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REPUBLIC OF SERBIA

December 2022

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR A STAND-BY ARRANGEMENT, AND CANCELLATION OF THE POLICY COORDINATION INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF SERBIA

In the context of the Third Review Under the Policy Coordination Instrument, Request for a Stand-By Arrangement, and Cancellation of the Policy Coordination Instrument, 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 December 19, 2022, following discussions that ended on November 2, 2022, with the officials of Republic of Serbia on economic developments, the policies pursued under the Policy Coordination Instrument, and policies underpinning the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on December 2, 2022.
- A **Statement by the Executive Director** for the Republic of Serbia.

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PRESS RELEASE

PR 22/447

IMF Executive Board Approves a 2.4 billion EUR Stand-by Arrangement for the Republic of Serbia

FOR IMMEDIATE RELEASE

- The IMF approved yesterday a two-year Stand-by Arrangement (SBA) for the Republic of Serbia amounting to about SDR 1.89 billion, or approximately 2.4 billion EUR. The SBA will replace the existing Policy Coordination Instrument (PCI) and build on the PCI reform agenda with appropriate modifications for recent policy challenges.
- In the context of the energy crisis, the SBA focuses on addressing external and fiscal financing needs, maintaining macroeconomic and financial stability, and continuing to strengthen the economy's performance and resilience through structural reforms, especially in the energy sector.
- The authorities intend to make the first three purchases that become available under the SBA in 2022 and 2023 and treat the remainder as precautionary.
- The IMF also concluded the 3rd Review of the existing PCI, which is cancelled upon approval of the SBA.

Washington, DC – **December 20, 2022:** The Executive Board of the International Monetary Fund (IMF) approved a EUR 2.4 billion (or the equivalent of 290 percent of quota and SDR 1.89892 billion) SBA yesterday for the Republic of Serbia. The SBA provides support for the authorities' economic policies over the next two years. The Board's decision makes approximately EUR 1 billion (120 percent of quota and SDR 785.76 million) available immediately, which the authorities intend to purchase. Future purchases become available upon completion of semi-annual reviews. The authorities intend to make further purchases in 2023, while treating the 2024 amounts as precautionary.

The Executive Board of the IMF also concluded the third review under the PCI[1] for the Republic of Serbia. The PCI was approved on June 18, 2021 and aimed at: supporting the recovery from the Covid pandemic, maintaining macroeconomic stability, and anchoring the medium-term fiscal policy framework, while pushing ahead with structural reforms to deliver more inclusive and sustainable growth. The SBA will replace the existing PCI and build on the PCI reform agenda with appropriate modifications for recent policy challenges.

The authorities' program supported by the SBA takes forward the policies already pursued under the PCI, while incorporating additional actions to address the energy crisis and increase buffers amidst high uncertainty. Policies seek to address actual and potential external and fiscal financing needs, maintain macroeconomic and financial stability, and

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

continue to strengthen the economy's performance and resilience through structural reforms, with a special focus on the energy sector.

At the conclusion of the Board discussion on the Republic of Serbia, Mrs. Gita Gopinath, First Deputy Managing Director, made the following statement:

"Serbia has built a strong track record of solid macroeconomic performance, supported by the IMF under the Policy Coordination Instrument (PCI). However, with high energy prices, a longer timeline to fully restore domestic electricity production, high inflation, and lower trading partner growth, the current account and the outlook for economic growth have weakened while additional fiscal financing needs have emerged. The authorities have preserved macro-financial stability and have already put policies in place to mitigate these shocks. Amid high uncertainty, they seek to build additional buffers supported by a Stand-by Arrangement.

Taking forward the policies under the PCI, the authorities are rightly containing the fiscal deficit while providing temporary support to the state-owned energy companies. Gradually raising Serbia's comparatively low domestic energy tariffs while protecting the most vulnerable will be important for restoring cost recovery over the medium term, eliminating the fiscal drain, and encouraging energy conservation. The new fiscal rules will provide an important anchor for medium-term fiscal discipline.

Reforms of the energy sector are a high priority. The planned reform strategy for power company EPS, a prioritized sectoral investment plan, and a new Energy Development Strategy will help guide these reforms in both the public and the private sectors.

Amid ongoing global and domestic inflationary pressures, monetary policy has rightly continued to be tightened. The National Bank of Serbia's vigilance in ensuring price stability will be key to curbing inflation expectations and bringing inflation back within the inflation band.

Additional structural reform commitments, including on fiscal management and governance of state-owned enterprises, aimed at underpinning medium-term growth are also important."

Annex

Recent Economic Developments

Serbia's economy rebounded quickly from the Covid pandemic, and the authorities embarked on a well-paced consolidation path to rebuild buffers, supported by a program under the PCI. However, risks foreshadowed at the Second Review of the PCI have materialized: higher energy prices and domestic electricity production problems have significantly increased balance of payments and fiscal financing needs. And high global inflation, a weak outlook for trading partner growth, and ongoing spillovers from Russia's war in Ukraine weigh on the outlook despite its still-strong macroeconomic policies.

Program Summary

The two-year SBA would help cover the external and fiscal financing needs through the coming winter stemming from elevated energy import costs and worsening global financing conditions, and maintain external buffers in an environment of high risks. Some policies include:

- **Energy tariff adjustments** and structural reforms to restore the financial balances of the state-owned energy utilities EPS and Srbijagas within two years, while cushioning the impact on vulnerable households and supporting the energy utilities through fiscal transfers in the short term;
- **Tight monetary and fiscal policies** to control inflation and provide support for the stabilized exchange rate;
- **Further fiscal transparency** and budget reforms to support fiscal discipline and the effective implementation of the new fiscal rule; and
- Ongoing reforms to **strengthen SOE governance and oversight**.

