1.8	3.2	2.8	2.3	2.5	1.3	1.0	1.3	1.4	1.1
Corporate sector	5.7	3.7	2.0	1.8	2.5	1.9	2.0	2.6	1.8	1.6
Short-term debt	2.0	1.4	0.6	0.3	0.8	0.9	0.8	0.8	0.7	0.7
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	1.8	1.2	0.5	0.2	0.4	0.5	0.5	0.4	0.4	0.4
Corporate sector	0.2	0.2	0.1	0.1	0.4	0.4	0.3	0.3	0.3	0.3
Change in gross reserves (increase=+)	-3.6	2.0	-5.4	0.5	-0.7	0.6	1.9	1.4	0.9	1.1
2. Available financing	22.5	23.4	12.6	15.6	14.4	16.0	17.0	13.8	15.6	15.7
Capital transfers	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	2.1	3.6	3.7	5.5	4.7	4.2	4.2	4.2	4.2	4.2
Portfolio investment (net) 1/	-0.1	-0.1	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	19.0	17.8	11.3	10.3	9.8	11.8	12.8	9.7	11.4	11.5
Medium and long-term debt	17.5	17.3	11.0	9.5	8.9	11.0	12.0	8.9	10.7	10.8
Public sector 2/	10.3	12.1	8.6	7.4	6.0	8.6	9.7	5.3	7.6	8.2
Of which: Eurobonds	4.4	5.5	0.0	0.0	3.0	3.6	3.3	1.3	3.5	4.4
Of which: Domestic bonds (non-residents)	n.a.	3.9	4.5	3.9	1.1	2.8	3.9	2.0	1.6	1.5
Commercial banks	1.0	1.7	0.6	0.7	1.2	1.1	1.0	1.3	1.4	1.1
Corporate sector	6.1	3.5	1.8	1.4	1.7	1.3	1.3	2.3	1.8	1.6
Short-term debt	1.6	0.6	0.3	0.8	0.9	0.9	0.8	0.8	0.7	0.7
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	1.3	0.5	0.2	0.4	0.5	0.5	0.5	0.4	0.4	0.4
Corporate sector	0.2	0.1	0.1	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Other net capital inflows 3/	1.5	2.1	-2.3	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
o/w currency and deposits and trade credit	1.1	2.0	2.8	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
3. Total financing needs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Debt service	17.0	17.7	14.5	13.1	13.7	13.9	14.0	11.2	13.4	13.3
Interest	2.3	2.4	2.5	2.8	2.8	2.3	2.7	2.7	2.7	2.7
Amortization	14.6	15.2	12.0	10.3	10.9	11.6	11.3	8.5	10.7	10.6

Sources: NBS; and Fund staff estimates and projections.

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

Table 6a. Serbia: General Government Fiscal Operations, 2012–21 1/

(In billions of RSD)

	2012	2013	2014	2015		2016		2017		2018	2019	2020	2021
				3d rev.	Actual	3d rev.	Proj.	3d rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of RSD)												
Revenue	1,411	1,468	1,552	1,610	1,632	1,647	1,712	1,706	1,765	1,880	2,008	2,159	2,322
Taxes	1,226	1,296	1,370	1,389	1,400	1,453	1,476	1,508	1,545	1,651	1,770	1,912	2,065
Personal income tax	165	156	146	144	147	150	153	151	161	172	185	199	214
Social security contributions	379	418	440	442	443	457	463	481	494	532	567	612	660
Taxes on profits	55	61	73	63	63	64	64	67	67	71	77	84	91
Value-added taxes	367	381	410	412	416	427	435	443	454	486	527	573	623
Excises	181	205	212	230	236	254	260	261	265	280	297	317	340
Taxes on international trade	36	33	31	33	33	35	36	37	38	39	42	47	51
Other taxes	43	43	57	65	63	65	66	67	67	71	75	80	86
Non-tax revenue	180	163	171	211	221	184	223	187	209	217	225	234	244
Capital revenue	1	5	2	0	3	0	0	0	0	0	0	0	0
Grants	3	3	9	10	7	11	13	11	11	12	12	13	14
Expenditure	1,669	1,686	1,810	1,773	1,780	1,811	1,814	1,821	1,859	1,958	2,086	2,244	2,413
Current expenditure	1,523	1,582	1,669	1,639	1,633	1,660	1,654	1,665	1,679	1,778	1,895	2,039	2,195
Wages and salaries 2/	375	393	389	362	356	372	359	350	356	373	392	419	447
Goods and services	287	278	310	297	303	312	327	317	334	358	386	417	445
Interest	68	95	115	134	130	145	144	153	149	168	181	196	213
Subsidies	145	130	158	136	134	111	112	115	110	116	125	135	146
Transfers	647	687	697	710	710	720	712	731	729	763	811	873	943
Pensions 3/	474	498	508	502	490	508	502	515	508	524	558	601	651
Other transfers 4/	174	189	189	208	219	212	210	216	221	239	253	272	293
Capital expenditure	119	83	97	103	115	117	123	130	148	161	173	186	199
Net lending	16	13	15	3	3	2	2	3	3	3	3	3	3
Amortization of activated guarantees	11	9	30	28	30	32	34	24	30	16	16	16	16
Unidentified measures (cumulative)	…	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal balance without amortization of activated guarante	-248	-210	-228	-134	-118	-132	-68	-91	-64	-62	-63	-69	-75
Fiscal balance	-259	-218	-258	-162	-149	-164	-102	-115	-94	-78	-79	-85	-90
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing	259	218	258	162	149	164	102	115	94	78	79	85	90
Privatization proceeds	22	3	2	0	1	0	0	0	0	0	0	0	0
Equity investment	-39	-18	0	0	0	0	0	0	0	0	0	0	0
Domestic	116	42	123	93	120	25	27	48	83	33	4	27	21
Banks	130	33	83	47	151	2	92	17	49	13	-20	-22	-12
Government deposits ((-) means accumulation)	-30	-100	-56	49	32	1	0	6	2	-1	2	1	13
Securities held by banks (net)	98	56	118	7	92	5	107	15	58	37	10	9	7
Other domestic bank financing	63	76	22	-9	27	-4	-15	-4	-11	-22	-31	-32	-32
Non-banks (incl. non-residents)	-14	8	40	46	-32	23	-65	30	34	20	24	48	33
Securities held by non-banks (non-residents, net)	34	56	97	74	35	90	28	46	50	24	29	53	38
Others (incl. amortization)	-48	-48	-58	-28	-67	-67	-93	-16	-16	-5	-5	-5	-5
External	160	192	133	70	28	139	75	68	11	45	75	58	70
Program	0	0	0	11	17	0	0	0	0	0	0	0	0
Project	43	36	66	44	55	50	54	41	61	63	68	73	98
Bonds and loans	159	234	88	58	12	158	124	131	204	209	99	253	296
Amortization	-41	-78	-20	-44	-56	-69	-103	-105	-255	-227	-93	-268	-324
Residual Financing gap/Discrepancy	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:													
Wages and salaries excluding severance payments	375	393	389	361	356	354	356	336	354	373	392	419	447
Arrears accumulation (domestic)	9	-5	-14	0	-2	0	0	0	0	0	0	0	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	134	112	120	13	105	5	4	15	19	14	13	13	16
Government deposits (stock)	113	167	174	126	142	125	142	119	140	142	140	140	127
Gross public debt	2090	2381	2814	3007	3076	3231	3186	3338	3281	3393	3522	3660	3807
Gross public debt (including restitution)	2090	2381	3093	3250	3320	3474	3430	3581	3524	3636	3744	3861	3986
Nominal GDP (billions of dinars)	3584	3876	3908	3964	3973	4138	4147	4377	4369	4682	5040	5452	5898

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/ Including severence payments.

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

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

Table 6b. Serbia: General Government Fiscal Operations, 2012–21 1/

(Percent of GDP)

	2012	2013	2014	2015		2016		2017		2018	2019	2020	2021
				3d rev.	Actual	3d rev.	Proj.	3d rev.	Proj.	Proj.	Proj.	Proj.	Proj.
						(percent of GDP)							
Revenue	39.4	37.9	39.7	40.6	41.1	39.8	41.3	39.0	40.4	40.1	39.8	39.6	39.4
Taxes	34.2	33.4	35.0	35.0	35.2	35.1	35.6	34.5	35.4	35.3	35.1	35.1	35.0
Personal income tax	4.6	4.0	3.7	3.6	3.7	3.6	3.7	3.5	3.7	3.7	3.7	3.6	3.6
Social security contributions	10.6	10.8	11.3	11.2	11.1	11.0	11.2	11.0	11.3	11.4	11.3	11.2	11.2
Taxes on profits	1.5	1.6	1.9	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Value-added taxes	10.3	9.8	10.5	10.4	10.5	10.3	10.5	10.1	10.4	10.4	10.5	10.5	10.6
Excises	5.1	5.3	5.4	5.8	5.9	6.1	6.3	6.0	6.1	6.0	5.9	5.8	5.8
Taxes on international trade	1.0	0.8	0.8	0.8	0.8	0.8	0.9	0.8	0.9	0.8	0.8	0.9	0.9
Other taxes	1.2	1.1	1.5	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Non-tax revenue	5.0	4.2	4.4	5.3	5.6	4.4	5.4	4.3	4.8	4.6	4.5	4.3	4.1
Capital revenue	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2
Expenditure	46.6	43.5	46.3	44.7	44.8	43.8	43.7	41.6	42.6	41.8	41.4	41.2	40.9
Current expenditure	42.5	40.8	42.7	41.3	41.1	40.1	39.9	38.0	38.4	38.0	37.6	37.4	37.2
Wages and salaries 2/	10.5	10.1	9.9	9.1	9.0	9.0	8.6	8.0	8.2	8.0	7.8	7.7	7.6
Goods and services	8.0	7.2	7.9	7.5	7.6	7.5	7.9	7.2	7.6	7.7	7.7	7.6	7.5
Interest	1.9	2.4	2.9	3.4	3.3	3.5	3.5	3.5	3.4	3.6	3.6	3.6	3.6
Subsidies	4.1	3.3	4.0	3.4	3.4	2.7	2.7	2.6	2.5	2.5	2.5	2.5	2.5
Transfers	18.1	17.7	17.8	17.9	17.9	17.4	17.2	16.7	16.7	16.3	16.1	16.0	16.0
Pensions 3/	13.2	12.8	13.0	12.7	12.3	12.3	12.1	11.8	11.6	11.2	11.1	11.0	11.0
Other transfers 4/	4.8	4.9	4.8	5.3	5.5	5.1	5.1	4.9	5.1	5.1	5.0	5.0	5.0
Capital expenditure	3.3	2.1	2.5	2.6	2.9	2.8	3.0	3.0	3.4	3.4	3.4	3.4	3.4
Net lending	0.5	0.3	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Amortization of activated guarantees	0.3	0.2	0.8	0.7	0.8	0.8	0.8	0.5	0.7	0.3	0.3	0.3	0.3
Unidentified measures (cumulative)	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal balance without guarantees (cash basis)	-6.9	-5.4	-5.8	-3.4	-3.0	-3.2	-1.6	-2.1	-1.5	-1.3	-1.2	-1.3	-1.3
Fiscal balance (incl. amortization of called guarantees)	-7.2	-5.6	-6.6	-4.1	-3.7	-4.0	-2.5	-2.6	-2.2	-1.7	-1.6	-1.6	-1.5
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financing	7.2	5.6	6.6	4.1	3.7	4.0	2.5	2.6	2.2	1.7	1.6	1.6	1.5
Privatization proceeds	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity investment	-1.1	-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	3.2	1.1	3.1	2.3	3.0	0.6	0.7	1.1	1.9	0.7	0.1	0.5	0.4
Banks	3.6	0.9	2.1	1.2	3.8	0.0	2.2	0.4	1.1	0.3	-0.4	-0.4	-0.2
Government deposits ((-) means accumulation)	-0.8	-2.6	-1.4	1.2	0.8	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.2
Securities held by banks (net)	2.7	1.5	3.0	0.2	2.3	0.1	2.6	0.3	1.3	0.8	0.2	0.2	0.1
Other domestic bank financing	1.8	2.0	0.6	-0.2	0.7	-0.1	-0.4	-0.1	-0.3	-0.5	-0.6	-0.6	-0.5
Non-banks (incl. non-residents)	-0.4	0.2	1.0	1.2	-0.8	0.6	-1.6	0.7	0.8	0.4	0.5	0.9	0.6
Securities held by non-banks (non-residents, net	0.9	1.4	2.5	1.9	0.9	2.2	0.7	1.0	1.1	0.5	0.6	1.0	0.6
Others (incl. amortization)	-1.3	-1.2	-1.5	-0.7	-1.7	-1.6	-2.2	-0.4	-0.4	-0.1	-0.1	-0.1	-0.1
External	4.5	5.0	3.4	1.8	0.7	3.4	1.8	1.5	0.2	1.0	1.5	1.1	1.2
Program	0.0	0.0	0.0	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project	1.2	0.9	1.7	1.1	1.4	1.2	1.3	0.9	1.4	1.4	1.4	1.3	1.7
Bonds and loans	4.4	6.0	2.2	1.5	0.3	3.8	3.0	3.0	4.7	4.5	2.0	4.6	5.0
Amortization	-1.2	-2.0	-0.5	-1.1	-1.4	-1.7	-2.5	-2.4	-5.8	-4.8	-1.8	-4.9	-5.5
Residual Financing gap/Discrepancy	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
Memorandum items:													
Wages and salaries excluding severance payments	10.5	10.1	9.9	9.1	9.0	8.6	8.6	7.7	8.1	8.0	7.8	7.7	7.6
Arrears accumulation (domestic)	0.2	-0.1	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal support to SOEs (gross new issuance guarantees)	3.7	2.9	3.1	0.3	2.7	0.1	0.1	0.4	0.4	0.3	0.3	0.2	0.3
Government deposits (stock)	3.2	4.3	4.5	3.2	3.6	3.0	3.4	2.7	3.2	3.0	2.8	2.6	2.1
Gross financing need	15.9	16.2	16.2	16.4	16.5	14.1	15.6	13.6	17.0	15.4	12.2	15.3	15.9
Gross public debt	58.3	61.4	72.0	75.9	77.4	78.1	76.8	76.3	75.1	72.5	69.9	67.1	64.6
Gross public debt (including restitution)	58.3	61.4	79.1	82.0	83.6	84.0	82.7	81.8	80.6	77.7	74.3	70.8	67.6
Nominal GDP (billions of dinars)	3,584	3,876	3,908	3,964	3,973	4,138	4,147	4,377	4,369	4,682	5,040	5,452	5,898

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/ Including severence payments.