Table 1. Serbia: Selected Economic and Social Indicators, 2019–2024

	2019	2020	2021	2022		2023		2024	
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.
				(Percent change, unless otherwise indicated)					
Real sector									
Real GDP	4.3	-0.9	7.5	**3.5**	2.5	**4.0**	2.3	**4.0**	3.0
Consumer prices (average)	1.9	1.6	4.1	**9.0**	12.1	**5.9**	12.2	**3.7**	5.3
Consumer prices (end of period)	1.9	1.3	7.9	**8.0**	15.8	**4.3**	8.2	**3.7**	4.0
GDP deflator	2.4	2.4	5.9	**6.8**	10.3	**7.0**	10.7	**5.2**	6.7
Unemployment rate (in percent) 1/	11.2	9.7	11.0	**...**	10.5	**...**	11.1	**...**	10.6
Nominal GDP (in billions of dinars)	5,422	5,504	6,270	**6,931**	7,088	**7,711**	8,026	**8,437**	8,821
				(Percent of GDP)					
General government finances									
Revenue 2/	42.0	41.0	43.3	**41.3**	43.0	**41.6**	41.6	**41.7**	41.6
Expenditure 2/	42.2	49.0	47.4	**44.3**	46.8	**43.1**	44.9	**42.9**	43.8
Current 2/	36.9	42.7	39.0	**37.5**	37.1	**36.2**	36.1	**35.9**	36.0
Capital and net lending	5.1	6.1	8.3	**6.8**	9.4	**6.6**	8.4	**6.7**	7.5
Amortization of called guarantees	0.2	0.1	0.1	**0.0**	0.3	**0.3**	0.3	**0.2**	0.3
Fiscal balance 3/	-0.2	-8.0	-4.1	**-3.0**	-3.8	**-1.5**	-3.3	**-1.1**	-2.2
Primary fiscal balance (cash basis)	1.8	-6.0	-2.4	**-1.3**	-2.2	**0.8**	-1.5	**0.6**	-0.4
Structural primary fiscal balance 4/	1.5	-4.1	-2.5	**-1.0**	-0.6	**0.7**	0.4	**0.5**	0.7
Gross debt /5	52.8	57.8	57.1	**55.1**	56.8	**50.8**	56.4	**47.2**	53.2
				(End of period 12-month change, percent)					
Monetary sector									
Broad money (M2)	8.8	18.4	13.0	**11.8**	3.3	**7.3**	7.9	**6.0**	10.9
Domestic credit to non-government 6/	9.5	12.0	9.9	**13.5**	10.3	**7.5**	7.7	**6.6**	10.5
				(Period average, percent)					
Interest rates (dinar)									
NBS key policy rate	2.3	1.0	1.0	**...**	...	**...**	...		...
Interest rate on new FX and FX-indexed loans	3.1	3.0	2.5	**...**	...	**...**	...		...
				(Percent of GDP, unless otherwise indicated)					
Balance of payments									
Current account balance	-6.9	-4.1	-4.3	**-6.1**	-9.0	**-5.7**	-8.4	**-6.0**	-6.0
Trade of goods balance	-12.2	-11.1	-11.1	**-12.7**	-14.8	**-11.9**	-13.1	**-11.2**	-10.3
Exports of goods	35.7	34.3	39.0	**38.7**	42.8	**36.7**	43.2	**36.0**	42.5
Imports of goods	-47.9	-45.5	-50.1	**-51.4**	-57.6	**-48.6**	-56.3	**-47.2**	-52.8
Capital and financial account balance	10.6	5.0	8.9	**3.2**	7.0	**7.2**	7.3	**6.9**	6.7
External debt (percent of GDP)	65.7	70.3	71.3	**66.2**	68.0	**62.3**	65.4	**58.0**	61.5
of which: Private external debt	31.3	33.8	32.6	**29.0**	29.4	**26.4**	26.8	**24.4**	25.1
Gross official reserves									
(in billions of euro)	13.4	13.5	16.5	**14.7**	16.3	**15.7**	16.6	**16.4**	17.6
(in months of prospective imports)	6.1	4.9	4.6	**4.4**	4.1	**4.4**	4.1	**4.3**	4.1
(percent of risk-weighted metric) 7/	125.0	121.9	131.5	**114.3**	118.9	**113.9**	111.8	**112.8**	110.4
Exchange rate (dinar/euro, period average)	117.9	117.6	117.6	**...**	...	**...**	...	**...**	...
REER (annual average change, in percent, + indicates appreciation)	1.0	1.5	1.4	**...**	...	**...**	...	**...**	...
Social indicators									
Per capita GDP (in US$)	7,397	7,703	9,180	**9,597**	9,309	**10,883**	10,203	**12,145**	11,222
Population (in million)	7.0	6.9	6.9	**6.8**	6.8	**6.8**	6.8	**6.8**	6.8

Sources: Serbian authorities; and IMF staff estimates and projections.
1/ Unemployment rate of the 15+ labor force.
2/ Includes employer contributions.
3/ Includes amortization of called guarantees.
4/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs. The calculation of the structural balance has been revised to include temporary one-off measures to respond to the pandemic and to the energy crisis.
5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis.
6/ At constant exchange rates.
7/ The risk-weighted metric is IMF's ARA metric under fixed exchange rate. Serbia was reclassified as stabilized exchange rate regime in 2019.

REPUBLIC OF SERBIA

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR A STAND-BY ARRANGEMENT, AND CANCELLATION OF THE POLICY COORDINATION INSTRUMENT

December 2, 2022

EXECUTIVE SUMMARY

Context. Serbia's economy rebounded quickly from the Covid pandemic and the authorities embarked on a well-paced consolidation path to rebuild buffers, supported by a program under the Policy Coordination Instrument (PCI). However, risks foreshadowed at the Second Review of the PCI have materialized: higher energy prices and domestic electricity production problems have significantly increased balance of payments and fiscal financing needs. And high global inflation, a weak outlook for trading partner growth, and ongoing spillovers from Russia's war in Ukraine weigh on the outlook despite its still-strong macroeconomic policies.