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

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

Table 7a. Serbia: Monetary Survey, 2012–21

	2012	2013	2014	2015		2016			2017		2018	2019	2020	2021
				3d rev.	Actual	Mar	3d rev.	Proj.	3d rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/													
Net foreign assets 2/	673	847	1037	1138	1087	1041	1291	1147	1257	1189	1272	1330	1388	1439
in billions of euro	5.9	7.4	8.6	9.4	8.9	8.5	10.5	9.2	10.1	9.5	10.1	10.4	10.7	11.0
Foreign assets	1420	1427	1475	1511	1480	1415	1604	1503	1562	1538	1623	1686	1749	1803
NBS	1250	1291	1208	1268	1272	1179	1370	1322	1326	1355	1439	1500	1560	1613
Commercial banks	169	136	267	243	208	236	234	181	236	182	184	186	189	191
Foreign liabilities (-)	-747	-580	-438	-373	-393	-374	-313	-356	-305	-349	-352	-356	-360	-364
NBS	-166	-87	-27	-10	-8	-6	-8	-6	-8	-6	-6	-6	-6	-6
Commercial banks	-581	-493	-412	-364	-385	-367	-304	-350	-297	-343	-346	-350	-354	-358
Net domestic assets	943	836	785	780	874	894	767	976	930	1,096	1,197	1,335	1,528	1,755
Domestic credit	2,027	1,886	2,005	2,059	2,164	2,208	2,128	2,367	2,350	2,528	2,667	2,833	3,068	3,339
Government, net	95	49	123	169	223	291	171	301	189	349	349	341	326	310
NBS	-160	-236	-256	-208	-228	-217	-209	-229	-204	-227	-228	-230	-229	-229
Claims on government	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Liabilities (deposits)	161	237	258	210	229	218	211	230	205	228	229	231	230	231
Banks	255	285	379	378	451	508	380	530	393	576	577	571	555	539
Claims on government	290	336	457	456	538	600	460	619	472	666	667	662	647	632
Liabilities (deposits)	36	51	78	78	87	92	79	89	80	90	90	91	92	93
Local governments, net	6	1	-8	-8	-7	-12	-8	-7	-8	-7	-7	-7	-7	-7
Non-government sector	1,926	1,837	1,890	1,898	1,948	1,929	1,965	2,073	2,169	2,186	2,326	2,499	2,748	3,036
Households	654	675	725	743	760	775	784	801	866	845	899	966	1,062	1,173
Enterprises	1,226	1,111	1,140	1,130	1,162	1,125	1,155	1,244	1,276	1,312	1,396	1,500	1,650	1,822
Other	47	51	25	25	26	30	26	28	28	29	31	34	37	41
Other assets, net	-1,084	-1,050	-1,220	-1,279	-1,291	-1,314	-1,361	-1,391	-1,420	-1,432	-1,470	-1,498	-1,540	-1,584
Capital accounts (-)	-876	-830	-927	-954	-952	-936	-989	-980	-1,027	-1,007	-1,026	-1,038	-1,062	-1,088
NBS	-264	-217	-307	-320	-341	-315	-336	-355	-355	-362	-369	-376	-380	-384
Banks	-611	-613	-620	-635	-610	-620	-654	-626	-672	-645	-657	-661	-682	-704
Provisions (-)	-237	-257	-279	-286	-317	-309	-300	-348	-317	-362	-377	-388	-400	-412
Other assets	28	37	-14	-39	-23	-70	-72	-62	-76	-62	-67	-72	-78	-84
Broad money (M2)	1616	1683	1823	1917	1955	1935	2058	2123	2187	2285	2469	2665	2916	3194
M1	296	366	402	445	470	457	496	527	552	591	663	743	839	949
Currency in circulation	111	122	130	134	140	131	149	157	166	176	197	221	250	282
Demand deposits	186	244	271	311	330	325	347	370	386	415	466	522	590	667
Time and saving deposits	159	149	173	179	192	149	199	216	222	242	271	304	343	388
Foreign currency deposits	1161	1169	1248	1293	1292	1329	1363	1380	1412	1453	1534	1617	1734	1857
in billions of euro	10.2	10.2	10.3	10.6	10.6	10.8	11.0	11.1	11.3	11.6	12.1	12.6	13.4	14.2
Memorandum items:	(year-on-year change unless indicated otherwise)													
M1	3.8	23.7	9.7	10.8	17.0	25.1	11.4	12.1	11.4	12.1	12.3	12.1	12.9	13.1
M2	9.2	4.2	8.3	5.2	7.2	8.1	7.3	8.6	6.2	7.6	8.0	7.9	9.4	9.5
Velocity (Dinar part of money supply)	7.9	7.5	6.8	6.4	6.0	6.6	6.0	5.6	5.7	5.2	5.0	4.8	4.6	4.4
Velocity (M2)	2.2	2.3	2.1	2.1	2.0	2.1	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.8
Deposits at program exchange rate	3.6	2.9	4.1	5.1	6.9	5.9	5.9	6.7	5.3	6.8	7.1	6.8	8.4	8.6
Credit to non-gov. (current exchange rate)	7.2	-3.5	3.0	-0.7	1.4	1.1	1.9	3.1	6.2	2.8	3.6	5.3	7.6	8.2
Credit to non-gov. (program exchange rates) 3,	0.3	-4.1	-1.4	-1.0	0.5	-0.4	0.7	1.7	5.6	2.3	3.0	4.4	6.7	7.5
Domestic	3.3	-5.1	-1.0	0.1	2.0	1.1	2.5	5.5	9.8	4.9	5.8	6.6	9.2	9.8
Households	2.1	2.8	3.8	2.2	3.1	5.0	4.6	5.5	9.9	5.0	5.9	6.7	9.3	9.8
Enterprises and other sectors	3.9	-9.1	-3.7	-1.1	1.4	-1.4	1.2	5.4	9.8	4.9	5.8	6.6	9.2	9.8
External	-5.0	-2.1	-2.2	-3.2	-2.4	-3.3	-2.8	-5.8	-3.3	-3.6	-4.1	-1.5	-0.5	0.0
Credit to non-gov. (real terms) 4/	-4.5	-5.6	1.2	-2.7	-0.2	0.5	-1.6	0.8	2.2	-0.6	0.1	1.3	3.4	4.0
Domestic credit to non-gov. (real terms)	-2.6	-6.7	1.2	-1.7	1.5	1.7	0.0	4.1	6.3	1.9	2.8	3.3	5.8	6.2
Households	-3.3	1.0	5.7	0.3	3.1	4.8	2.0	3.1	6.3	1.9	2.8	3.3	5.8	6.2
Enterprises and other sectors	-2.2	-10.7	-1.5	-2.9	0.4	-0.3	-1.2	4.7	6.3	1.9	2.8	3.3	5.8	6.2
External	-8.0	-3.4	1.4	-4.7	-3.4	-1.7	-4.7	-5.8	-6.1	-6.2	-6.5	-4.1	-3.2	-2.8
12-m change in NBS's NFA, billions of euros	-0.1	1.5	-0.1	0.6	0.3	0.0	0.8	0.5	-0.5	0.1	0.5	0.3	-10.7	0.0
Deposit euroization (percent of total) 5/	77.1	74.9	73.8	72.5	71.2	73.7	71.4	70.2	69.9	68.9	67.5	66.2	65.0	63.8
Credit euroization (percent of total) 5/	69.7	70.6	67.6	66.6	70.6	69.8	65.6	69.3	64.6	68.8	67.8	66.8	65.8	64.8

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

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 7b. Serbia: NBS Balance Sheet, 2012–21

	2012	2013	2014	2015		2016			2017		2018	2019	2020	2021
				3d rev.	Actual	Mar	3d rev.	Proj.	3d rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/													
Net foreign assets	1085	1204	1182	1259	1265	1172	1362	1316	1318	1349	1434	1494	1554	1607
(In billions of euro)	9.5	10.5	9.8	10.4	10.4	9.5	11.0	10.6	10.6	10.8	11.3	11.7	12.0	12.3
Gross foreign reserves	1250	1291	1208	1268	1272	1179	1370	1322	1326	1355	1439	1500	1560	1613
Gross reserve liabilities (-)	-166	-87	-27	-10	-8	-6	-8	-6	-8	-6	-6	-6	-6	-6
Net domestic assets	-470	-584	-601	-689	-647	-645	-787	-705	-716	-702	-745	-762	-767	-731
Net domestic credit	-206	-368	-294	-369	-305	-329	-452	-350	-360	-340	-376	-385	-387	-347
Net credit to government	-160	-236	-256	-208	-228	-217	-209	-229	-204	-227	-228	-230	-229	-229
Claims on government	1	1	1	1	1 1	1	1	1	1	1	1	1	1	1
Liabilities to government (-)	-161	-237	-258	-210	-229	-218	-211	-230	-205	-228	-229	-231	-230	-231
Liabilities to government (-): local currency	-55	-89	-103	-98	-125	-122	-98	-125	-98	-125	-125	-125	-125	-125
Liabilities to government (-): foreign currency	-106	-148	-154	-111	-103	-97	-112	-105	-107	-103	-104	-106	-105	-105
Net credit to local governmens	-18	-31	-46	-51	-61	-63	-51	-65	-51	-65	-65	-65	-65	-65
Net claims on banks	-39	-110	-7	-125	-30	-29	-206	-68	-120	-61	-95	-103	-105	-66
Capital accounts (-)	-264	-217	-307	-320	-341	-315	-336	-355	-355	-362	-369	-376	-380	-384
Reserve money	614	620	581	569	618	528	574	612	602	648	689	732	787	876
Currency in circulation	111	122	130	134	140	131	149	157	166	176	197	221	250	282
Commercial bank reserves	186	200	212	238	248	205	237	256	241	262	270	278	288	326
Required reserves	140	145	158	124	145	137	110	142	114	149	158	166	178	191
Excess reserves	45	55	54	114	103	68	127	114	127	113	112	112	110	135
FX deposits by banks, billions of euros	2.8	2.6	2.0	1.6	1.9	1.6	1.5	1.6	1.6	1.7	1.8	1.8	1.9	2.0

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

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

Table 8. Serbia: Banking Sector Financial Soundness Indicators, 2011–16

	2012	2013	2014	2015				2016
				Mar	Jun	Sep	Dec	Mar
Capital adequacy								
Regulatory capital to risk-weighted assets	19.9	20.9	20.0	20.2	21.4	21.2	20.9	21.5
Regulatory Tier 1 capital to risk-weighted assets	19.0	19.3	17.6	17.8	18.9	18.8	18.8	19.5
Nonperforming loans net of provisions to capital	31.0	32.7	31.0	31.3	30.4	28.4	25.9	23.5
Capital to assets	20.5	20.9	20.7	21.2	21.2	21.4	20.3	20.7
Large exposures to capital*	61.9	52.8	72.1	71.2	63.6	64.6	68.2	65.4
Regulatory capital to total assets	12.2	12.2	11.4	11.6	11.9	11.9	11.9	12.3
Asset quality								
Nonperforming loans to total gross loans	18.6	21.4	21.5	22.6	22.8	22.0	21.6	20.9
Sectoral distribution of loans (percent of total loans)								
Deposit takers	0.3	0.3	0.8	0.5	0.5	0.2	0.1	0.1
Central bank	2.1	5.8	0.4	0.0	1.1	3.1	1.6	1.6
General government	3.0	2.3	2.3	2.2	2.0	1.8	1.7	1.6
Other financial corporations	1.6	1.6	0.5	0.4	0.5	0.5	0.7	0.7
Nonfinancial corporations	58.2	54.1	56.3	56.1	55.1	54.1	55.9	54.7
Agriculture	3.0	2.7	3.5	3.4	3.4	3.6	3.7	3.6
Industry	17.9	18.4	19.2	18.8	18.4	17.9	18.4	17.9
Construction	5.8	4.6	4.2	4.1	4.2	3.9	3.8	3.8
Trade	15.0	13.5	13.9	13.6	13.0	13.2	13.9	13.4
Other loans to nonfinancial corporations	16.5	14.9	15.6	16.2	16.1	15.5	16.2	15.9
Households and NPISH	33.0	34.8	38.3	39.0	39.4	38.4	39.1	40.1
Households and NPISH of which: mortgage loans to total loans	16.1	16.8	18.0	18.6	18.6	17.8	18.1	18.3
Foreign sector	1.9	1.1	1.4	1.7	1.5	1.9	0.9	1.2
Specific provision for NPLs to gross NPLs	50.0	50.9	54.9	55.4	56.1	57.0	62.3	63.5
Specific and general provisions for NPLs to gross NPLs	111.1	105.5	107.6	105.7	105.7	107.5	106.4	106.6
Specific and general provisions for balance sheet losses to NPLs	120.7	113.8	114.5	113.0	113.2	115.0	114.2	114.9
Specific and general provisions to NPLs	126.5	117.9	118.4	116.7	116.9	118.8	118.2	118.9
Specific provision of total loans to total gross loans	10.2	11.9	12.7	13.4	13.6	13.4	14.4	14.2
Earnings and Profitability								
Return on assets	0.4	-0.1	0.1	1.0	1.1	1.2	0.3	1.9
Return on equity	2.0	-0.4	0.6	4.7	5.4	5.6	1.5	9.2
Liquidity								
Customer deposits to total (noninterbank) loans	93.2	103.4	108.1	107.8	110.1	110.1	114.4	114.4
Foreign-currency-denominated loans to total loans	74.1	71.6	70.1	71.3	71.3	71.1	72.3	71.8
Average monthy liquidity ratio	2.1	2.4	2.2	2.2	2.3	2.3	2.1	2.2
Average monthy narrow liquidity ratio	1.6	1.8	1.7	1.8	1.9	1.9	1.7	1.8
Sensitivity to Market Risk								
Foreign-currency-denominated liabilities to total liabilities	80.1	76.7	74.7	75.6	74.6	73.8	72.7	73.5
Total off-balance sheet items to total assets	103.5	111.0	207.3	242.2	239.2	235.7	234.1	231.5
Classified off-balance sheet items to classified balance sheet assets	26.1	28.7	27.6	27.9	27.7	28.7	30.6	30.1

Source: National Bank of Serbia.

Table 9. Serbia: Proposed Schedule of Purchases under the Stand-By Arrangement

	Available on or after	Amount of Purchase: In millions of SDR	Amount of Purchase: In millions of euros 1/	Amount of Purchase: In percent of quota 2/	Cumulative: In percent of quota 2/	Conditions
1	2/23/2015	187.080	233.4	29	29	Board approval of arrangement.
2	6/7/2015	116.925	147.9	18	46	Observance of continuous and end-March 2015 performance criteria, and completion of the review.
3	9/7/2015	116.925	147.4	18	64	Observance of continuous and end-June 2015 performance criteria, and completion of the review.
4	12/7/2015	70.155	89.1	11	75	Observance of continuous and end-September 2015 performance criteria, and completion of the review.
5	3/7/2016	70.155	88.4	11	86	Observance of continuous and end-December 2015 performance criteria, and completion of the review.
6	6/7/2016	46.770	58.4	7	93	Observance of continuous and end-March and end-June 2016 performance criteria, and completion of the review.
7	12/7/2016	54.565	68.1	8	101	Observance of continuous and end-September 2016 performance criteria, and completion of the review.
8	3/7/2017	54.565	68.0	8	110	Observance of continuous and end-December 2016 performance criteria, and completion of the review.
9	6/7/2017	54.565	67.9	8	118	Observance of continuous and end-March 2017 performance criteria, and completion of the review.
10	9/7/2017	54.565	67.9	8	126	Observance of continuous and end-June 2017 performance criteria, and completion of the review.
11	12/7/2017	54.565	67.8	8	135	Observance of continuous and end-September 2017 performance criteria, and completion of the review.
12	2/15/2018	54.565	67.8	8	143	Observance of continuous and end-December 2017 performance criteria, and completion of the review.
	Total	935.400	1,172.1	143	143	

Source: FIN, WEO.
1/ At projected WEO exchange rates.
2/ Serbia's current quota is SDR 654.8 million.

Table 10. Serbia: Balance of Payments (Precautionary SBA Shock Scenario), 2012–21 1/