Stand-By Arrangement (SBA). The authorities have requested support under a two-year SBA (SDR 1,898.92 million, 290 percent of quota, about EUR 2.4 billion) to help address these challenges. In the attached letter, they describe their economic and financial policies to address external and fiscal financing needs, maintain macroeconomic and financial stability, and continue to strengthen the economy's performance and resilience through structural reforms. Key policies include:

- Energy tariff adjustments and structural reforms to restore the financial balances of the state-owned energy utilities EPS and Srbijagas within two years, while cushioning the impact on vulnerable households and supporting the energy utilities through fiscal transfers in the short term;
- Tight monetary and fiscal policies to control inflation and provide support for the stabilized exchange rate;
- Further fiscal transparency and budget reforms to support fiscal discipline and the effective implementation of the new fiscal rule; and
- Ongoing reforms to strengthen SOE governance and oversight.

PCI. Policies under the SBA build on policies under the PCI, which the authorities cancel on approval of the SBA. Macro-financial stability has been maintained notwithstanding the challenging environment, and all-but-one reform targets have been implemented, albeit with some delays. As the SBA includes appropriate additional and remedial actions to address the latest challenges, staff recommends completion of the Third Review under the PCI.

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

Discussions were held in Belgrade in person during October 20–November 2, 2022. The staff team comprised Jan Kees Martijn (head), Donal McGettigan (incoming mission chief), Larry Cui, Christiane Roehler (all EUR), Hamid Davoodi (FAD), Lukas Kohler (SPR), Priscilla Toffano (MCM), Yulia Ustyugova (resident representative), and Marko Paunović (local economist). Vuk Djoković (OED) attended some meetings. Support was provided by Nisha Samuel and Zeju Zhu (both EUR), and by Zvezdana Marjanović (local office).

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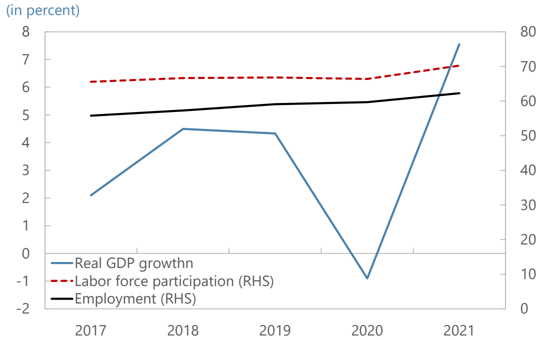
CONTEXT

1. **Supported by sound macroeconomic fundamentals and its policy program under the PCI, Serbia grew rapidly following the Covid-19 pandemic and rebuilt its buffers**. Before the pandemic, Serbia experienced several years of strong growth, increased employment, and low inflation. The fiscal deficit was contained, and public debt declined. Robust and diversified FDI more than financed the current account deficit. Supported by a comprehensive package of fiscal, monetary and financial sector measures, real GDP growth in 2020 contracted less than in most countries in Europe, and rebounded strongly over 2021–2022:H1. Fiscal consolidation since 2021 put the fiscal deficit and public debt back on a downward path.

Text Figure 1. Serbia: Macroeconomic Trends, 2017–2021

The economy grew strongly, and labor force participation and employment increased significantly.

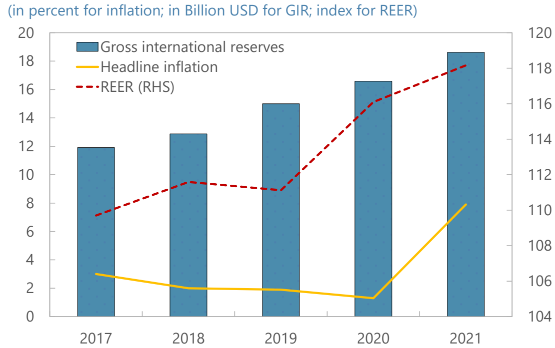
Serbia: Real Growth and Employment
(in percent)



Sources: Haver Analytics and IMF staff calculations

Inflation was controlled until late 2021, while a stable RSD/EUR nominal exchange rate implied a modest real effective exchange rate appreciation.

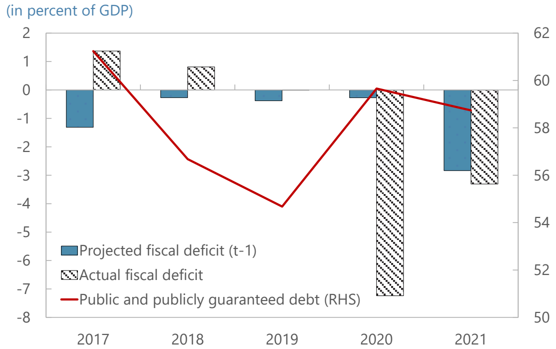
Serbia: Inflation, REER, and GIR
(in percent for inflation; in Billion USD for GIR; index for REER)



Sources: NBS, Haver Analytics, and IMF STA INS database.

Fiscal deficit targets were achieved and public debt declined except at the outbreak of the Covid-19 pandemic.

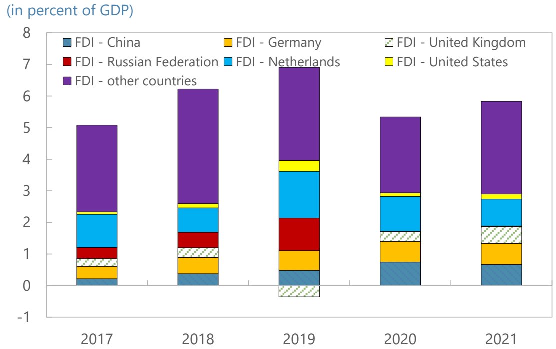
Serbia: Fiscal Debt and Public Debt
(in percent of GDP)



Sources: IMF WEO and IMF staff calculations

FDI increased from diversified sources, supporting growth and the current account.

Serbia: Foreign Direct Investment
(in percent of GDP)



Sources: NBS and IMF staff calculations

2. **Serbia, however, now is facing a confluence of adverse global, regional, and domestic developments, adding to external and fiscal pressures.** Production problems in the domestic

energy sector, combined with rising international prices of gas and electricity, raised import costs during the 2021–22 winter. The near-term outlook is significantly weaker than at the time of the 2nd review of the PCI, reflecting (1) weaker global and regional growth, (2) monetary policy tightening by key central banks, making external financing by EMs more challenging and expensive, and (3) the materialization of downside risks, including a prolonged war in Ukraine, still-high food and energy prices, and a longer timeframe for fully restoring domestic electricity production. A second year of drought aggravates the situation: hydro power generation declined, low water levels in the Danube delayed shipping of bulk goods including oil and coal, and high prices for fruit and vegetables are contributing to food inflation.

3. **Against this backdrop, the authorities have requested support under an SBA and, on approval, cancel the PCI.** The proposed 2-year SBA would help cover the external and fiscal financing needs through the coming winter stemming from elevated energy import costs and worsening global financing conditions, and maintain external buffers in an environment of high risks. The policy program would build on reform priorities under the PCI with additional urgent measures to overcome the energy crisis. The new government that took office in early November, based on elections in April, has indicated that resolving the energy crisis will be its main priority.

ECONOMIC DEVELOPMENTS AND CHALLENGES

4. **Serbia's growth has started to soften.** While real GDP growth remained strong in the first half of the year, at 4.0 percent yoy, it slowed to 1.0 percent yoy in 2022:Q3, with declines in agriculture, industry, and construction, broadly in line with high frequency indicators.

Serbia: Real Growth Indicators, 2021 - 2022 (yoy)

	2021	2022	
		Jan - Jun	Jan - Sep
GDP 1/	7.5	4.0	2.9
GDP - Agriculture 1/	-5.7	-7.6	-7.7
Industrial production	6.3	3.3	1.9
Coal mining	-8.0	-9.5	-9.7
Electricty etc.	0.7	-14.5	-11.5
Retail sales	11.9	8.1	7.1
	2021	2022	
		as of June	as of Sept
Wheat (annual proj.)	23.1	-7.5	-9.6
Maize (annual proj.)	-20.7	-6.7	-25.0

Source: Statistical Office of Serbia (SORS)
1/ For 2022, staff calculations based on SORS' November provisional quarterly estimates for 2022:Q1-Q3.

5. **Inflation has continued to increase despite ongoing monetary policy tightening.** The NBS has increased its key policy rate seven times since April 2022 to 4.5 percent. Despite these welcome moves, and consistent with inflation pressures elsewhere, inflation increased to 15 percent in October 2022, while core inflation remained lower at 9.5 percent.

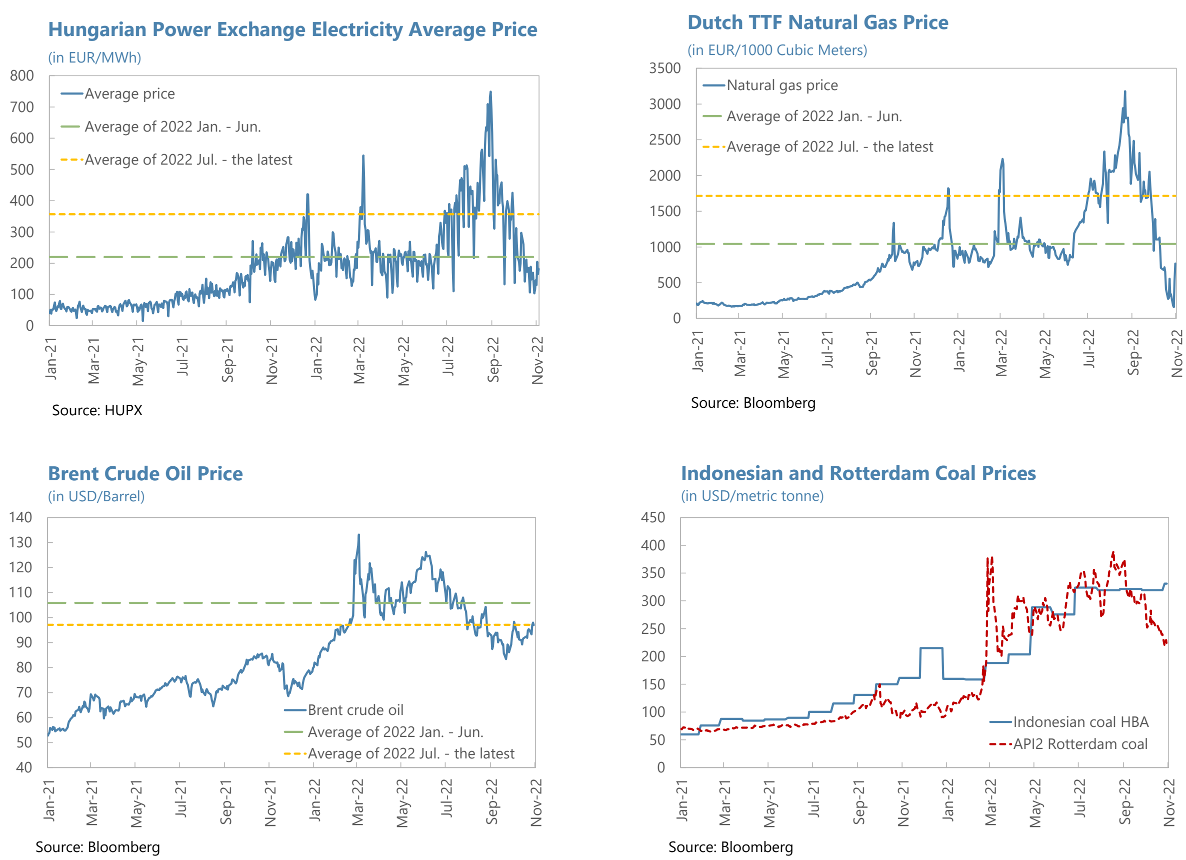
6. **The energy import bill looks set to double in 2022, and is expected to remain elevated in 2023–24.** Through September 2022, the energy import bill was EUR 4.3 billion (7.2 percent of GDP) nearly doubling last year's. This reflects adverse developments across the electricity, gas, and oil sectors.