	2010	2011	2012	2013	2014	2015	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
					(Billions of euros)							
Current account balance	-1.9	-2.9	-3.6	-2.1	-2.0	-1.6	-2.3	-2.1	-2.0	-2.0	-1.9	-1.8
Trade of goods balance	-4.6	-5.3	-5.6	-4.2	-4.1	-4.0	-4.5	-4.6	-4.6	-4.6	-4.6	-4.7
Exports of goods	7.4	8.4	8.4	10.5	10.6	11.4	11.4	12.7	14.0	15.5	17.2	19.0
Imports of goods	-12.0	-13.8	-14.0	-14.7	-14.8	-15.4	-15.9	-17.3	-18.6	-20.1	-21.8	-23.8
Services balance	0.0	0.2	0.1	0.3	0.5	0.7	0.9	1.1	1.2	1.4	1.5	1.7
Exports of nonfactor services	2.7	3.0	3.1	3.4	3.8	4.3	4.6	5.1	5.5	6.0	6.6	7.2
Imports of nonfactor services	-2.7	-2.9	-3.0	-3.1	-3.3	-3.5	-3.7	-4.0	-4.3	-4.6	-5.0	-5.5
Income balance	-0.7	-0.8	-1.1	-1.4	-1.3	-1.7	-1.8	-1.9	-1.9	-2.0	-2.2	-2.3
Net interest	-0.6	-0.7	-0.8	-0.9	-0.9	-1.0	-0.9	-0.8	-1.0	-1.1	-1.2	-1.3
Others, including reinvested earnings	0.0	0.0	-0.3	-0.5	-0.5	-0.7	-0.9	-1.1	-0.9	-0.9	-1.0	-1.1
Current transfer balance	3.4	3.0	2.9	3.2	3.0	3.3	3.1	3.3	3.3	3.2	3.3	3.6
Official grants	0.2	0.2	0.1	0.0	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Others, including private remittances	3.2	2.8	2.9	3.1	2.9	3.2	3.0	3.2	3.1	3.2	3.3	3.6
Capital and financial account balance 1/	0.5	4.4	2.5	3.3	0.5	1.5	0.2	0.5	2.1	2.1	2.1	2.3
Capital transfer balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	0.9	1.8	0.7	1.2	1.2	1.8	1.6	1.5	1.6	1.7	1.8	1.9
Portfolio investment balance	0.0	1.6	1.7	1.9	0.4	-0.3	-0.1	0.2	0.9	0.6	0.0	0.0
of which: debt liabilities	0.0	1.5	1.7	2.0	0.4	-0.2	-0.1	0.2	0.9	0.6	0.0	0.0
Other investment balance	-0.4	1.0	0.2	0.1	-1.1	0.0	-1.3	-1.2	-0.3	-0.1	0.3	0.4
Public sector 1/ 2/	0.7	0.7	0.5	0.4	0.7	0.5	-0.1	-0.5	0.0	0.0	0.3	0.4
Domestic banks	-0.1	0.2	-0.4	-0.5	-1.5	-0.1	-0.6	-0.3	0.0	0.0	0.0	0.0
Other private sector 3/	-1.0	0.1	0.1	0.1	-0.4	-0.4	-0.6	-0.4	-0.2	-0.1	0.0	0.0
Errors and omissions	0.1	0.2	0.2	0.2	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.3	1.7	-0.9	1.3	-1.2	0.3	-2.1	-1.6	0.1	0.1	0.2	0.5
Financing	1.3	-1.7	0.9	-1.3	1.2	-0.3	2.1	1.6	-0.1	-0.1	-0.2	-0.5
Gross international reserves (increase, -)	0.9	-1.8	1.1	-0.7	1.8	-0.2	1.2	1.3	-0.2	0.0	0.3	0.0
Use of Fund credit, net	0.3	0.1	-0.2	-0.6	-0.6	-0.1	0.8	0.3	0.1	-0.1	-0.5	-0.5
Purchases	0.3	0.1	0.0	0.0	0.0	0.0	0.8	0.3	0.1	0.0	0.0	0.0
Repurchases	0.0	0.0	-0.2	-0.6	-0.6	-0.1	0.0	0.0	0.0	-0.1	-0.5	-0.5
					(Percent of GDP)							
Current account balance	-6.4	-8.6	-11.5	-6.1	-6.0	-4.8	-6.7	-6.0	-5.4	-5.0	-4.6	-4.0
Trade of goods balance	-15.5	-15.9	-17.8	-12.1	-12.3	-12.1	-13.4	-13.0	-12.2	-11.4	-10.8	-10.3
Exports of goods	25.0	25.3	26.5	30.8	31.9	34.5	33.7	36.2	37.4	38.9	40.3	41.7
Imports of goods	-40.4	-41.2	-44.2	-42.9	-44.3	-46.7	-47.1	-49.2	-49.7	-50.3	-51.1	-52.0
Services balance	0.0	0.5	0.4	0.9	1.4	2.2	2.7	3.0	3.2	3.4	3.6	3.7
Income balance	-2.3	-2.3	-3.4	-4.1	-4.0	-5.0	-5.3	-5.5	-5.1	-5.1	-5.1	-5.1
Current transfer balance	11.3	9.1	9.3	9.2	9.0	10.2	9.3	9.5	8.7	8.0	7.8	7.8
Official grants	0.7	0.6	0.3	0.1	0.3	0.5	0.3	0.3	0.3	0.0	0.0	0.0
Others, including private remittances	10.7	8.5	9.0	9.1	8.7	9.7	9.0	9.2	8.4	8.0	7.8	7.8
Capital and financial account balance 1/	1.8	13.3	7.9	9.5	1.4	4.6	0.6	1.5	5.7	5.3	4.9	5.1
Capital transfers balance	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	2.9	5.5	2.1	3.6	3.7	5.5	4.7	4.2	4.2	4.2	4.2	4.2
Portfolio investment balance	0.1	4.8	5.3	5.6	1.1	-0.9	-0.4	0.6	2.3	1.4	0.0	0.1
Other investment balance	-1.2	3.0	0.5	0.3	-3.4	0.0	-3.7	-3.4	-0.8	-0.3	0.7	0.8
Public sector 1/ 2/	2.5	2.0	1.5	1.2	2.2	1.4	-0.3	-1.3	-0.1	0.0	0.8	0.8
Domestic banks	-0.4	0.7	-1.3	-1.3	-4.5	-0.2	-1.7	-0.8	0.0	0.0	0.0	0.0
Other private sector 3/	-3.2	0.2	0.4	0.4	-1.1	-1.2	-1.7	-1.3	-0.6	-0.3	-0.1	0.0
Errors and omissions	0.2	0.5	0.7	0.5	0.8	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.3	5.2	-2.9	3.9	-3.7	0.9	-6.1	-4.5	0.3	0.3	0.4	1.1
Memorandum items:					(percent change unless indicated otherwise)							
Export growth	23.8	14.0	-0.5	25.6	1.0	6.7	0.2	11.9	10.2	10.9	10.7	10.6
Import growth	9.7	14.8	2.0	4.7	0.4	4.1	3.5	8.8	7.6	8.0	8.6	8.8
Export volume growth	16.8	3.6	-0.8	21.9	1.7	6.8	2.3	10.4	8.8	9.4	9.2	9.0
Import volume growth	2.9	8.0	0.8	2.7	1.9	5.7	6.8	6.4	6.1	6.4	7.0	7.1
Trading partner import growth	12.7	6.7	-0.8	2.5	4.5	4.0	3.3	5.1	4.9	4.6	4.6	4.6
Export prices growth	6.0	10.0	0.3	3.0	-0.7	-0.1	-2.1	1.3	1.2	1.4	1.4	1.5
Import prices growth	6.6	6.3	1.2	2.0	-1.5	-1.5	-3.1	2.3	1.4	1.5	1.5	1.6
Change in terms of trade	-0.6	3.5	-0.9	1.0	0.8	1.5	1.0	-1.0	-0.2	-0.2	-0.1	-0.1
Gross official reserves (in billions of euro)	10.0	12.1	10.9	11.2	9.9	10.4	9.1	7.8	8.0	8.0	7.7	7.8
(In months of prospective imports of GNFS)	7.2	8.5	7.4	7.4	6.3	6.4	5.2	4.1	3.9	3.6	3.4	3.2
(in percent of short-term debt)	195.7	259.8	208.9	278.8	292.1	281.4	224.3	185.1	235.9	176.2	169.3	170.1
(in percent of broad money, M2)	78.6	85.2	76.8	76.2	65.8	64.6	53.3	42.4	40.4	38.1	34.2	32.2
(in percent of IMF risk-weighted metric)	187.2	217.1	186.5	187.8	165.0	170.2	147.3	122.5	123.3	116.5	107.8	116.0
GDP (billions of euros)	29.6	33.4	31.7	34.3	33.3	32.9	33.8	35.2	37.5	40.0	42.7	45.7

Sources: NBS; and IMF staff estimates and projections.

1/ Excluding net use of IMF resources.
2/ Includes SDR allocations in 2009.
3/ Includes trade credits (net).

Table 11. Serbia: Indicators of Capacity to Repay the Fund, 2013–21 1/

	2013	2014	2015	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Fund repurchases and charges									
In millions of SDRs	579	502	117	16	9	10	86	380	389
In millions of euro	663	574	147	21	11	13	107	471	482
In percent of exports of goods and NFS	4.7	4.0	0.9	0.1	0.1	0.1	0.5	2.0	1.8
In percent of GDP	1.9	1.7	0.4	0.1	0.0	0.0	0.3	1.1	1.1
In percent of quota	123.8	107.3	25.0	2.5	1.4	1.5	13.1	58.1	59.4
In percent of total external debt service	10.9	11.9	3.4	0.4	0.2	0.2	2.4	8.2	7.9
In percent of gross international reserves	5.9	5.8	1.4	0.2	0.1	0.2	1.3	6.1	6.2
Fund credit outstanding (end-period)									
In millions of SDRs	624	128	12	663	881	935	859	487	102
In millions of euro	701	151	15	827	1097	1163	1065	603	127
In percent of exports of goods and NFS	5.0	1.0	0.1	5.2	6.2	6.0	4.9	2.5	0.5
In percent of GDP	2.0	0.5	0.0	2.4	3.1	3.1	2.7	1.4	0.3
In percent of quota	133.5	27.3	2.5	101	135	143	131	74	16
In percent of total external debt	2.6	0.5	0.1	2.9	4.0	4.1	3.7	2.1	0.4
In percent of gross international reserves	6.3	1.5	0.1	9.0	14.0	14.5	13.3	7.8	1.6
Memorandum items:									
Exports of goods and NFS	13,963	14,451	15,631	15,975	17,797	19,529	21,563	23,774	26,204
Quota (in millions of SDRs)	468	468	468	655	655	655	655	655	655
GDP	34,277	33,335	32,901	33,770	35,158	37,471	39,960	42,708	45,678
Total external debt service	6,057	4,840	4,301	4,621	4,872	5,254	4,493	5,728	6,094
Public sector external debt	14,633	16,151	17,631	18,248	18,278	19,168	19,635	19,537	19,473
Total external debt	27,231	27,694	28,773	28,216	27,525	28,164	28,520	28,382	28,318
Total external debt stock excluding IMF	26,534	27,543	28,766	27,383	26,420	26,992	27,253	26,655	26,114
Gross international reserves	11,189	9,907	10,377	9,141	7,827	8,016	8,034	7,734	7,772

Source: Fund staff estimates.

1/ Based on the assumption of full drawing under the Precautionary SBA shock scenario.
2/ Serbia chose to be grandfathered for the calculation of commitment fees and surcharges, therefore, Serbia's old quota of SDR 467.7 million is used for the purpose of calculating surcharges in this table. Serbia's current quota is SDR 654.8 million.

Annex I. Serbia: Public Sector Debt Sustainability Analysis

Despite recent substantial increases in the debt ratio, partly related to exchange rate movements, the sizable fiscal adjustment implemented in 2015 and programmed for 2016–17 is expected to put debt on a firm downward path within a year. Nevertheless, large gross financing needs and a high share of fx denominated debt, together with the hesitation in delivering on structural reforms and fiscal measures constitute significant risks that could worsen such debt dynamics.

1. **General government debt continued to grow substantially as percent of GDP over the last year although the pace of increase was well below that of 2014.** The main factors causing this increase in debt were a significant depreciation of the dinar with respect to the U.S. dollar (about one-third of government debt is denominated in U.S. dollars) and high real interest rates. At the same time, the strong fiscal adjustment observed during 2015 and the initial recovery in economic growth partially offset these elements and allowed for a significant slow-down in the debt ratio increase with respect to 2014.

2. **Despite unexpected exchange rate depreciations at end-2014 and in 2015 that caused a step increase in the debt ratio, debt projections are now somewhat more favorable in the medium term than those presented in the last DSA.** After peaking at 77.4 percent of GDP in 2015, the debt ratio is expected to decrease gradually to 64.6 percent in 2021. This reflects mainly that: (i) the fiscal adjustment has been more frontloaded than originally expected and is now projected to be larger; (ii) growth recovered faster than expected; and (iii) ECB policy rate and the Serbian real interest rate projections are now lower than in the previous DSA.

3. **Frontloaded fiscal adjustment observed in 2015 provides further confidence in the realism of current fiscal and economic growth assumptions.** Although significant and difficult fiscal adjustment is still assumed over the rest of the projection period and despite uncertainties about the future pace of economic recovery, a significant share of the adjustment programmed at the request stage has now been implemented. The impact of the fiscal adjustment on economic growth was smaller than expected, probably owing to strong tail winds from low oil prices that are expected to continue for some time and stronger external demand.

4. **Nevertheless, the DSA still highlights very significant risks stemming from debt level and composition, pending fiscal structural adjustment, and from associated gross financing needs over the next five years.** Gross financing needs are still projected above 17 percent of GDP in 2021, which is above the 15 percent benchmark level for emerging markets, even after the strong fiscal adjustment implicit in the program. A scenario with no further improvement in the primary balance leads to no significant reduction in debt level and a significant increase in gross financing needs. The debt fan charts also illustrate the risks related to different shocks with particular emphasis on the impact of interrupted fiscal adjustment as illustrated by the asymmetric distribution chart that results from assuming no positive shocks to

the primary balance. The possibility of incomplete SOE reform also constitutes a significant risk to debt sustainability given its likely negative impact on fiscal finances.

5. Vulnerabilities to real exchange rate and GDP growth are key concerns. As illustrated by the macro-fiscal stress tests, shocks to GDP growth and the real exchange rate would significantly deteriorate debt and gross financing needs dynamics. Given Serbia's high external financing requirements (public and private), the large share of public debt held by non-residents (61 percent), the likely further increases in the U.S. Fed policy rate in the near future, and the slow recovery in Euro Area's economic activity, shocks to both the exchange rate and growth are likely.

Serbia Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

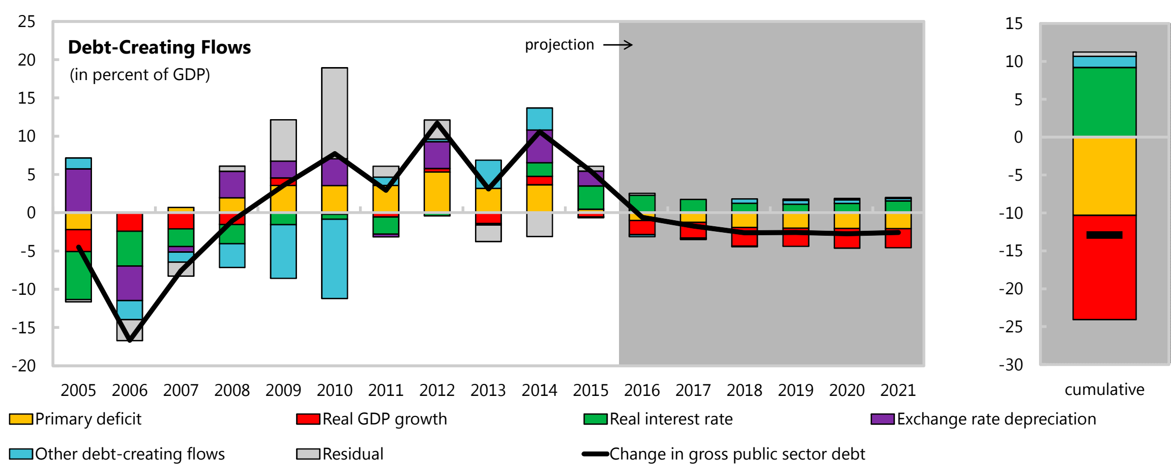
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	45.6	72.0	77.4	76.8	75.1	72.5	69.9	67.1	64.6
Of which: guarantees	6.0	7.9	7.3	6.7	6.4	6.0	5.5	5.1	4.7
Public gross financing needs	8.5	15.9	16.5	14.0	15.8	15.7	13.1	16.3	17.6
Real GDP growth (in percent)	2.5	-1.8	0.7	2.5	2.8	3.5	3.5	4.0	4.0
Inflation (GDP deflator, in percent)	8.9	2.7	0.9	1.8	2.5	3.5	4.0	4.0	4.0
Nominal GDP growth (in percent)	11.7	0.8	1.7	4.4	5.4	7.2	7.6	8.2	8.2
Effective interest rate (in percent) [4/]	3.6	5.6	5.2	5.0	5.0	5.4	5.8	6.1	6.7

As of June 17, 2016		
Sovereign Spreads		
EMBIG (bp) 3/	301	
5Y CDS (bp)	250	
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	BB-	BB-
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.1	10.6	5.4	-0.6	-1.8	-2.6	-2.6	-2.8	-2.6	-12.9	
Identified debt-creating flows	-1.7	13.7	4.8	-0.8	-1.6	-2.6	-2.8	-2.9	-2.7	-13.4	
Primary deficit	2.2	3.7	0.5	-1.0	-1.3	-1.9	-2.0	-2.0	-2.1	-10.3	-0.6
Primary (noninterest) revenue and grants	40.3	39.7	41.1	41.3	40.4	40.1	39.8	39.6	39.4	240.6	
Primary (noninterest) expenditure	42.5	43.4	41.5	40.3	39.1	38.2	37.8	37.6	37.3	230.3	
Automatic debt dynamics [5/]	-1.9	7.1	4.4	0.4	-0.3	-1.2	-1.2	-1.4	-0.9	-4.6	
Interest rate/growth differential [6/]	-3.4	2.9	2.5	0.4	-0.3	-1.2	-1.2	-1.4	-0.9	-4.6	
Of which: real interest rate	-2.3	1.8	3.0	2.3	1.8	1.2	1.1	1.2	1.6	9.2	
Of which: real GDP growth	-1.1	1.1	-0.5	-1.9	-2.0	-2.5	-2.4	-2.6	-2.5	-13.8	
Exchange rate depreciation [7/]	1.4	4.3	1.9	…	…	…	…	…	…	…	
Other identified debt-creating flows	-2.0	2.9	-0.1	-0.3	-0.1	0.6	0.5	0.5	0.3	1.5	
Privatization/Drawdown of Deposits (+ r	-2.3	0.6	-2.0	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	
Contingent liabilities	0.3	2.3	1.9	-0.4	-0.5	-0.1	0.0	0.0	0.0	-1.0	
Net lending outside budget	0.0	0.0	0.0	0.1	0.4	0.5	0.6	0.5	0.3	2.5	
Residual, including asset changes [8/]	1.6	-3.1	0.7	0.2	-0.1	-0.1	0.2	0.2	0.1	0.6	



Source: IMF staff.

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

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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.

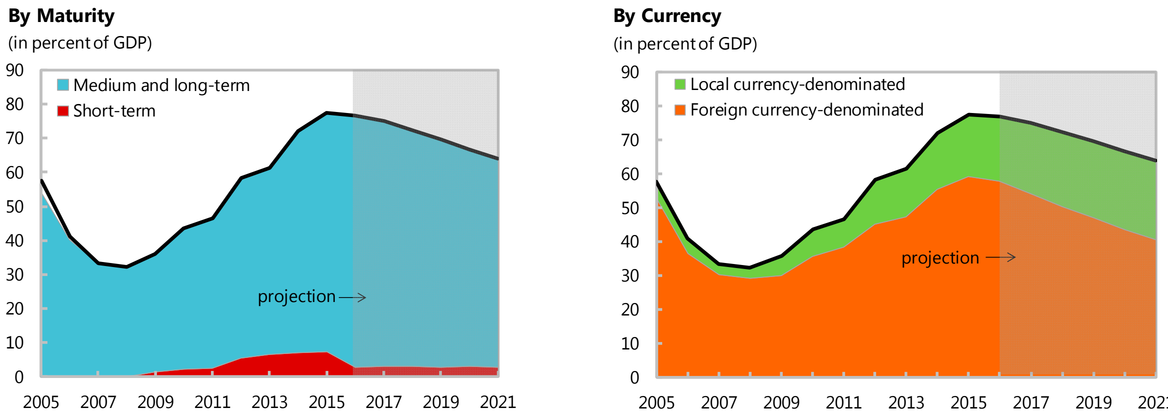
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

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.