- *Electricity.* Serbia needs to import electricity through the 2022–23 winter and coal for power production over the coming 3 years. The state-owned power utility Elektroprivreda Srbije (EPS) has normally been self-sufficient in electricity generation, mostly from coal and from hydro power (25–30 percent), but shortfalls that arose in 2021 still persist because of low, drought-related water levels and delays in restoring domestic coal production, coinciding with record-high electricity and coal prices (Text Figure 2). The aged thermal power plants also remain at risk of failures.

- *Natural gas*. With almost no domestic production, the state-owned gas utility, Srbijagas, purchases two-thirds of Serbia's current annual needs under a favorable oil-indexed import contract for Russian gas, and the remainder on the open market. With escalating regional market prices, the import bill through September nearly quadrupled compared with last year. To prepare for the 2022–23 winter, gas storage was expanded. At end-September Srbijagas had stored sufficient gas domestically and in newly-purchased capacity in Hungary to cover between 7-9 weeks of winter consumption. The stored gas enhances supply security, and helps guard against future prices spikes, but was purchased at high prices.

- *Oil*. Oil price hikes since mid-2021 have increased the import costs of Serbia's refinery, which on net supplies most of Serbia's refined mineral products.

Text Figure 2. Regional Energy Import Prices, 2021–2022 1/



1/ Serbia's energy imports mainly follow European prices. It also imports coals from Indonesia.

7. Reflecting the higher energy import bill, the fiscal and external deficits are increasing. The fiscal impact arises from limited pass-through of the higher energy import prices to domestic prices. Household energy prices are regulated, and many corporate contracts are covered by price caps and fixed for one year. Consequently, in the short term, revenues of EPS and Srbijagas have adjusted only modestly, and the government has provided subsidies, loans and guarantees to support both companies (2.2 percent of annual GDP by September 2022). The current account deficit is expected to widen to approximately 9 percent of GDP in 2022 from 4.3 percent in the prior year, largely due to higher energy imports. While the June 2022 External Stability Assessment for the second review under the PCI indicated that the external position at end-2021 was broadly in line with fundamentals, ongoing developments suggest that the situation may be weakening in 2022, and this will be assessed in the context of the forthcoming Article IV Consultation.

8. Access to international financial markets is constrained and government borrowing costs have increased. While Serbia's credit rating has remained stable at one notch below investment grade, and nonresident investments in domestic bonds stabilized in 2022, prospects for market access remain uncertain under current market conditions. Serbia's international secondary market spread has increased sharply since the start of the war in Ukraine. Moreover, rates for longer-term (10-year) domestic RSD-bonds have also risen, to more than 7 percent, displaying the same steep yield curve of expected real interest rates as regional peers.

PERFORMANCE UNDER THE PCI

9. Serbia has a strong record of on-track program performance under the PCI and the prior SBA. Macroeconomic achievements included fiscal consolidation and strong growth performance (Text Figure 1). Structural reforms included resolution of NPLs, reforms in state-owned enterprises (SOEs), privatization and restructuring of state-owned banks, a new fiscal rule, and tax administration reforms (Annex II).

10. Even though recent quantitative (QT) and reform targets (RTs) were missed, this was mainly due to exogenous factors (MEFP Tables 1a and 2a).

- The June 2022 QT on the fiscal deficit was met, while the June 2022 QT on central government (nominal) primary current expenditure was missed by 1.1 percent of GDP, reflecting inflation pressures. In light of high inflation, the authorities approved additional expenditure to mitigate the high cost of living (e.g., a one-off pension payment, reduced excise taxes on gasoline and diesel, and subsidies to support fixed prices of a few basic commodities) without undermining fiscal sustainability.

- The upper limit of the inflation consultation band at end-June and end-September was breached, reflecting continued high global inflation and drought-related high local food inflation. The authorities have consulted with staff, who consider the monetary response, including progressive increases in the key policy rate, as appropriate.

- All RTs to end-December 2022 have been or are expected to be completed, albeit with delay. A tender for a new tax administration IT system (end-June 2022 RT) was launched in October after revisions reflecting updated advice from consultants. Legislation on a fiscal rule to help anchor fiscal discipline in a robust medium-term fiscal policy framework (end-October 2022 RT) was approved in November after the new government had been elected and is before parliament. A new law that aims to strengthen SOE management (end-December 2022 RT, reset as SBA structural benchmark (SB)) has been published for public discussion. While changes of the legal status of EPS to a joint stock company (end-November 2022 RT, reset as end-February 2023 SBA SB) have been prepared, their formal adoption has been delayed due to the long period without a regular government.

THE STAND-BY ARRANGEMENT

A. Overview

11. The proposed SBA succeeds the PCI, takes its reforms forward, and aims to address Serbia's external and fiscal financing needs, preserve macroeconomic and financial stability, and further strengthen economic performance and resilience.

- While options to mitigate high global energy prices are limited, cost-recovery for EPS and Srbijagas is planned during the program. The program involves raising energy tariffs to offset the expected permanent component of the increased energy import costs, while the temporary component is covered by fiscal support. Beyond containing the drain on the budget, tariff increases encourage needed energy savings. The program also tackles long-standing structural weaknesses in the domestic energy sector.