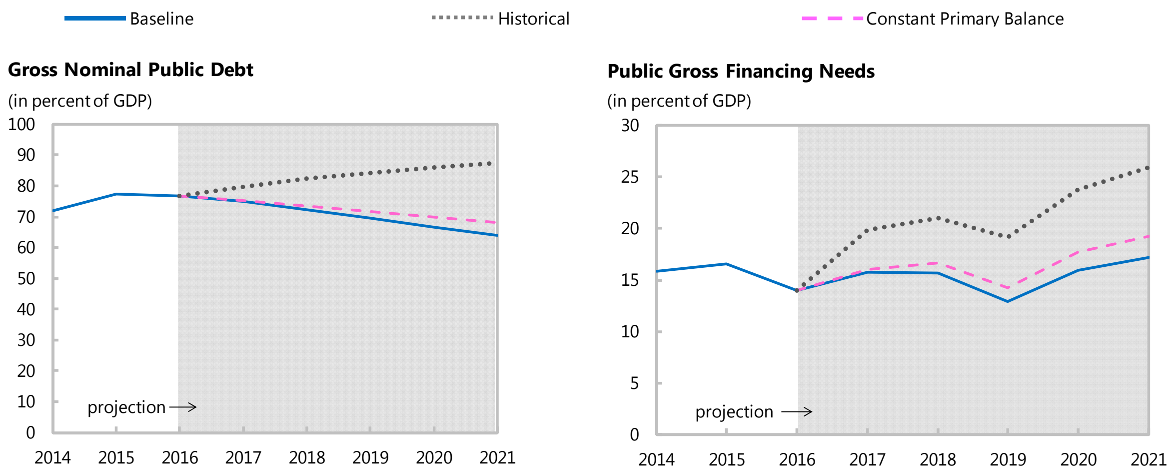
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Serbia Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(in percent)

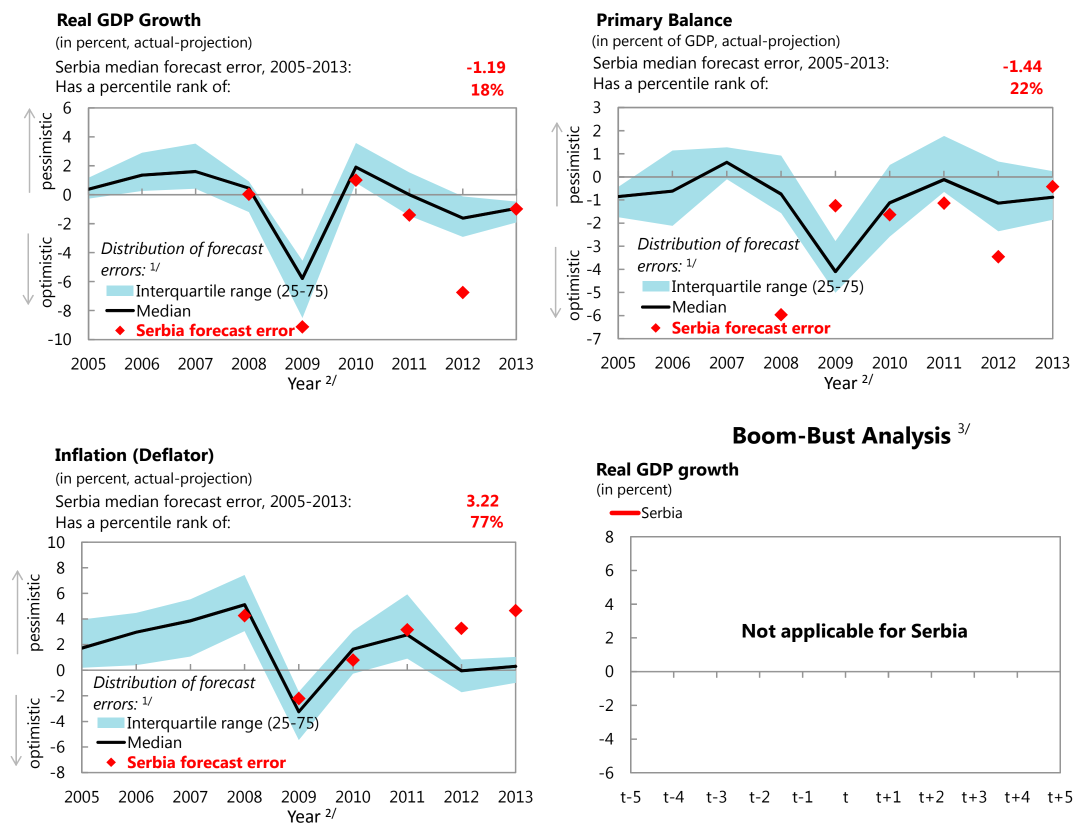
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.5	2.8	3.5	3.5	4.0	4.0
Inflation	1.8	2.5	3.5	4.0	4.0	4.0
Primary Balance	1.0	1.3	1.9	2.0	2.0	2.1
Effective interest rate	5.0	5.0	5.4	5.8	6.1	6.7
Constant Primary Balance Scenario						
Real GDP growth	2.5	2.8	3.5	3.5	4.0	4.0
Inflation	1.8	2.5	3.5	4.0	4.0	4.0
Primary Balance	1.0	1.0	1.0	1.0	1.0	1.0
Effective interest rate	5.0	5.0	5.4	5.8	6.1	6.7

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.5	1.5	1.5	1.5	1.5	1.5
Inflation	1.8	2.5	3.5	4.0	4.0	4.0
Primary Balance	1.0	-2.6	-2.6	-2.6	-2.6	-2.6
Effective interest rate	5.0	5.0	4.3	3.7	3.6	3.7

Source: IMF staff.

Serbia Public DSA - Realism of Baseline Assumptions

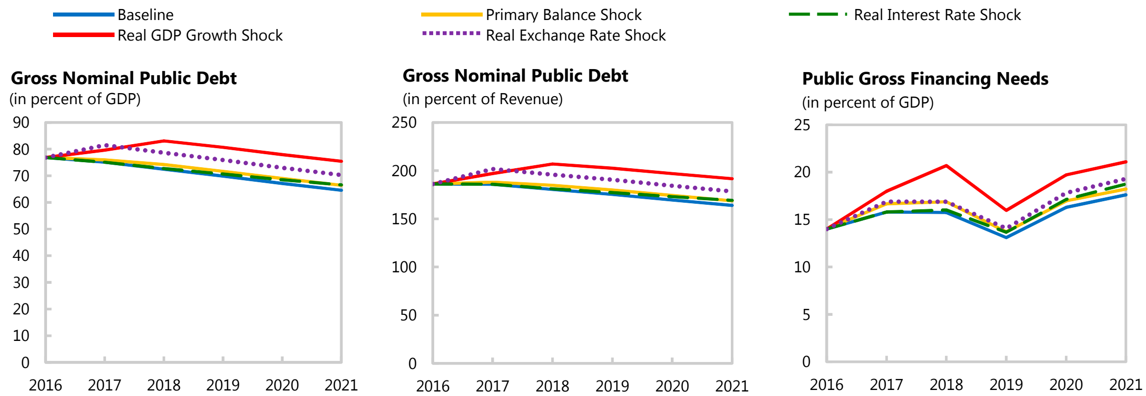
Forecast Track Record, versus program countries



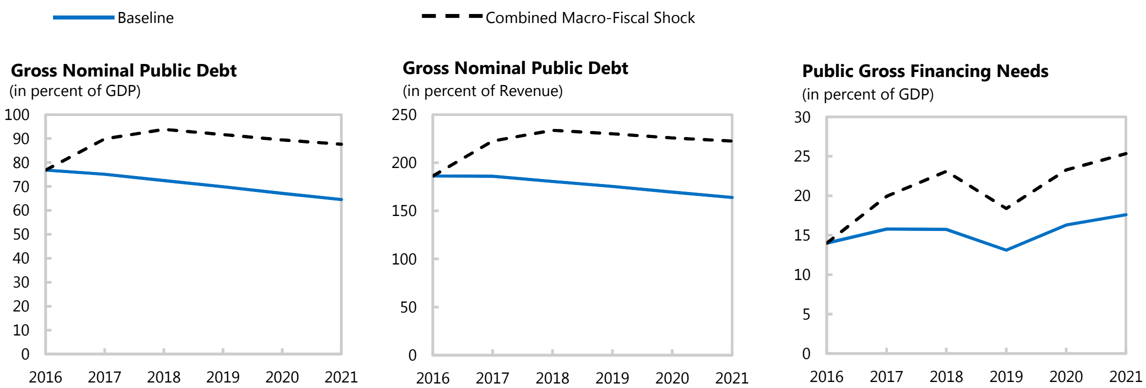
Source : IMF staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries
2/ Projections made in the spring WEO vintage of the preceding year
3/ Not applicable for Serbia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

Serbia Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	2.5	2.8	3.5	3.5	4.0	4.0
Inflation	1.8	2.5	3.5	4.0	4.0	4.0
Primary balance	1.0	0.4	1.1	2.0	2.0	2.1
Effective interest rate	5.0	5.0	5.5	5.9	6.2	6.8
Real Interest Rate Shock						
Real GDP growth	2.5	2.8	3.5	3.5	4.0	4.0
Inflation	1.8	2.5	3.5	4.0	4.0	4.0
Primary balance	1.0	1.3	1.9	2.0	2.0	2.1
Effective interest rate	5.0	5.0	5.8	6.6	7.1	7.9
Combined Shock						
Real GDP growth	2.5	-0.3	0.4	3.5	4.0	4.0
Inflation	1.8	1.7	2.8	4.0	4.0	4.0
Primary balance	1.0	-0.3	-1.1	2.0	2.0	2.1
Effective interest rate	5.0	5.5	5.7	6.6	7.1	7.9

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	2.5	-0.3	0.4	3.5	4.0	4.0
Inflation	1.8	1.7	2.8	4.0	4.0	4.0
Primary balance	1.0	-0.3	-1.1	2.0	2.0	2.1
Effective interest rate	5.0	5.0	5.5	6.1	6.4	6.9
Real Exchange Rate Shock						
Real GDP growth	2.5	2.8	3.5	3.5	4.0	4.0
Inflation	1.8	6.8	3.5	4.0	4.0	4.0
Primary balance	1.0	1.3	1.9	2.0	2.0	2.1
Effective interest rate	5.0	5.5	5.3	5.7	6.0	6.6

Source: IMF staff.

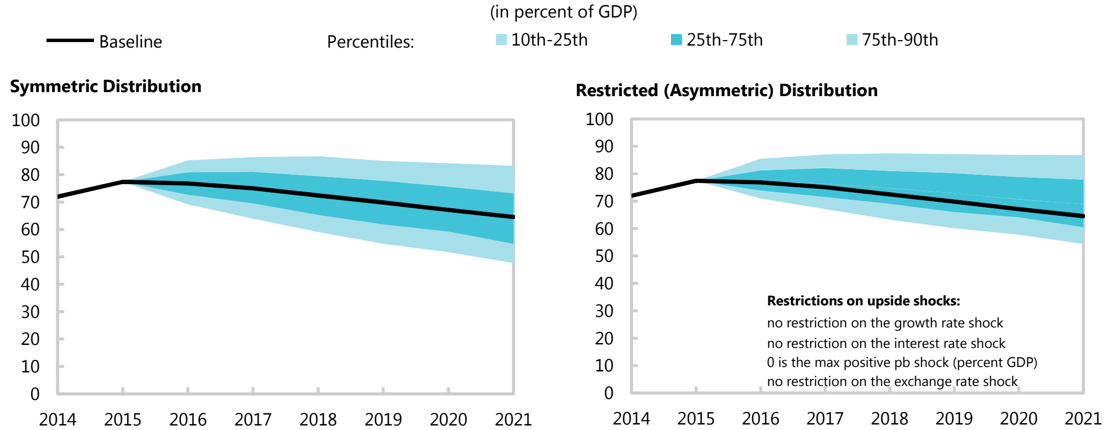
Serbia Public DSA Risk Assessment

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

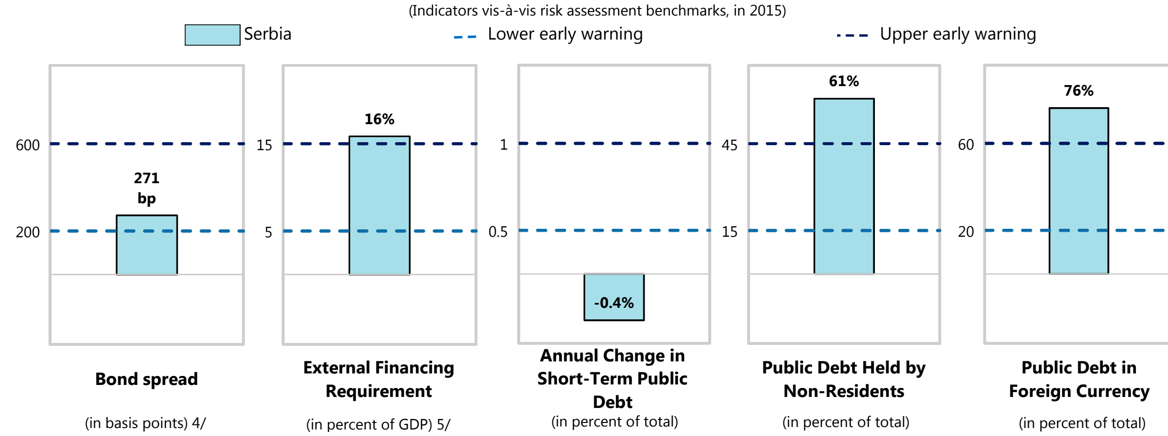
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



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/ Long-term bond spread over German bonds, an average over the last 3 months, 19-Mar-16 through 17-Jun-16.

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 II. Serbia: External Sector Debt Sustainability Analysis

External debt is assessed to be sustainable over the medium term, but subject to significant risks. In a scenario of continued fiscal adjustment, the current account deficit would decline further and would be fully financed by foreign direct investment inflows. This would allow the country to put external debt on a firm downward path over the medium term. External financing needs would nevertheless remain high and constitute a significant risk. Moreover, the debt path is particularly sensitive to real exchange rate shocks given that most of the external debt is denominated in foreign currency and given the potential impact of a sizable depreciation on economic activity. A reversal in fiscal adjustment could also deteriorate debt dynamics as interest rates and the current account deficit would increase, and economic activity would likely slow down.

1. **The assumptions under this DSA are similar to those made in the last DSA prepared at the time of the program request.** The current account deficit before interest is assumed to fall from 2 percent in 2015 to 0.5 percent of GDP over the medium term. Foreign direct investment is projected to remain above 4 percent of GDP throughout the medium term and interest rates are projected to increase gradually by about 1.5 percentage points over the projection period. Finally, economic growth is expected to recover gradually reaching levels close to 4 percent.

2. **Under these assumptions, the external debt-to-GDP ratio is projected to fall from 87.5 in 2015 to 65.1 in 2021.** FDI is expected to fully finance the current account deficit (including interest) and growth in nominal GDP would allow for a shrinking debt-to-GDP ratio in the absence of significant exchange rate depreciation.

3. **However, external debt sustainability is subject to significant risks**. Gross external financing needs are expected to remain high over the medium term, exceeding 14 percent of GDP and reflecting significant public sector external debt service. Moreover, given that most of the external debt is denominated in foreign currency, the country is particularly vulnerable to exchange rate depreciations. A 30-percent depreciation would cause the debt-to-GDP ratio to exceed 118 percent of GDP and to remain above current levels during the projection period (Figure 1). In addition, given high euroization levels in Serbia's financial system, it is likely that currency depreciation would negatively affect the financial system and economic activity, further worsening debt dynamics.

4. **A reversion in fiscal adjustment measures could also have a significant impact on external debt dynamics.** This could lead to higher current account deficits, higher interest rates and a slowdown in economic activity, a situation illustrated by the combined shock scenario. An exchange rate depreciation, also likely in the absence of fiscal adjustment, would deteriorate prospects of external debt sustainability even further.