- Appropriately tight monetary and fiscal policies will be key to containing the current account deficit and controlling inflation. These policies will also support the stabilized exchange rate, which the authorities continue to see as essential for macroeconomic stability, especially under current challenges.

- Structural reforms to enhance growth and resilience focus on improving the management of SOEs to bolster efficiency, safeguarding fiscal discipline, and continued efforts to develop capital markets and increase dinarization. These reforms should help continue Serbia's success in attracting FDI, and spur domestic investment.

B. Macroeconomic Framework

12. The macroeconomic framework reflects a tight policy mix to help manage the external and fiscal financing needs, control inflation, and support the stabilized exchange rate.

- *Growth.* Real GDP growth is projected at 2.5 percent for 2022 and 2.3 percent for 2023. The outlook is dampened by the severe impact of the drought on agriculture, higher energy prices and lower growth projected in European trading partners. Looking ahead, growth is expected to recover modestly to 3.0 percent in 2024, in line with weak global forecasts, and return to potential (about 4 percent) over the medium term.

- *Inflation*. Reflecting higher-than-expected global and regional inflation and the drought, inflation is expected to edge up further through 2022, ending the year at 15.8 percent. The need to adjust energy and administered prices further (18 percent share in the basket) will raise inflation pressures in the near term. While core inflation has increased less than in regional peers (e.g., Romania and Hungary), it is expected to rise over the coming months due to delayed passthrough of imported inflation and ongoing wage increases, which have been broadly aligned with inflation. Inflation is projected to moderate gradually to 8.2 percent by end-2023, reflecting base effects, lower food prices (assuming no drought next year) and continued tightening of monetary policy.

- *Current account*. The current account deficit is projected to narrow slightly but remain wide in 2023 at 8.4 percent of GDP, largely on account of high energy import costs, weak external demand, and reduced agricultural exports. These pressures are expected to fade over 2024 as domestic electricity production normalizes, regional energy prices decline, domestic energy prices increase, and partner growth recovers. Remittances have remained strong but are expected to moderate somewhat in 2023.

- *Reserves*. With escalating energy import costs during the 2021/22 winter and a temporary confidence shock at the start of the war in Ukraine, gross international reserves fell to EUR 13.9 billion by end-May, before recovering strongly to EUR 16.9 billion (above their end-2021 level) by end-October 2022, based on strong remittances, exports, and FDI. FDI to date has remained buoyant based on a supportive investment climate, ongoing near-shoring, and geo-political factors associated with Russia's war in Ukraine. However, due to rising energy imports during the winter, without exceptional financing, reserves would fall to EUR 15.3 billion (111.4 percent of the ARA metric) by end-2022, and further to EUR 14.5 billion (97.4 percent of the ARA metric) by end-2023. However, incorporating planned disbursements under the SBA and other exceptional financing, reserves are forecast to strengthen over the course of the program and beyond.

C. Energy Sector Policies

13. Energy sector policies will play a central role under the SBA and will focus on energy SOEs financial viability, energy security, and laying the foundations for a green transition. Most pressing for macroeconomic stability is the restoration of cost-recovery for EPS and Srbijagas, and the stabilization of electricity-generation and enhanced energy security over the near and medium term. The program also includes critical steps toward a sustainable energy future, while unlocking opportunities for private sector participation. In parallel, structural reforms to improve governance and management of EPS and Srbijagas will also be important.

14. Cost-recovery is expected for EPS during 2023, and for Srbijgas by the end of the program. Tariff adjustments under the program have been calibrated to meet expected medium-term costs including needed investments and take into account tariff increases in the fall of 2022. Despite these increases, energy prices in Serbia will remain below those in most European countries, in line with its lower cost of supplying electricity and gas. The further tariff increases will be phased in gradually for both households and corporates to help limit adverse social and economic impacts, and targeted budget support will be provided to the most vulnerable. Required tariff adjustments will be reassessed in program reviews and earlier should gas prices spike.

- *Electricity*. Following increases in September 2022 in the regulated electricity tariffs for households by 6.5 percent (about 9 percent including the increase in the fee for renewables) and in electricity prices for corporates by 27 percent, an additional combined tariff adjustment by about 15 percent is estimated to be enough to achieve cost recovery. This will be achieved through further increases by 8 percent (prior action) effective from the beginning of 2023 and by 8 percent as of May 2023 (SB). Subsequent increases will be put in place to maintain cost recovery.

- *Natural gas*: Given the larger—and more uncertain—medium-term price gap for gas, a longer transition towards full cost recovery is foreseen. A natural gas price increase of 9 percent took place in August for households. Tentative calculations (guided by forward market prices) suggest that a further increase in average tariffs across users of about 45 percent could be required over the medium term to achieve full cost recovery. An 11 percent increase will be implemented as a prior action, effective from the beginning of 2023, followed by 10 percent increases as of May 2023 (SB), November 2023, and May 2024.

15. For both EPS and Srbijagas, improved purchase arrangements are expected to help limit import costs.

- *Electricity*. EPS has made arrangements to import suitable coal, rather than only electricity. It can also use limited quantities of natural gas and heavy fuel oil. All this can help limit costs.

- *Natural gas*. Natural gas storage capacity was expanded at Banatski Dvor and purchased in Hungary, in total covering about 2-3 months of average consumption, and permitting more active timing of open market purchases during the summer months when prices are typically lower. High storage capacity also permits a trade-off between additional purchases at current prices and using gas in storage. A further expansion of Banatski Dvor is under consideration and would add to purchase flexibility.

16. Under the baseline, and with the phased increase in tariffs, budget subsidies for the energy companies will be phased out over the program period. [1] Subsidies for EPS are projected to decline from 0.8 percent of GDP in 2022 to 0.5 percent in 2023 and be eliminated in 2024. Srbijagas is expected to require subsidies through 2024, with the amount falling from 1.2 percent of

[1] Instead of subsidies, the government may provide deficit-increasing budget loans. Energy-related public investment projects may also be part of the budget.