Table 1. Serbia: External Debt Sustainability Framework, 2011-2021

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015	10-Year Historical Average	10-Year Standard Deviation	2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	74.5	84.3	79.4	83.1	87.5			**85.7**	**82.9**	**79.2**	**74.7**	**69.9**	**65.1**	**-5.9**
Change in external debt	-5.7	9.7	-4.8	3.6	4.4			-1.7	-2.8	-3.7	-4.5	-4.8	-4.8	
Identified external debt-creating flows (4+8+9)	-6.8	13.6	-4.1	4.3	2.6			-2.0	-2.7	-3.2	-3.2	-3.6	-3.5	
Current account deficit, excluding interest payments	6.2	9.1	3.7	3.5	2.0			2.0	0.9	1.0	0.9	0.7	0.6	
Deficit in balance of goods and services	21.5	22.3	14.9	14.5	11.0			9.8	9.0	8.3	7.4	7.0	6.8	
Exports	47.8	46.6	54.1	57.5	52.7			55.6	60.2	61.9	64.0	66.0	67.3	
Imports	69.3	68.8	68.9	72.0	63.7			65.3	69.2	70.2	71.4	73.0	74.1	
Net non-debt creating capital inflows (negative)	-5.6	-2.1	-3.5	-3.7	-5.3			-4.7	-4.2	-4.2	-4.2	-4.2	-4.2	
Automatic debt dynamics 1/	-7.4	6.5	-4.3	4.5	5.9			0.7	0.6	0.0	0.1	-0.1	0.1	
Contribution from nominal interest rate	2.5	2.2	2.5	2.5	2.4			2.8	2.9	2.7	2.7	2.7	2.7	
Contribution from real GDP growth	-0.4	0.8	-2.0	1.5	-0.6			-2.1	-2.3	-2.7	-2.6	-2.8	-2.6	
Contribution from price and exchange rate changes 2/	-9.4	3.5	-4.8	0.5	4.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.0	-3.8	-0.7	-0.6	1.8			0.3	-0.2	-0.5	-1.4	-1.2	-1.3	
External debt-to-exports ratio (in percent)	155.8	181.0	146.9	144.5	165.9			154.3	137.8	128.0	116.8	105.8	96.7	
Gross external financing need (in billions of US dollars) 4/	11.0	10.7	9.7	8.0	5.5			5.3	6.0	6.3	5.4	7.3	7.1	
in percent of GDP	23.6	26.3	21.3	18.0	15.2			13.9	15.2	14.9	12.0	15.1	13.6	
Scenario with key variables at their historical averages 5/								**85.7**	**88.0**	**90.5**	**92.7**	**94.8**	**96.2**	**-6.7**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	0.6	-1.0	2.6	-1.8	0.7	2.0	3.4	2.5	2.7	3.5	3.5	4.0	4.0	
GDP deflator in US dollars (change in percent)	13.3	-5.5	6.1	-1.0	-5.2	2.9	9.8	1.4	1.8	2.6	3.4	3.4	2.7	
Nominal external interest rate (in percent)	3.5	2.7	3.2	3.0	2.7	3.6	1.0	3.3	3.5	3.5	3.7	3.9	4.1	
Growth of exports (US dollar terms, in percent)	27.3	-14.7	29.8	3.2	-24.3	12.0	26.7	9.5	13.2	9.3	10.6	11.0	8.8	
Growth of imports (US dollar terms, in percent)	26.9	-13.0	12.0	1.4	-26.9	8.5	29.7	6.5	10.8	7.7	8.9	10.0	8.4	
Current account balance, excluding interest payments	-6.2	-9.1	-3.7	-3.5	-2.0	-7.4	5.4	-2.0	-0.9	-1.0	-0.9	-0.7	-0.6	
Net non-debt creating capital inflows	5.6	2.1	3.5	3.7	5.3	5.4	3.2	4.7	4.2	4.2	4.2	4.2	4.2	

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.

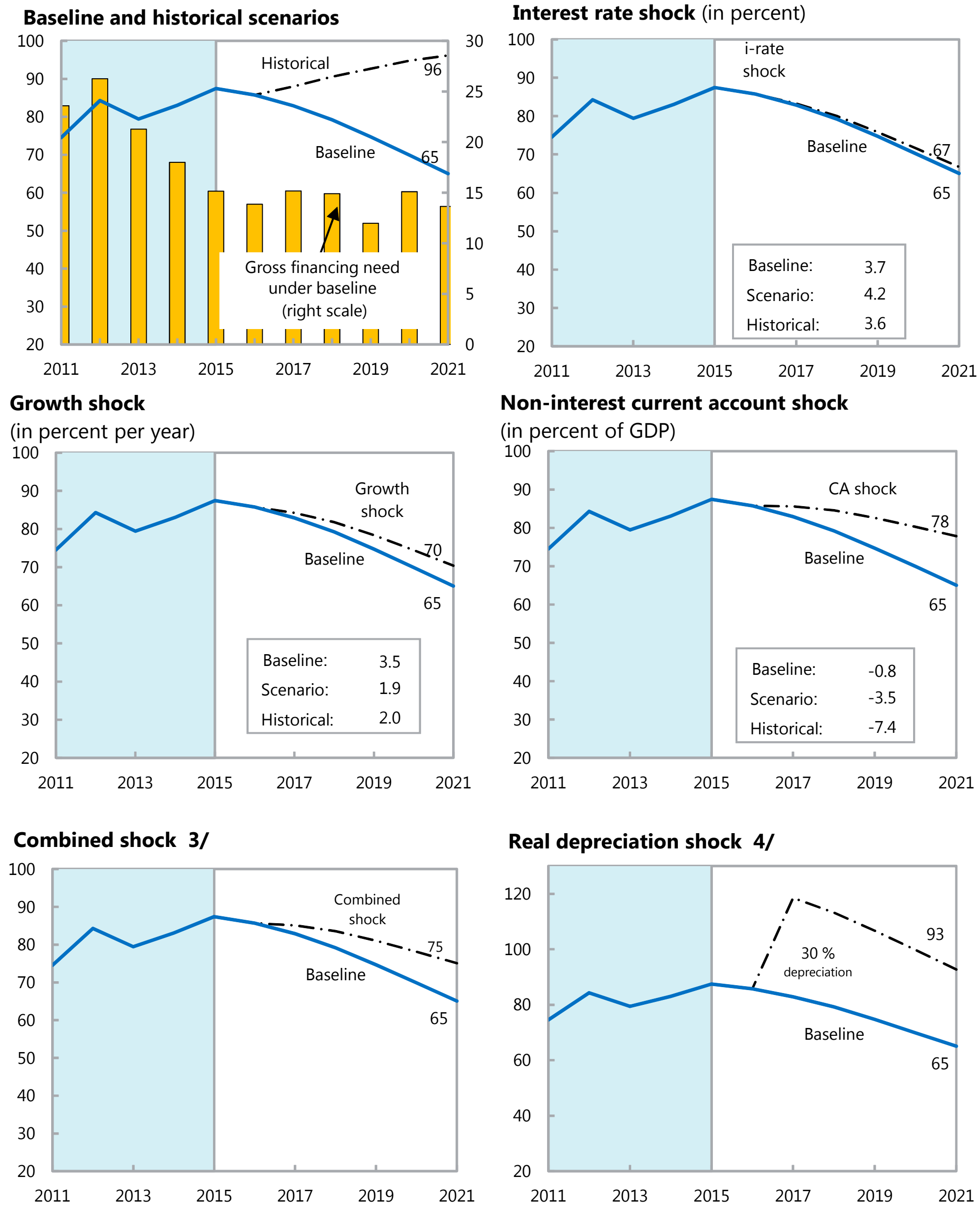
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Appendix I. Letter of Intent

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Belgrade, August 15, 2016

Dear Ms. Lagarde:

Our economic program, supported by the Stand-By Arrangement (SBA) approved by the IMF Executive Board on February 23, 2015, has been instrumental in reducing Serbia's long-standing internal and external economic imbalances and we remain fully committed to the policies envisaged in this program. The attached Memorandum of Economic and Financial Policies (MEFP) describes progress made so far and sets out the economic policies that the Government of the Republic of Serbia and the National Bank of Serbia (NBS) intend to implement under the SBA. Our program continues to be fully supported by all coalition partners in the newly formed government, indicating strong commitment to and ownership of envisaged policies.

Quantitative program conditionality has been fully met, however, delays have mounted on structural benchmarks. The end-2015, end-March 2016, and end-June PCs on NIR, the fiscal deficit, and current primary spending have all been met. While inflation has been below the NBS target, it has remained within the outer limit of the program inflation clause as of end-2015 and returned back within the inner limit as of end-March. As prior actions for the combined reviews, (i) the government has adopted amendments to the Local Government Financing Law, (ii) the government has adopted the strategic guidelines for BPS, and (iii) the supervisory board of EPS has approved a credible 2016-19 optimization plan for the company's restructuring. We met end-December and end-March structural benchmarks on supervisory guidance for loan-loss provisioning under IAS 39, tax amendments to reduce impediments to NPL resolution, and enhanced supervisory standards for restructured/distressed assets. We have also adopted a decision on rightsizing in Railways of Serbija (end-March structural benchmark). We have made significant progress in the resolution of strategically important SOEs (end-December and end-May structural benchmarks). Despite significant efforts, delays have continued on strengthening the project appraisal process, amending the Law on Tax Procedure and the Criminal Code, implementing the 2016 general government rightsizing action plan, introducing a new framework for real estate appraisals, and strengthening the insolvency framework (end-December, end-March and end-June structural benchmarks).

We recognize that accelerating reform is critical for achieving program objectives. In this context, the policies under our program will continue to focus on reducing fiscal imbalances, pursuing a wide financial sector agenda, and implementing broad-based structural reforms. In support of the program, we have specified additional structural benchmarks for the coming period.

Given Serbia's comfortable international reserve position and continued access to external financing, we intend to treat the arrangement as precautionary. Therefore, we would not make the purchases when they become available upon completion of reviews. The implementation of our program will continue to be monitored through quantitative performance criteria, indicative targets, structural benchmarks, and an inflation consultation clause, as described in the attached MEFP and Technical Memorandum of Understanding (TMU). In light of the delay in completing the fourth and fifth reviews, we request a rephasing of the arrangement.

We believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our economic program, and we will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. And we will provide all information requested by the Fund to assess implementation of the program.

We wish to make this letter available to the public, along with the attached MEFP and TMU, as well as the IMF staff report on the combined fourth and fifth reviews of the SBA. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official website of the Serbian government.

Sincerely,

/s/
Aleksandar Vučić
Prime Minister

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

/s/
Dušan Vujović
Minister of Finance

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

Attachment I. Memorandum of Economic and Financial Policies

1. **This memorandum sets out our economic program for 2016–17.** The program aims to establish a foundation for healthy economic growth by addressing short-term as well as medium-term economic challenges that Serbia is facing. To this end, the program focuses on policies to ensure macroeconomic stability, most notably by restoring fiscal sustainability, bolster resilience of the financial sector, and improve competitiveness of the economy.

2. **Significant progress has been made since the economic program started.** Bold fiscal consolidation, which started in late 2014, is bearing fruit, reforms in the financial sector are progressing as planned, and the initiation of comprehensive restructuring in the state-owned enterprises is starting to yield positive impacts on their efficiency and financial discipline.

3. **The goals of the economic program are compatible with our aspirations to become an EU member, having started the accession process in January 2014.** Implementing this program will allow Serbia to realize the significant potential for convergence towards EU income levels.

Recent Economic Developments and Outlook

4. **The Serbian economy continues to strengthen**, notwithstanding significant fiscal consolidation. Growth benefits from broadening investment, rising net exports, and recovering consumption (which in turn reflects lower oil prices and robust household income). Despite the gradual monetary policy easing, headline CPI inflation has remained below the NBS inflation tolerance band, mainly on account of low imported prices and lower than expected food prices. Inflation is expected to return to the tolerance band in the first half of 2017. The current account deficit was fully covered by FDI, and capital inflows increased amid global investors' repositioning and improved risk premia for government debt.

5. **We will continue to consistently implement policy actions and reforms envisaged under our economic program.** We expect that this will maintain the virtuous cycle of boosting confidence, improving growth and private sector vibrancy. Reflecting the recent developments, we envisage the following revisions to the macroeconomic scenario under the program:

- **Real GDP** is expected to grow at 2.5 percent in 2016, up from 1.8 percent projected previously, and to gradually rise over the medium term on account of smaller fiscal adjustment, recovering market confidence and credit growth, and the positive effects of structural reforms.
- **Headline CPI inflation** is projected to average 1.3 percent in 2016, reflecting price developments so far this year amid lower imported prices and favorable fruit and vegetable prices. In the medium term, inflation is expected to stay within the inflation tolerance band (4±1½ percent), supported by the inflation targeting regime.

- **The current account deficit** is expected to further narrow to about 4.2 percent of GDP in 2016, and stabilize at around 4 percent of GDP over the medium term. External financing will rely mostly on FDI, but also on bilateral and project loans.

6. **The program scenario faces downside and upside risks.** Delays in implementing structural reforms, particularly in the area of SOE restructuring, may compromise sustainability of the fiscal adjustment, which in turn could hamper reduction of the public debt. Serbia also remains vulnerable to external risks including regional spillovers and global market uncertainties. On the other hand, growth could surprise on the upside again as confidence continues to improve.

Economic Policies

A. Fiscal Policies

7. **We remain committed to implementing fiscal consolidation policies that will reverse the rise in public debt by 2017 and put it firmly on a downward path thereafter.** To this end, we are implementing a structural fiscal adjustment of about 4 percent of GDP during 2015–17, of which about 2.6 percent of GDP was implemented in 2015 and about 1 percent of GDP will be implemented this year. The measures focus primarily on containing public expenditures, namely on scaling down public sector wage and pension bills towards more sustainable levels, and reducing state aid to state-owned enterprises (SOEs). The adjustment has also been aided by a structural improvement in revenue performance in 2015 and 2016 so far.

8. **The fiscal outturn in 2015 and the first quarter of 2016 were within the program targets.** The 2015 general government fiscal deficit was 3.7 percent of GDP, more than 2 percent of GDP below our initial projection, and our lowest deficit recorded since 2008. Strong performance continued into 2016: the general government fiscal deficit was RSD 15.9 billion, compared to the original program target of RSD 53.9 billion (adjusted program target of RSD 38.4 billion) in 2016Q1 and the deficit was RSD 18.2 billion in 2016H1, compared to the original program target of RSD 78.3 billion (adjusted program target of RSD 61.7 billion). In 2016H1, most of the improvement is attributable to revenue over-performance, with about half of it coming from non-tax revenue (mostly from the 4G spectrum frequency sale), while the remainder was related to better than expected collection of VAT and excises. Current expenditures stayed within the program targets. The general government debt to GDP ratio fell below 74 percent at end-June, partly due to temporary factors, and is expected to finish the year at about 77 percent, slightly below the end-2015 level.

9. **We remain committed to the expenditure measures introduced so far, while revenues are over-performing earlier projections.** The government has been implementing the measures as envisaged in the 2016 budget, and the general government deficit is projected at 2.5 percent of GDP, well below the original target of 4 percent of GDP this year:

- The Law on Agriculture was amended to allow the Ministry of Agriculture to adjust the level of subsidy per hectare according to the total number of actual applications received by a deadline of June 30, 2016. This will ensure the total subsidy payments stay within the budget allocation, which will be about RSD 8 billion lower than in 2015.

- Railways of Serbia have been implementing cost saving measures in line with the reduced subsidies and payments for the electricity bills since 2015.

- Subsidies to public broadcasting companies (RTS and RTV) of RSD 8 billion were reduced to RSD 4 billion from January 2016, supplemented by the introduction of a user fee of RSD 150 per month. To ensure that the risk of revenue shortfall does not fall on the budget, we have evaluated the yield of the new fee in July, based on the 6-month outcomes and concluded that remedial actions are not needed.

- We increased gasoline excise by RSD 1.5 per liter and gas oil excise by RSD 3 per liter from January 1, 2016, on top of the regular indexation (RSD 1 per liter).

- The government granted modest targeted wage increases to selected sectors from January 2016, aimed at narrowing the wage gaps in the general government, while in other sectors wages remained frozen in nominal terms. Pensions were increased by 1¼ percent from January 1, 2016. The overall budget impact of the wage and pension increases amounted to RSD 10.8 billion (0.3 percent of GDP), while the wage and pension bills will continue to decline towards more sustainable levels.

- We have received one-off revenue related to the 4G network sales of about RSD 13 billion in 2016 and expect to receive dividend receipts from SOEs of about RSD 20 billion by the year end.

- In order to reduce the tax administration burden, we will submit amendments (effective as of January 1, 2017) to eliminate VAT refunds for baby items and substituted them with increased parental allowance. We will avoid additional non-core activities to the tax administration.

- Amendments to the Local Government Financing Law were adopted by the government in August (**prior action**) and their adoption by the National Assembly is expected by end-September 2016. The amendments are expected to generate fiscal savings of RSD 5 billion per year from 2017 on.

- Savings achieved in 2016 with respect to our budget projections will be used for debt reduction and/or priority public investment.

10. We are progressing with reforms of the general government employment and wage system in 2016.

- As of end-March, public sector employment (including local public utilities) has been reduced by more than 16,000, compared to the end-2014 level, exceeding the reduction envisaged by the government decision adopted as a prior action for the third review in December 2015. More recently available data indicates that employment has continued to decline. Our original plans to cut employment by further 20,000 in H2 2016 are no longer necessary or feasible, as the World Bank's functional analysis has so far identified fewer than expected redundant positions and units, and the structural improvement in revenue collection would offset the structural expenditure shortfall. We therefore plan to reduce public sector employment (including local public utilities) by at least 6,500 additional staff in H2, guided by the functional analyses. While generally applying the 5:1 attrition rule through 2016 for the public sector, our attention is now turning to detailed systemization plans and identifying fiscal space at the institutional level available for future hiring. Since January 2016, for the entities subject to the Law on Ceilings, the renewal of the fixed or temporary contracts has been permitted only if entities are complying with the ceilings stated by the Law and if the share of the temporary employees is below 10 percent of the number of permanent employees or in the exceptional cases defined in the Law.