GDP in 2022 to 0.7 percent in 2024.[2] The program also includes a consultation clause in case market prices for gas exceed EUR 250/MWh, to help contain risks to the budget.

17. The authorities have put in place measures to encourage energy savings and mitigate the social impact of the energy crisis. Discounts were introduced for households that reduce their electricity consumption compared to the past. The authorities also launched a public information campaign, instructed public entities to limit energy use, and prepared contingency plans in case of supply disruptions. A budget-financed support program targeted at energy-poor households will be expanded at the start of 2023 alongside the tariff increases.[3] This comes on top of the existing system of progressive block tariffs for electricity that applies to all households.

18. Structural reforms will focus on ensuring sustainable energy provision over the medium term.

- The new government will update the draft National Energy and Climate Plan (NECP) during 2023. With projections as far ahead as 2050, the NECP will provide the vision for the structure and transformation of the energy sector. It will guide long-term investments and should help unlock private sector participation and financing. To enhance energy security and help meet climate objectives, the NECP will target a significant expansion of solar and wind energy. As an initial step, in cooperation with the EBRD, the government plans to launch a first renewable energy auction by in 2023:H1.

- Consistent with the NECP, and as part of an updated Energy Development Strategy, the government will identify priority investments in the energy sector (May 2023 SB). These projects are to be implemented during the next 2–5 years and will be key for enhancing energy security and stabilizing electricity generation. Projects will include new oil and gas pipelines, pipeline interconnectors, associated transport infrastructure and gas and electricity storage, reversible hydropower (to balance the use of renewables), and metering. Government-financed projects will be incorporated into medium-term capital budget.

- Recent unexpected power production shortfalls have revealed severe weaknesses in the management of EPS. The program therefore includes reforms to strengthen the governance and management of energy sector companies. The change of the legal status of EPS into a joint stock company is pending (PCI RT, reset as a February 2023 SB), and will support transparency, spur management guided by commercial principles, and open up opportunities for private sector participation. Next, a restructuring plan will be prepared for the company (end-December 2023 SB*)*. Objectives include upgrading internal management reporting, improving production and investment planning, and strengthening financial oversight.

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[2] Based on prudent import price assumptions, with a market price of EUR 1370 per 1000 m3 (EUR 131/MWh) for 2023 and EUR 900 per 1000 m3 (EUR 86/MWh) for 2024.

[3] This reform was developed with the World Bank. Eligibility for energy subsidies would be expanded to more poor and energy-vulnerable households, with the number of recipients to increase from about 3 to 10 percent of households.

D. Fiscal Policies

19. The nonenergy fiscal deficit in 2022, at less than 2 percent of GDP, is expected to be well below the ceiling under the PCI of 3 percent of GDP, while the deficit including energy sector support is forecast at 3.8 percent of GDP. Revenues are projected to exceed the original budget by 9 percent, despite non-adjustment of specific excises and fees for inflation and a 10 percent reduction in excise taxes on gasoline and diesel to help contain price increases. Expenditures are expected to be higher by 11 percent than originally budgeted, despite some under-execution, largely because of income support and support for energy sector.

Serbia: Fiscal Package to Respond to Higher Food and Energy Prices in 2022

	Billions of RSD	Percent of GDP
Total forgone revenue		
Cut in excises on gasoline and diesel	**16.5**	**0.2**
Total additional spending	**216.1**	**3.0**
Energy		
Net lending to Srbijagas and EPS (above the line) 1/	140.8	2.0
Income support		
Transfer to health workers, RSD 10,000 per person	1.2	0.0
Transfer to the young (EUR 100 per person in Jan and June; and 5,000 RSD i	30.0	0.4
Transfer to pensioners, RSD 20,000 per person	33.2	0.5
End-year pension increases	9.5	0.1
Transfer to social sector employees, RSD 10,000 per person	0.1	0.0
Transfer to education sector employees, RSD 10,000 per person	1.3	0.0
Total	**232.6**	**3.3**

Source: IMF staff and the authorities
1/ Government guarantees to the energy companies (about 1 percent of GDP) are recorded below the line.

20. Except for the temporary fiscal support for the energy sector, the fiscal framework for 2023 and 2024 remains broadly as previously agreed under the PCI, despite the sharply slowing economy, to help control inflation. The non-energy fiscal deficit for 2023 is projected to remain contained at 1.9 percent of GDP, and decline to 1½ percent of GDP in 2024, while the debt ratio is expected to fall to below 55 percent of GDP. Beyond the program, and based on the new fiscal rule, the fiscal deficit is projected to remain at or below 1.5 percent of GDP over the medium term, which would help rebuild fiscal buffers by keeping debt on a downward trajectory.

Serbia: General Government Fiscal Operations (Percent of GDP)

	2022 Proj.	2023 Proj.	2024 Proj.
Total revenues, of which:	43.0	41.6	41.6
Tax revenues	38.7	37.1	37.2
Total Expenditures, of which:	46.8	44.9	43.8
Current expenditure, of which:	37.1	36.1	36.0
Wages and salaries	9.7	9.6	9.8
Pension	9.0	9.6	9.9
Capital expenditure	7.3	6.9	6.7
Net lending (mostly energy support) 1,	2.2	1.5	0.7
Fiscal balance	-3.8	-3.3	-2.2
Fiscal balance (excluding energy support) 1/	-1.8	-1.9	-1.5

1/ Support to EPS and Srbijagas.
Source: IMF staff and the authorities

- **Deficit.** The deficit ceilings under the SBA (quantitative performance criterion, QPC) will incorporate projected energy support of 1.4 percent of GDP in 2023 and about 0.7 percent in

2024. The improvement would be driven by the combination of ongoing energy tariff increases and lower import prices for gas.[4]

- **Revenues.** Following a notable rise in tax collection in 2021 and 2022 related to tax deferrals and other support measures for the COVID pandemic, the sharp economic recovery in 2021, and the impact of rising inflation on tax collection in 2022, the tax ratio is expected to moderate towards historical levels in 2023. A decline in social security contributions to limit the fiscal burden on labor (to help limit emigration and rising wage costs) and continued excise tax reductions on gasoline and diesel also lower revenue. The authorities aim to limit the decline in the tax ratio in 2023 and beyond through ongoing improvements in tax administration, supported by a VAT gap analysis (see below). Staff argued that the rates for all specific taxes and fees should be adjusted regularly to account for inflation. The authorities agreed to phase out the excise tax cuts on gasoline and diesel as market prices decline.