- We will continue reducing the cost and increasing the efficiency of the general government, through its organizational and functional restructuring, in accordance with the Public Administration Reform Strategy, adopted by the government in January 2014. We have produced a vision document outlining key strategic choices in large sectors regarding further increases in the productivity of the general government. Most of these sectors will undergo in-depth functional reviews in cooperation with the World Bank, which will be used for producing estimates of additional savings to be attained through restructuring and sector financing reforms, by October 2016.

- We have initiated a comprehensive public wage system reform intended to improve transparency, efficiency, and manageability of the current system. An umbrella Law on Public Sector Employees Wage System was adopted in February 2016, establishing the key principles of the new system and setting out a timeline for its implementation. The Law envisages a unified base for all wages and a simplified structure of coefficients and pay elements (supported by a new decree on coefficients to be adopted in September), but allows for sufficient flexibility in specific sectors, which will be reflected in the adoption of laws for major segments of the public administration (public services and civil service). We will complete the necessary secondary legislation necessary for implementation by end-2016, with the exception of police and armed forces to be completed by end-2017.

- The government adopted a decree on the Codebook of Public Sector Job Positions in February 2016 to facilitate better analysis and comparisons of employee remuneration across general government.

- As of end-February, the public sector employee registry includes job description data, in line with the new job catalogue.

- The job catalogue continues to advance. The sub-catalogue of job positions as well as generic job positions in the public sector was finalized in July.

11. For 2017 our primary focus will be to preserve the gains achieved through the first 18 months of the program, supported by the following measures.

- The general government wage bill will continue to fall in 2017 as a share of GDP. To support this effort, we will work with the World Bank on the necessary adjustments in the health and education sectors.

- By end-August, we will implement the second round of pharmaceutical procurement reform to adopt the best international practice of drug tendering and prescription issuance, and reforms to reduce the cost of patented drugs in consultation with the World Bank. These reforms are expected to yield significant savings from 2017.

- We will also advance the data and legal infrastructure necessary to accomplish additional savings in 2017 by introducing e-government and reducing staff in non-core functions.

12. We will aim to reduce fiscal risks and will prepare contingency measures as needed. In this regard, we will not rely on short-term external debt financing (quantitative performance criterion), and we will not accumulate public sector external debt payment arrears (continuous performance criterion). We will also refrain from accumulating domestic payment arrears (indicative target). Our efforts to reduce public spending will continue being monitored through a ceiling on the current primary expenditure, excluding capital spending and interest payments, of the Serbian Republican budget (quantitative performance criterion). If revenues are reduced due to an exogenous shock, we will consider contingency measures, such as raising the VAT rate and gasoline excise tax.

B. Structural Fiscal Policies

13. To underpin the fiscal consolidation, limit risks, and strengthen institutions, we will pursue the following structural policies in the fiscal area:

- We will review and clearly define the coverage of general government to be compatible with European System of Accounts (ESA) 2010 by 2018. We have submitted financial plans of social security funds with estimates for their indirect beneficiaries to the National Assembly, in parallel with Republican budget. We will include all indirect budget beneficiaries of the central government in the Financial Management Information System gradually by end-2018. More specifically, we included courts, public prosecutors and other judicial institutions in 2015. Prisons, cultural institutions and social protection institution will be included by end-2016. Education will be included by end-2017, and local governments will be included over 2017–18, taking into account their technical and technological capacity and the need to upgrade and rebuild the FMIS system. This will accommodate more realistic planning of indirect budget beneficiaries' revenues and expenditure in the central government budget.

- The National Assembly approved in the 2016 Budget Law the overall three-year expenditure ceilings of the Republican budget (without indirect budget beneficiaries) that are aligned with the general government expenditures, as specified in the program and the Fiscal Strategy for 2016–18 adopted in January 2016. The three-year ceilings will be updated in the context of the 2017 budget for 2017–19. The deviation of the 2017 budget expenditures from the earlier ceiling will be explained in the explanatory note for the 2017 Budget. We will also continue to improve the planning of the contingency reserve to support the credibility of the ceilings.

- We are working on new regulations and guidelines for public investment management. In particular, by end-August we will adopt a set of by-laws aimed at strengthening the project appraisal process (**structural benchmark for end-December 2015**). We will establish a unique project pipeline and clearly define its links with multi-annual planning and annual budget procedures in order to establish the single pipeline as the only source of projects that can be included in the budget. All future projects will be included in this process.

- We will ensure that a full assessment of all proposed Public-Private Partnerships (PPPs) is reviewed by the Ministry of Finance (MOF), including PPPs' key financing features, cost-benefit analysis, and risk sharing arrangements with the government. We also included a fiscal risk statement on all PPPs in the Medium-Term Fiscal Strategy from the 2016 budget. In this regard, we set up a special fiscal risks management unit at the MOF in March 2015, supported by the World Bank. Further technical assistance for analytical capacity building was provided by IMF in early 2016. Furthermore, to improve control of fiscal implications and risks, we amended the existing Law on Public-Private Partnership and Concessions mandating that PPPs larger than EUR 50 million are submitted to the government for consideration only after receiving the MOF's opinion.

14. To secure savings from the corporate and financial restructuring of major SOEs, we are introducing a number of public financial management changes.

- We have created a strong and stable institutional framework for monitoring SOEs. As a first step, we adopted a government decree that regulates the roles and responsibilities of the MOF, Ministry of Economy (MOE), and line ministries with respect to monitoring, supporting best governance practices, financial reporting, and transparency of SOEs, in April 2015. We started quarterly provision of financial statements of SOEs to both the

MOE and MOF from 2015:Q1. We will continue to strengthen the SOE monitoring unit in the MOE, which will, in collaboration with the relevant line ministries, focus on corporate strategy and governance, and operational efficiency of SOEs. In agreement with the MOE, the SOE financial monitoring function has been created in the fiscal risks management unit in the MOF, which focuses on reviewing and compiling the financial reports and statements of SOEs and evaluate the fiscal implications.

- To enhance the payment discipline between public sector entities, we broadened the scope of the Law on Payments in Commercial Transactions, to include transactions between public entities (including SOEs) in July 2015. This law defines monitoring and enforcement mechanisms for improving payment discipline in the public sector, and administrative penalties for responsible individuals. The implementation started in January 2016.
- We have been strictly limiting issuance of state guarantees since January 1, 2015. In this regard, we will not issue any new state guarantees for liquidity support, or state guarantees for any company in the portfolio of the former Privatization Agency (continuous performance criterion). In the context of the resolution of the state-owned petrochemical product company, Petrohemija, the government expects to assume debts of about €100m (after restructuring) in 2016 or 2017 owed to its oil supplier, NIS, which were subject to implicit government guarantees via "comfort letters" from the Government. Provided Petrohemija's resolution ensures that the company will make no further calls on budgetary resources, this debt assumption will be accommodated in the program via adjustors (capped at RSD 12.3 billion) to the deficit and expenditure ceilings. The Government has not issued any other comfort letters or other implicit guarantees and will refrain from issuing further such guarantees.
- We changed the Law on Development Fund in January 2015 to remove the article which stipulates that all guarantees issued by the Development Fund (DF) are backed by the Republic of Serbia. We established an indicative ceiling on the below-the-line lending by the Republican Government. In addition, we will only provide such loans to public entities with high probability of repayment. We will complete the selection of an independent consultant and initiate the diagnostic analysis of the Development Agencies by end-October2016. This diagnostic analysis will be completed by end-February 2017 and followed by proposals to improve their governance and operational procedures.

15. In order to raise the efficiency of revenue collection, we are committed to improving tax administration. This work will be based on recommendations of the September 2014 IMF technical assistance mission and the recent Tax Administration Diagnostic Assessment Tool review. We are implementing the Tax Administration Transformation Program 2015–20 as the official medium-term reform program. Our priorities are to (i) strengthen the Tax Administration's governance, (ii) streamline organizational structures of headquarters and field offices, including by reducing the number of main field offices from 178 to 36, (iii) phase in a modern compliance risk management approach, (iv) strengthen arrears management, including write-off procedures, (v) modernize information technology systems and business processes, and (vii) improve coordination and information exchange with other government agencies. By end-December, the government will approve draft amendments to the Law on Tax Procedure and the Criminal Code to extend the investigations powers and competences of tax authorities in order to enable the audit of unregistered businesses and strengthen the function of the tax police (end-March **structural benchmark**, proposed to be reset to end-December), with a view to adoption by the National Assembly in early 2017. We are acutely aware of the need to recruit and train new staff (for example, in the Large Taxpayer Office).

16. We will increase efforts to pursue tax debt. The government provided temporary concessions for tax rescheduling. Following the closure of this window on July 4, the tax administration is stepping up enforcement of tax debt collection against delinquent taxpayers who did not apply or qualify for the scheme. In particular, we will require evidence of tax payment for renewal of taxi licenses.

C. Monetary and Exchange Rate Policies

17. We see the current inflation targeting framework as the most viable option for maintaining stable inflation and protecting the economy against external shocks. We remain committed to the objective of keeping inflation within the inflation tolerance band (4±1½ percent). Inflation developments will continue to be monitored via a consultation clause with consultation bands set around the central projection (Table 1). Since the inception of the program in early 2015, as fiscal adjustment took hold and external financing conditions remained stable, we have reduced the key policy rate by 400 basis points in order to support returning of headline inflation into the tolerance band. This has also been supported by a gradual reduction of the reserve requirements on foreign exchange liabilities with a view to supporting credit activity. We will consider further gradual reduction of the dinar portion of reserve requirement on foreign currency deposits, to bring it closer in line with regional peers.

18. We will maintain the existing managed float exchange rate regime in line with the inflation targeting framework. We believe that exchange rate flexibility provides a needed buffer against external shocks. In light of this, foreign exchange interventions will be used to smoothing excessive exchange rate volatility without targeting a specific level or path for the exchange rate, while considering the implications for financial sector and price stability. The current level of gross international reserves is well above the level that could be considered as necessary for precautionary purposes. We will maintain adequate coverage throughout the program, which will be monitored by a floor on net international reserves (quantitative performance criterion).

19. In order to reduce risks to macroeconomic stability, we will continue capital account liberalization in a gradual way. Many of the capital account transactions, such as FDI and long-term flows, have already been liberalized, with the remaining restrictions related broadly to short-term capital and deposit flows. In order to limit balance of payments pressures under the program, the capital account liberalization required in the context of EU accession will be gradual, particularly in removing restrictions on short-term capital flows and the ability of residents to open deposit accounts abroad.

20. During the period of the SBA 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

21. Our policies will support financial sector stability and enhance the financial sector's ability to cope with shocks, while improving financial intermediation. Priority will be given to: (i) addressing the overhang of nonperforming loans (NPLs); (ii) assessing asset quality and provisioning practices; (iii) strengthening the supervisory and regulatory framework in line with EU standards; (iv) operationalizing the new bank resolution framework; and (v) implementing the strategy for state-owned banks.

22. The implementation of the various actions envisaged in the comprehensive NPL resolution strategy is progressing. New regulatory initiatives from the NBS have strengthened regulatory reporting of nonperforming loans, tightened the prudential treatment of restructured loans, in line with EU requirements, and introduced supervisory expectations for distressed asset management by banks (**end-March 2016 structural benchmark)**. In addition, guidelines for the disclosure of information on bank asset quality have been finalized and the banks are submitting data for the NBS' new database on real estate collateral valuation on a monthly basis. The prudential framework for non-deposit taking financial institutions, which is currently under consideration with an aim to improve credit supply, could also enable the sale of nonperforming retail receivables to regulated investors outside the banking sector. In addition, the draft law on the regulation of the profession of real estate appraisers will be submitted to the National Assembly for adoption by end October and the consultation process for amendments of the corporate insolvency law has been initiated, with the aim to formally adopt the amendments by end-December 2016 (**end-March 2016 structural benchmarks, proposed to be reset to end-December**). Following an extensive study on impediments and disincentives towards the sale of NPLs, the NBS has issued its interpretation on the application of banking secrecy rules in the context of NPL sales. The government will issue official explanations on the tax deductibility of distressed debt write-offs and address ambiguities on the scope of business secrecy and data protection laws, as needed, in the context of NPL sales (**new structural benchmark for end-September 2016**). While the efficacy of the NPL resolution strategy can only be assessed over a longer horizon, preliminary analysis points to a steady decline of NPLs since June 2015.

23. Banks are implementing the findings of the special diagnostic studies. Despite adjustments to regulatory capital and a substantial increase in participants' provisioning levels, overall capitalization of the banking system remains high. Banks are in the process of implementing recommendations for strengthening their internal accounting policies and practices, with the aim to address all material weaknesses by end-2016. To maintain a conservative application of International Financial Reporting Standards (IFRS) following the SDS, the NBS adopted supervisory guidance for loan loss provisioning under IAS 39 (**structural benchmark for end-December 2015**) and will monitor its observance via on-site inspections and off-site analysis. In parallel, the NBS has embedded methodological aspects of the SDS in its supervisory procedures and is in the process of strengthening its analytical and supervisory capacity in the area of IFRS.

24. Efforts to strengthen financial sector supervision continue. Preparations for the gradual implementation of Basel III are progressing, aided by a gap analysis and quantitative impact studies on capital, risk weighted assets, leverage and liquidity. An implementation roadmap was approved by the NBS' Executive Board in July 2016, clarifying the introduction date of amended regulations and revised reporting requirements, as well as the introduction of new capital buffers and liquidity requirements and the envisaged phase-out of the mandatory reserve for loan losses, prescribed by the NBS' Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items. Multi-year action plans for strengthening its prudential oversight over the insurance and banking sectors are being implemented, including introducing a more risk-sensitive supervisory cycle for banks. To ensure sufficient resources are available to carry out its duties, the NBS will continue to fill critical vacancies. Finally, the preparation of contingency measures for banks whose viability is at risk will help to safeguard financial stability.

25. The NBS continues to develop its macroprudential policy framework. A proposal for the determination of capital surcharges for systemically important banks has been finalized and regulatory amendments for the introduction of other macroprudential instruments, including countercyclical capital buffers and systemic risk buffers, are being developed. The NBS plans to introduce the various capital buffers envisaged in the Basel III framework.

26. The NBS continues to strengthen its bank resolution capabilities. Banks have received feedback on their recovery plans, and participation by NBS staff in the supervisory colleges of foreign-owned banks is helping to align local plans with group-wide recovery arrangements. The NBS' Bank Resolution Department has prepared resolution plans for all banks operating in Serbia, and is preparing internal methodologies and guidelines on independent valuation in resolution proceedings and the identification and assessment of banks' critical functions. A proposal for the methodological and procedural bank resolution framework, which should be agreed between the NBS, MOF and Deposit Insurance Agency is under preparation.

27. Implementation of the strategy for state-owned banks is progressing. We are strengthening our oversight over financial institutions that are, in whole or in part, state-owned. We have adopted a Government decision, in consultation with IMF staff, on the strategic reorientation of the business strategy of Banka Postanska Stedionica towards retail activities (**prior action**), for which a new three-year business plan will be prepared. In parallel, we will, in collaboration and consultation with the bank's management bodies, identify measures to strengthen the bank's risk management and corporate governance framework, in line with international best practices. The privatization advisor for Komercijalna Banka, the second-largest bank, has been appointed and the privatization process for Dunav Osiguranje, Serbia's largest insurance company, is expected to commence after the completion of a diagnostic review of the institution, initiated by the MOF (**structural benchmark for end-November**).

28. We will continue to implement our dinarization strategy. This strategy 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. We will continue to use our monetary policy and prudential framework in order to support the dinar instruments, and we will further communicate the importance of the dinarization for overall financial stability.

29. We will support credit to SMEs. Given the importance of SMEs for Serbia's economy and the limited access to credit by this sector, we will introduce the framework for functioning of non-deposit financial institutions and support lending to SMEs through EIB's credit lines ("Apex loans"). To improve Apex program efficiency, the Ministry of Economy has prepared guidance – developed in accordance with EIB criteria – regarding prioritization of loan allocations. Beginning from the October 2015 tranche, financing proposals in line with this guidance are being submitted for EIB's approval without pre-approval by Steering Committee. Instead, the Committee will perform ex-post review of loan utilization.

E. Structural Policies

30. We have initiated a number of comprehensive structural reforms to attract investment, support growth, and rebalance the economy on its path towards EU integration. We will focus on specific policies that (i) sustain job creation, (ii) reform state-owned enterprises, and (iii) improve the overall business environment.

31. We are improving the targeting of social programs. We will amend in September the Law on Financial Support of Families with Children to improve the targeting and integrity of the social assistance programs by ensuring child support beneficiaries are attending school and by strengthening controls on maternity benefits. We will also improve the efficiency of social assistance programs.

32. We have initiated wide-ranging reforms of socially-owned and state-owned enterprises to improve their operational viability and limit fiscal risks. A clear priority is to significantly reduce state aid to SOEs through (i) curtailed direct or indirect subsidies, (ii) strictly limited issuance of new guarantees, and (iii) enhanced accountability, transparency and monitoring of these enterprises. To this end, we are implementing strategies for two broad categories of state-owned companies. First, we are addressing companies in the portfolio of the former Privatization Agency, a large number of which were protected under a bankruptcy moratorium until end-May 2015. For a small group of 17 companies the moratorium was extended up to May 2016. We have initiated resolution of all of these through either privatization tender or initiating insolvency (including pre-pack bankruptcy) or debt collection procedures either by end-2015 (**structural benchmarks for December 2015 and May 2016**). The second group includes other large SOEs including the electricity, gas, railways, and road companies. The reforms of the socially-owned and state-owned enterprises are supported by the World Bank and EBRD.

33. We continue to resolve the 500 plus enterprises in the portfolio of the former Privatization Agency through either privatization or bankruptcy, in accordance with the revised Privatization Law. By June 2016, we have resolved around 330 companies through either bankruptcy or privatization, and severance packages in the amount of 12.1 billion dinars have been paid to around 21,683 employees. 195 companies with 45,000 employees are still in the process to be resolved, including some of the largest strategic enterprises. Specifically, for the few companies that a resolution is still pending, we will (i) re-initiate the privatization tender for PKB, (ii) ensure any pre-pack agreement for RTB Bor should be based on a credible business plan that involves realistic assumptions, substantial staff reductions, management change, and addressing environmental risks, (iii) gradually wind down unviable operations of Resavica mines while liberalizing coal prices and reducing subsidies accordingly, and (iv) restructure Petrohemija to eliminate any fiscal risks. If pre-packs are rejected, regular bankruptcy procedures will be initiated promptly as prescribed by the law.

34. We aim to privatize or find strategic partners for a number of SOEs and concession projects. We will use the proceeds primarily for reducing the stock of public debt but possibly also for funding future financially viable and high return investment projects. The size of investment funding will be determined in consultation with IMF staff. We selected a privatization advisor for Komercijalna Bank, the second largest bank in Serbia, with a view to completing the privatization in 2017. The privatization of Železara Smederevo, a steel producer was completed in June 2016. This will ensure the operation of the steel company without state aid or further accumulation of arrears in the future. At the same time, we have hired advisors to explore long-term concession partnerships for managing the Belgrade airport and continue to explore options for operating Corridor XI.

35. We are committed to continue restructuring large public utilities and transport companies to contain the additional fiscal costs that would arise without a change in policies. We will also ensure adequate service provision. In particular, we have focused on the electricity, gas, railways, and road companies which are among the largest public enterprises. To implement the needed corporate and financial restructuring in each of these companies over the medium term, we have taken the following steps:

- **Elektroprivreda Srbije (EPS).** In consultation with the World Bank and EBRD, we adopted the financial restructuring plan for EPS in early June 2015. The plan includes: (i) increases in revenues through enhanced bill collections, reduced technical and commercial losses, and regulated tariff increases and (ii) a reduction of operational cost including through increased efficiency, optimization of the supply mix, and staff reduction. Consistent with the five-year rightsizing target specified in the financial restructuring plan, the EPS supervisory board has adopted, in consultation with the World Bank, a credible 2016-19 optimization plan with no less than 1,000 net staff position reduction in 2016 (**prior action**). Following a household tariff increase of 4.5 percent in August 2015, another increase of 3.8 percent will be effective from October 2016, to reduce the financing gap and narrow the difference between domestic and regional market levels. Following the ongoing corporate restructuring process and financial consolidation, we will change the legal status of EPS to a joint stock company by July 1, 2017, with an aim to attract minority private investment participation that could further enhance the corporate governance and viability of the company and ensure its professional management.

- **Srbijagas.** A new organizational structure consisting of subsidiaries for transmission and distribution became effective in August 2015. In line with the fiscal program, we have divested part of Srbijagas' non-core assets and continue pursuing a permanent resolution for the companies which were a major source of arrears in the past: Azotara, MSK, and Petrohemija. These companies have been operating without state aid or further accumulation of arrears this year, and the government is fully committed to no state aid to those companies going forward. More generally, payment discipline has improved following the adoption of the financial consolidation plan for Srbijagas in March. We are preparing a debt restructuring plan to be adopted by end-October 2016 (**structural benchmark**), with a goal to (i) eliminate further debt-to-equity swaps; (ii) improve collections by imposing payment discipline; (iii) assess existing and proposed investment programs in consultation with the World Bank; and (iv) refinance existing liabilities based on audited financial information. We are also conducting a diagnostic of the gas distribution sector to address the fragmentation in the sector and identify options for how to achieve greater efficiency and economies of scale. These measures will ensure that Srbijagas' financial position does not deteriorate further, and put the company on a sustainable path, thus containing the need for additional state aid in line with the fiscal program.

- **Railways of Serbia**. We established a Railway Reform Steering Committee, led by the Deputy Prime Minister and including senior representatives from relevant Ministries and entities, IFIs, and EU, to provide overall direction of the reforms. The unbundling of the company into separate passenger, freight, infrastructure, and a fourth company, became effective from August 2015. The corporate restructuring plan is centered on asset disposal, network re-optimization, and staff rationalization. Importantly, the freight section has received no further subsidies and has operated on a purely commercial basis from January 2016. To support market competition, we have adopted all the necessary acts in order to allow network access to private operators in February 2016, and the first contract with a private operator was signed in June 2016. We will also continue the reorganization and improvement of business plans for the state-owned passenger and infrastructure companies and the fourth company, to strictly limit the amount of state aid disbursed over the medium term. We are implementing the financial restructuring plan which was adopted in October 2015 and developed in consultation with the World Bank, EBRD and EU. The Railways Reform Steering Committee adopted a conclusion in June 2016 (end-March structural benchmark) which defines the rightsizing targets for 2016 (2,700 staff positions). In addition, based on proposals for network rationalization, we will consider closing about 800 km of unprofitable railway lines by end-2016. Severance payments for 2016 (estimated at around RSD 2.7 billion) will be coordinated with the Ministry of Finance and made available this year in line with rightsizing targets. We finished the inventory of assets and liabilities of the Railways, and allocated them among the companies under the new corporate structure. Railway companies have also fully assigned responsibilities for electricity payments, and will ensure no reemergence of arrears to EPS. Finally, we will proceed with the recruitment and appointment of top management for the three operating companies on the basis of the Terms of Reference prepared by the consultants for the corporate and financial restructuring plans.

- **Roads of Serbia.** We will revisit the adequacy of toll rates and on the expenditure side by adopting a plan for removing rigidities in pricing maintenance contracts in the second half of 2016 and implementing it for 1,000 km. The savings may result in lower budget support in the future. We will also explore concession options for the construction and maintenance of Corridor XI. The corporate and financial restructuring plans for Roads of Serbia will be developed during 2016 in close consultation with the World Bank.

36. We are working on a comprehensive program to enhance Serbia's competiveness and business environment to support investment, job creation and private sector development. The program will be developed in close consultation with the World Bank and EBRD (including through the Investment Climate and Governance Initiative) and will ensure that growth-supporting policies are well coordinated and targeted. Specific actions will focus on the following areas:

- The Law on Planning and Construction was adopted in December 2014, and an all-electronic system for issuing construction permits was in place from January 2016. To simplify the procedures of registering properties and reduce the costs we are working on a digitalization project of ownership register entry.

- We adopted a new Investment Law in October2015, which has replaced and broadened the scope of the Foreign Investment Law to include domestic investment. With the adoption of the new Investment Law, we have established a new Serbian Development Agency, by merging the Serbia Investment and Export Promotion Agency (SIEPA) and National Agency for Regional Development (NARD), integrating and streamlining their operations. In consultation with the World Bank and the Fund, we are preparing diagnostic studies of the Development Fund with an aim to reform it by end-2016. We will also reform the Serbian Export Credit and Insurance Agency (AOFI) in 2016.

- We amended the Law on Consensual Financial Restructuring and Law on the Agency for Bankruptcy Administrators Licensing in October 2015 to establish a new bankruptcy agency which centralizes all bankruptcy procedures and administration. Draft amendments to the Law on Bankruptcy are completed and will be sent to public debate in July and to the National Assembly for adoption in September 2016.

- We have prepared a draft the Law on Fees and Charges, which will replace existing laws and by-laws to regulate fees at all levels of government, to ensure greater predictability and transparency. We intend the Law to be made effective from January 1, 2017.

- We adopted a new Law on Public Enterprises in December 2015 and are working on by-laws to improve the efficiency of the public enterprises and create a strong framework for monitoring them. We will adopt a new Company Law in 2016.

- We adopted in February 2016 an initiative ("Year of Entrepreneurship 2016") to offer significant incentives to boost entrepreneurship in Serbia and improve the access to finance for SMEs.

- Supported by the World Bank's Competitiveness and Jobs project, we are expanding the coverage of active labor market policies and reforming the National Employment Service, to improve the efficiency of its programs and enhance the quality of services provided both to unemployed and employers.

Program Monitoring

37. Progress in the implementation of the policies under this program will be monitored through quarterly quantitative performance criteria (PCs) and indicative targets (ITs)—including an inflation consultation clause, continuous performance criteria (CPCs) and structural benchmarks (SBs). These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1. Serbia: Quantitative Program Targets 1/

	Dec			Mar			Jun			Sep	Dec	Mar	Jun
	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Prog.	Prog. 7/	Prog. 7/
I. Quantitative performance criteria (quarterly)													
1 Floor on net international reserves of the NBS (in millions of euros)	6,266	...	7,395	6,912	...	6,942	6,599	...	6,616	5,932	5,511	5,361	5,211
2 Ceiling on the general government fiscal deficit 3/ 4/ (in billions of dinars)	165.0	167.1	149.1	53.9	38.4	15.9	78.3	61.7	18.2	81.3	112.0	20.4	40.8
3 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 3/	906.3	908.8	901.3	206.1	200.3	197.6	426.6	420.5	416.0	637.0	885.0	200.3	415.4
4 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget for project and corporate restructuring loans (in millions of euros) 3/	481	...	220.0	35	...	0	35	...	0	100	180	33	80
5 Ceiling on contracting or guaranteeing of new short-term external debt by the General Government, Development Fund, and AOFI (up to and including one year, in millions of euros)	0	...	0	0	...	0	0	...	0	0	0	0	0
II. Continuous performance criteria													
6 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget and the Development Fund for liquidity support (in billions of dinars)	0	...	0	0	...	0	0	...	0	0	0	0	0
7 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
8 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget and the Development Fund to any company in the portfolio of the Former Privatization Agency (in billions of dinars).	0	...	0	0	...	0	0	...	0	0	0	0	0
III. Indicative targets (quarterly)													
9 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 5/	0.0	...	-2.0	0.0	...	0.0	0.0	...	-0.7	0.0	0.0	0.0	0.0
10 Ceiling on borrowing by the Development Fund and AOFI (in billions of dinars)	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
11 Ceiling on new below-the-line lending by the Republican Government (in millions of euros) 3/	384	...	414	128	...	31	160	...	82	262	364	100	188
IV. Inflation consultation band (quarterly)													
Outer band (upper limit, 2.5 percent above center point)	6.5	...	...	4.2	...	...	5.0	...		4.0	4.5	5.5	5.5
Inner band (upper limit, 1.5 percent above center point)	5.5	...	...	3.2	...	...	4.0	...		3.0	3.5	4.5	4.5
End of period inflation, center point 6/	*4.0*	...	*1.5*	*1.7*	...	*0.6*	*2.5*	...	*0.9*	*1.5*	*2.0*	*3.0*	*3.0*
Inner band (lower limit, 1.5 percent below center point)	2.5	...	...	0.2	...	...	1.0	...		0.0	0.5	1.5	1.5
Outer band (lower limit, 2.5 percent below center point)	1.5	...	...	-0.8	...	...	0.0	...		-1.0	-0.5	0.5	0.5

1/ As defined in the Letter of Intent, the Memorandum of Economic and Financial Policies, and the Technical Memorandum of Understanding.
2/ Original program targets as specified in IMF Country Report 15/347.
3/ Cumulative since the beginning of a calendar year.
4/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees.
5/ Through the 3rd review, the authorities reported all outstanding accounts payable (>1 day past due), a more stringent definition than per the TMU.
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/ Program targets refer to indicative targets.

Table 2. Serbia: Prior Actions and Structural Benchmarks

Measures	Target date	Status
Prior Actions		
1 Adoption by the government of amendments to the Local Government Financing Law (MEFP ¶9).		Met.
2 Adoption by the EPS supervisory board, in consultation with World Bank, of a credible 2016-19 optimization plan with no less than 1,000 net staff position reduction in 2016 (MEFP ¶35).		Met.
3 Adoption by the government, in consultation with IMF staff, the strategic guidelines for Banka Poštanska štedionica, BPS (MEFP ¶27).		Met.
Structural Benchmarks		
Fiscal		
1 Adoption by the government of by-laws aimed at strengthening the project appraisal process (MEFP ¶8, third review).	December 31, 2015	Not met.
2 Resolution through either privatization or initiation of bankruptcy procedures of at least 7 of the 17 strategically important companies that received protection from debt enforcement until May 2016 (MEFP ¶32).	December 31, 2015	Not met. 6 companies have been resolved, 1 company is in progress.
3 Amendment to the EPS collective agreement to allow for the implementation of the rightsizing identified in the restructuring plans (MEFP ¶35).	December 31, 2015	Not met. Modified and reset as a prior action.
4 Adoption by the National Assembly of the new Local Government Financing Law (MEFP ¶9).	March 31, 2016	Not met. Modified and reset as a prior action.
5 Government adoption of amendments to the Law on Tax Procedure and the Criminal Code to extend the powers and competences of tax investigation, in order to enable the audit of unregistered businesses and improve the function of the tax police (MEFP ¶15).	March 31, 2016	Not met. Reset for end-December.
6 Adoption by the Government Steering Committee of a decision on net employment reduction in 2016 of at least 2700 employees in Railways of Srbija (MEFP ¶35).	March 31, 2016	Not met. Adopted in June.
7 Resolution through either privatization of or initiation of bankruptcy procedures for the remainder of 17 strategically important companies that received protection from debt enforcement until May 2016 (MEFP ¶32).	May 31, 2016	Not met. 5 companies resolved, individual plans being developed for others.
8 Finalize an action plan for implementation of 2016 general government rightsizing targets based on in-depth functional reviews conducted by World Bank (MEFP ¶10).	June 30, 2016	Not met.
Financial		
9 Preparation of supervisory guidance setting forth expectations for loan loss provisioning under IAS 39, in consultation with IMF staff and relevant domestic stakeholders (MEFP ¶23).	December 31, 2015	Met.
10 Submission to the National Assembly of tax law amendments to remove disincentives for timely NPL resolution (MEFP ¶22, third review).	December 31, 2015	Met.
11 Adoption by the Government (in its capacity of controlling shareholder) of retail-oriented three-year business plan for Banka Postanska Stedionica (MEFP ¶27, third review).	December 31, 2015	Not met. Reset as a prior action.
12 Introduction of a new legal and operational framework for transparent real estate appraisals, including: (i) legislation setting clear appraisal standards; (ii) development of a database, accessible to banks and appraisers, for detailed records on real estate valuations filed according to pre-established criteria; and (iii) legislation providing proper supervision of the licensed appraisers. (MEFP ¶22).	March 31, 2016	Not met. Reset for end-December.
13 Conduct of a review of the corporate insolvency law and submission of proposed amendments to the National Assembly, in line with recommendations from IMF technical assistance, aimed to ensure: (i) adequate safeguards for the secured creditors rights; and (ii) better value maximization and more predictable and swift disposal of assets where assets are not strictly necessary for rehabilitation (MEFP ¶22).	March 31, 2016	Not met. Reset for end-December.
14 Develop enhanced supervisory standards for restructured receivables and distressed asset management by banks (MEFP ¶22).	March 31, 2016	Met.
15 Issue official explanations on the tax deductability of distressed debt write-offs and clarify the scope of business secrecy and data protection laws (MEFP ¶22).	September 30, 2016	Proposed new benchmark
16 Adopt, in consultation with World Bank, debt restructuring plan for Srbijagas (MEFP ¶35).	October 31, 2016	Proposed new benchmark
17 Complete special diagnostic review of Dunav Osiguranje (MEFP ¶27)	November 30, 2016	Proposed new benchmark

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program. To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on December 31, 2014, except as noted below.

A. Floor for Net International Reserves of the NBS

	In Millions of Euro
Outstanding stock:	
End-December 2014	7,008
Floor on international reserves:	
End-December 2015 (performance criterion)	6,266
End-March 2016 (performance criterion)	6,912
End-June 2016 (performance criterion)	6,599
End-September 2016 (performance criterion)	5,932
End-December 2016 (performance criterion)	5,511
End-March 2017 (indicative target)	5,361
End-June 2017 (indicative target)	5,211

2. Net international reserves (NIR) of the NBS are defined as the difference between reserve assets and reserve liabilities, measured at the end of the quarter.

3. For purposes of the program, **reserve assets** are readily available claims on nonresidents denominated in foreign convertible currencies. They include the NBS holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contracts, guarantees and letters of credit), NBS' claims on resident banks and nonbanks, as well as subsidiaries or branches of Serbian commercial banks located abroad, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than monetary gold, domestically acquired gold without international certificates, assets in nonconvertible currencies, and illiquid assets.

4. For purposes of the program, **reserve liabilities** are defined as all foreign exchange liabilities to residents and nonresidents with a maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options, including any portion of the NBS gold that is collateralized), and all credit outstanding from the Fund. Excluded from reserve liabilities are government foreign exchange deposits with NBS, and amounts received under any SDR allocations received after August 20, 2009.

5. For purposes of the program, all foreign currency-related assets will be valued in euros at **program exchange rates** as specified below. The program exchange rates are those that prevailed on September 30, 2014. Monetary gold will be valued at the average London fixing market price that prevailed on September 30, 2014.

Cross Exchange Rates and Gold Price for Program Purposes, September 30, 2014

	Valued in:				
	RSD	Euro	USD	SDR	GBP
Currency:					
RSD	1.0000	0.0084	0.0107	0.0072	0.0066
Euro	118.8509	1.0000	1.2695	0.8563	0.7808
USD	93.6202	0.7877	1.0000	0.6745	0.6150
SDR	138.7994	1.1678	1.4826	1.0000	0.9119
GBP	152.2168	1.2807	1.6259	1.0967	1.0000
Gold	113,888.97	958.25	1,216.50	820.53	748.20

Source: NBS

6. **Adjustors.** For program purposes, the NIR target will be adjusted upward by the value of long-term assets and foreign-exchange-denominated claims on resident banks and nonbanks as well as Serbian commercial banks abroad, recovered by the NBS since December 31, 2014. The NIR floor will be adjusted upward by the full amount of proceeds from any eurobond issuance and external bilateral budget loans to the General Government since September 30, 2015. External bilateral budget loans, in this context, are loans to the Republican budget provided without any pre-specified purpose other than satisfying funding needs of the public sector. The NIR floor will also be adjusted upward by the value of domestically acquired gold for which certification was obtained after December 31, 2014. The NIR floor will also be adjusted upward by any privatization revenue in foreign exchange received after December 31, 2014. Privatization receipts are defined in this context as the proceeds from sale, lease, or concession of all or portions of entities and properties held by the public sector that are deposited in foreign exchange at the NBS either directly or through the Treasury.

B. Inflation Consultation Mechanism

7. Inflation is defined as the change over 12 months of the end-of-period consumer price index (CPI), as measured and published by the Serbian Statistics Office.

8. Breaching the inflation consultation inner band limits (specified in MEFP, 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. Breaching the outer limits would trigger a consultation with the IMF's Executive Board on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA.

C. Fiscal Conditionality

9. The general government fiscal deficit (previously referred to as the general government augmented fiscal deficit, see IMF Country Report 15/20, p. 70), on a cash basis, 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 the proceeds from sale, lease, or concession of all or portions of entities and properties held by the public sector.

10. Government primary current 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 exceed (fall short of) programmed levels.

- The quarterly ceilings on **the general government fiscal deficit** will be adjusted downward to the extent that cumulative non-tax revenues of the General Government from debt recovery receipts, debt issuance premiums and receipts from telecom 4G frequency auctions exceed programmed levels.

- The quarterly ceilings on **the general government fiscal deficit and the primary current expenditure of the Republican budget** will be adjusted upward (downward) to the extent that cumulative severance payments by the general government for the former and the Republican budget level for the latter (including payments from the Transition Fund) exceed (fall short of) the programmed levels up to the yearly budgeted amount. Severance payments by the Health Fund will be considered made at the point the funds have been transferred by the Health Fund to the Health Institution (for both general government and Republican budget adjustors).

- The quarterly ceilings on **the general government fiscal deficit and the primary current expenditure of the Republican Budget** will be adjusted upward by a maximum of (i) by a maximum of RSD 13 billion for 2016 or 2017 to the extent that the Republican Budget assumes the debt of Petrohemija to NIS in the context of the former's resolution in a manner that ensures no further fiscal support, (ii) by a maximum of RSD 25 billion to on-lend or issue a new guarantee to Serbia Gas for the repayment of expensive debt; (iii) by a maximum of RSD 6.75 billion to on-lend or issue a new guarantee to Galenika for the repayment of expensive debt; and (iv) by a maximum of RSD 0.6 billion to on-lend or issue a new guarantee to Jat Tehnika for the repayment of expensive debt.

Cumulative Programmed Severance Payments
(In billions of dinars)

	End-Dec. 2015	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017
Programmed cumulative severance payments by the general government fiscal deficit)	29	9.4	11.4	5.0	5.5	4.0	4.5
Programmed cumulative severance payments (of the Republican budget)	25.6	7.3	9.3	4.5	5.0	3.5	4.0

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

(In billions of dinars)

	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017
Programmed cumulative dividends	9.6	9.6	9.6	9.6	18.1	18.1
Programmed cumulative debt recovery receipts	0	0	0	0	0	0
Programmed cumulative debt issuance at a premium	0	0	0	0	0	0
Programmed cumulative receipts from telecom 4G frequency auctions	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 of 2015, 2016, and 2017. 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.

11. Ceiling on the gross issuance of debt guarantees by the Republican Budget for project and for liquidity support. Guarantees for liquidity support are defined in this context as explicit or implicit guarantees, including comfort letters, related to loans provided without any pre-specified purpose other than satisfying funding needs of the company that ensure its normal production and business activities. Guarantees for viable project loans are defined in this context as explicit or implicit guarantees, including comfort letters, related to loans with high probability of repayment provided with a pre-specified objective establishing that all funding should be used for well-defined investment or corporate restructuring projects, confirmed by a reliable feasibility study and/or the investment or restructuring plan endorsed by the government.

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

	End-Dec. 2015	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017
Programmed cumulative ear-marked grants receipts	10	1.8	4.0	6.5	11.4	1.5	3.2
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0	0	0

Adjustor

- The quarterly 2016 ceilings on **gross issuance of new guarantees by the Republican Budget for project and corporate restructuring loans** will be adjusted upward to the extent that the new EUR 200 million guarantee by the Republican Budget on a loan from the EBRD to the EPS originally planned for 2015 takes place in 2016.

1. Ceiling on below-the-line lending by the Republican Government. Below-the-line lending is defined as the lending by the Republican Government which is used to provide financing to entities outside the General Government coverage. Below-the-line lending by the Republican Government will only be provided in cases where the probability of repayment is assessed to be high. These entities include the Deposit Insurance Agency (DIA), beneficiaries of the APEX lending program, and EPS, among others.

2. Ceiling on borrowing by the Development Fund and the Export Credit and Insurance Agency (AOFI). Borrowing by the Development Fund and AOFI is defined as gross accumulation of financial claims on these entities.

3. Domestic arrears. For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include an indicative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶9 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.

D. Ceilings on External Debt

4. Definitions. The ceilings on contracting or guaranteeing of short-term external debt (with maturities up to one year) consolidated general government, the AOFI, and the Development Fund applies not only to debt as defined in point 8 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, Decision No. 6230 - (79/140), as amended, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are normal short-term import credits. For program purposes, debt is classified as external when the residency of the creditor is not Serbian. For new debt to budgetary users, the day the debt is contracted will be the relevant date for program purposes. For new debt to non-budgetary users, the day the first guarantee is signed will be the relevant date. Contracting or guaranteeing of new debt will be converted into euros for program purposes at the program cross exchange rates described in this TMU.

E. Ceiling on External Debt Service Arrears

5. 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.[2] 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.

6. Reporting. The accounting of non-reschedulable external arrears by creditor (if any), with detailed explanations, will be transmitted on a monthly basis, within two weeks of the end of each month. Data on other arrears, which can be rescheduled, will be provided separately.

F. Reporting

7. General government revenue data and the Treasury cash position table will be submitted weekly; updated cash flow projections for the Republican budget for the remainder of the year fourteen calendar days after the end of each month; and the stock of spending arrears as defined in ¶16 45 days after the end of each quarter. General government comprehensive fiscal data (including social security funds) would be submitted by the 25th of each month.

[2] Debt subject to rescheduling or restructuring includes the US$44.7 million in arrears to Libya.

Data Reporting for Quantitative Performance Criteria		
Reporting Agency	Type of Data	Timing
NBS	Net international reserves of the NBS (including data for calculating adjustors)	Within one week of the end of the month
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 25 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 25 days of the end of the month
Ministry of Finance	Gross issuance of new guarantees by the Republican Government for (i) project and corporate restructuring loans and (ii) gross issuance of new guarantees by the Serbian Republican Government for liquidity support	Within three weeks of the end of the month
Ministry of Finance	New short-term external debt contracted or guaranteed by the general government, the Development Fund and AOFI	Within four weeks of the end of the quarter
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	Borrowing by the Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Cumulative below-the-line lending by the Republican Government	Within 25 days of the end of the month
Ministry of Finance	Severance payments by general government, with a breakdown by government level.	Within four weeks 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 Daniel Heller, Executive Director for the Republic of Serbia and Vuk Djokovic, Senior Advisor to the Executive Director
August 31, 2016

Serbia continues to make substantial progress in implementing the SBA supported economic program, which is yielding strong results. The recovery is picking up pace, fiscal and current account deficits are on decline and employment is gradually increasing. The public debt already reached a turning point in 2015, and is expected to steadily decline going forward. Growth is driven mostly by private investments and diversified exports. Substantial fiscal consolidation and structural reforms implemented under the program helped regain confidence and boosted private investments. Improved economic conditions and a positive outlook led to the declining sovereign risk premia, as recognized by the recent upgrade of Serbia's credit rating by Fitch. The incumbent coalition maintained the absolute majority which provided a renewed mandate to the authorities to continue with the implementation of challenging but necessary economic reforms. Serbia is continuing with a tangible progress in the EU integration process as two additional chapters were opened in July 2016. The Serbian authorities remain firmly committed to the program and its objectives and confirm their intention to treat it as precautionary.

Outlook

The economic recovery, which started in 2015, is well under way and gaining momentum. The projections for GDP growth for 2016 and 2017 have been revised upward. The economy is expected to grow 2.5 percent in 2016, driven by diversified growth of exports, strong private sector investments, and the recovery in domestic consumption. Domestic consumption is supported by higher private sector wages and lower prices for energy and food. Credible fiscal consolidation and implemented labor market and other structural reforms helped improve confidence and investment sentiment. The current account deficit continues to narrow, mostly due to the rebound in exports and strong remittances. Substantial FDI inflows in 2015 and 2016 are well diversified and largely directed toward export-Oriented sectors. The financial account has been hit by global investor repositioning and increased volatility in global financial markets following the Brexit vote; however, flows have reversed lately. Inflation remains below the National Bank of Serbia (NBS) inflation tolerance band, mostly due to low imported inflation and low food prices. In July headline CPI inflation stood at 1.2 percent. The Serbian authorities expect growth to further accelerate in 2017, to 3 percent, slightly higher than staff's current projection. They agree on the risk to the outlook, but consider the risks to be symmetrically distributed. Key downside risks stem from the activity slowdown in major trade partners, adverse trends in international commodity and financial markets, along with the unfavorable agrometeorological conditions.

Fiscal policy

Sustainable fiscal adjustment—critical for placing public debt on a firm downward path—remains the backbone of the authorities' SBA supported economic program. Serbian authorities remain committed to maintain fiscal discipline and to implement policies aimed at achieving debt sustainability. Serbia continues to achieve strong fiscal results: 2015 ended with a general government deficit of 3.7 percent of GDP—the best fiscal result since 2008—surpassing by a substantial margin the target set in the third review. The strong fiscal performance is continuing in 2016; preliminary results indicate that the deficit in the first half of the year was below ½ percent of GDP. The good preliminary deficit outturn is the result of strong non-tax and tax revenues (+8 percent y-o-y in Q1-2016). This improvement in revenue collection is mostly driven by improved compliance, reduction in informality and progress in implementing the Tax Administration reform.

Further, while current budget outlays in the H1-2016 were in line with projections, the capital spending turned out higher than expected; mostly due to good execution of public infrastructure projects. The authorities remain well aware of the existing weaknesses in the public sector investment framework, and stay committed to press forward with reforms to streamline appraisal, planning, and execution of infrastructure projects. Expenditures for wages and public sector pensions continued to gradually decline in real terms during 2016, as a result of the hiring freeze, rationalization in the public sector, and the effects of parametric pension reform introduced in 2014.

The recently submitted amendments to the Law on Financing of Local Government are addressing the issue of inter-regional equity, while ensuring more balanced distribution of the consolidation efforts between central and local governments.

Lastly, public debt already reached a turning point at 77.4% of GDP in 2015, and started a firm declining path with the objective of reaching 60 percent of GDP by 2023.

Monetary and exchange rate policies

The monetary policy stance of the NBS remains accommodative, consistent with its price stability objective. Further policy easing remains contingent on the pace of ongoing fiscal adjustment and external developments. Since the beginning of the year, the NBS has lowered the key interest rate twice, in February and again in July, by a cumulative 50bps. The cut in July was driven by low headline inflation, an expected slowdown in the euro zone, high liquidity in international markets, and falling oil and agricultural prices from June onward. Further, the decision was informed by declining inflation expectations. The one-year-ahead inflation expectation fell to 2.8 percent in the financial sector and to 2 percent in the industrial sector—below the central point of the NBS tolerance band—corroborating the appropriateness of the accommodative stance. The policy easing is resulting in lower bank lending rates and a gradual pick-up in the credit activity; credit grew 2.4 percent y-o-y in Q2.

The Serbian authorities remain committed to the inflation targeting regime, as it is yielding good results. The current level of international reserves is high and adequate by standard metrics. The central bank remains committed to maintain adequate coverage throughout the program. The NBS continues to be committed to its managed float exchange rate policy, with the foreign exchange interventions limited to smoothing excessive exchange rate volatility without targeting a specific level or path for the exchange rate.

Financial sector

The Serbian banking sector remains stable with robust capital buffers, as confirmed by the 2015 Special Diagnostic Studies. In March, the capital adequacy ratio stood at 21.5 percent, well above the regulatory minimum of 12 percent and above the regional average. Solvency and liquidity stress tests, regularly performed by the NBS, confirms the robustness of the banking sector. Even under the most adverse scenario solvency and liquidity indicators remain above the regulatory minimum. Profitability of the sector is on the rise, driven by increasing interest rate margins and the recovery of lending.

Progress in implementing the non-performing loan (NPL) resolution strategy, which was adopted in August 2015—an effort to remove barriers to clean banks' balance sheets, and unclog lending—is yielding positive results, as total gross NPLs declined by around two percentage points. While the NPLs still remain high, they are fully provisioned. The NBS implemented a range of prudential and regulatory measures envisaged under the NPL strategy, including the strengthening of its supervisory and regulatory frameworks, to enhance distressed asset management and regulatory treatment of restructured receivables. The NBS also provided guidance to banks on improving provisioning practices and the asset quality reporting. Furthermore, the Serbian authorities remain committed to complete the remaining measures envisaged in the NPL strategy, including: (i) further strengthening of the insolvency framework, (ii) improving secured creditors rights, (iii) issuing official explanations regarding tax deductibility of distressed debt write-offs, (iv) introducing a new legal framework for real estate appraisers, (v) clarifying the scope of business secrecy and data protection laws, and (vi) strengthening the judiciary. The government is also updating its strategy for the remaining state-owned banks and initiating preparation for the privatization of Komercijalna banka. It also issued a guidance to the state-owned Banka Poštanska Štedionica, to gear its business model towards retail and SME market segments, in line with staff recommendation.

State-owned (SOE) and socially-owned enterprise reforms

As pointed out by staff, the authorities are achieving substantial progress with systemically resolving socially-owned companies in the portfolio of the Privatization Agency (PA).

Bankruptcy moratorium for the last 17 socially-owned companies under moratorium protection was lifted in May, and no company remains shielded from the application of corporate, tax and other laws. Around 330 companies in the PA portfolio have been resolved so far, through either bankruptcy or privatization. Around 20,000 employees from the resolved companies received severance payments, while around 45,000 employees remain in around 200 companies which still to have to be resolved.

The Serbian authorities are well aware of fiscal risks stemming from the large, unrestructured SOEs. They continue to work with the support of IFIs, including World bank and EBRD in advancing SOE restructuring agenda, with the following objectives: (i) address organizational, financial and governance issues in SOEs, (ii) minimize fiscal risks, and (iii) reduce state aid to SOEs substantially and on a systematic basis. The focus is on three major companies in the electricity, gas distribution and transportation sectors. Financial and corporate restructuring plans for the electricity utility EPS and the Serbian Railways have been adopted and are in process of implementation. Organizational restructuring for the gas distribution utility Srbijagas was implemented in 2015; while the debt restructuring plan is set to be adopted in October 2016, following the completion of financial due diligence.