- **Expenditure.** The authorities intend to keep the public sector wage bill and pension costs stable as a share of GDP, consistent with the new fiscal rule (Annex III). Public investment spending will remain high (6–7 percent of GDP) given remaining infrastructure gaps, including for energy, transportation and wastewater treatment, as well as new priority projects in energy security and conservation.

- **Fiscal financing.** Budget financing for 2022 has been secured, and the authorities' financing plan for 2023 is realistic. While fiscal gross financing needs are set to increase compared to 2022 because of higher domestic and external debt amortization, the authorities have accumulated a large liquidity buffer in the single treasury account and plan to draw on both domestic and external sources. Fiscal financing for 2023–24 is also being secured. Discussions on a joint budget support loan from the World Bank, KfW and AFD and on a loan to EPS from the EBRD are on track. Furthermore, the authorities plan to use the initial tranche of the SBA (about EUR 1 bn, purchased in 2022) as well as the next two tranches for budget financing.

21. Staff's Debt Sustainability Analysis finds that Serbia's overall risk of sovereign distress is moderate (Annex V). Debt is considered sustainable under the shock scenarios considered.

22. The authorities are committed to implementing the newly-adopted fiscal rule. The rule covers the general government and comprises a medium-term deficit objective of at most 0.5 percent of GDP, supported by deficit ceilings linked to public debt levels (see Annex III). As the regular deficit ceilings will inevitably be exceeded in 2023 and 2024 because of the energy crisis and the adverse external environment, transition arrangements have been included in the draft legislation, rather than invoking the escape clause.

[4] The program includes a symmetric adjuster for the fiscal deficit and the current primary expenditure ceiling based on market prices of natural gas.

23. Fiscal structural reforms are continuing and a new reform wave is planned.

- **Building on the fiscal rule.** To strengthen the quality and credibility of fiscal policy, the authorities will develop an action plan to strengthen medium-term budgeting (end-July 2023 SB), with Fund technical assistance. Moreover, regular fiscal monitoring and debt reporting by the Public Debt Agency will be expanded in a sequenced manner through the program period to cover all significant general government entities. In parallel, the Serbian Statistical Office is preparing for a significant update of GFS statistics. Once these data upgrades are available, the parameters of the fiscal rule need to be reviewed (end-November 2024 SB).

- **Public investment management (PIM).** Staff emphasized the importance of closely monitoring project implementation, as well as maintaining a well-specified and prioritized public investment plan that draws on a single pipeline of projects, and fully aligning procurement rules with the EU acquis. Strengthening the PIM unit in the Ministry of Finance remains a priority, making full use of the forthcoming PIM IT system. The unit should underpin the ministry's gatekeeping role in approving and tracking investment projects to help ensure value for money and contain fiscal risks.

- **Fiscal risk management.** Expanded reporting on fiscal risks from SOEs, local governments, and litigation in the fiscal strategy was delayed and will now be presented in conjunction with the Fiscal Strategy update for the 2024 budget. Remaining protocols on information sharing with relevant institutions will be signed in 2023:Q2. Going forward, the fiscal risk unit should become more proactive in identifying and mitigating key risks.

- **Public wage registry.** The authorities confirmed that the expansion of the public wage and employment registry (ISKRA) to the education sector would likely be completed by March (end-February 2023 PCI RT, reset as end-March SBA SB). Its full roll-out will directly strengthen fiscal controls and pave the way for the delayed reform of the public wage system.

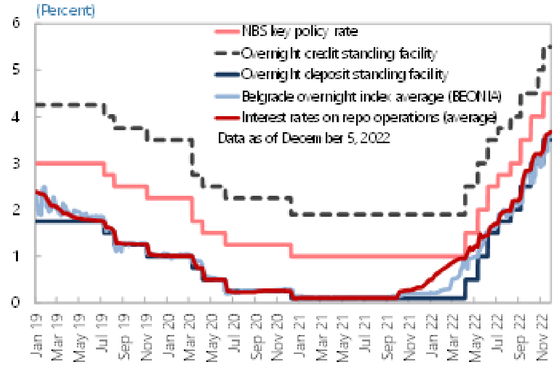
- **Tax administration.** With multi-year Fund and World Bank technical assistance, important and ongoing improvements in tax administration have been put in place. Recent milestones include the e-fiscalization system for VAT. Next steps are the introduction of e-invoicing, the start of audits under the new law on unexplained wealth, and a new HR strategy to support hiring new staff. The procurement of a new IT system is expected to be concluded by mid-2023 and will be key for the programmed modernization of business processes.

24. The cost-of-living crisis heightens the urgency of an expansion of targeted social programs. High food prices have had a disproportionately severe impact on the poor. The ongoing roll-out of the Social Card registry and related IT systems for tracking welfare benefits should be used as a basis for expanding the—currently limited—coverage and benefit level of means-tested assistance programs, and can also facilitate targeting.

E. Monetary and Financial Sector Policies

25. Within Serbia's de-facto stabilized exchange rate regime, the authorities have been tightening monetary policy to help rein in inflation. Successive policy rate increases since April aimed to contain the larger-than-expected rise in inflation and dampen inflation expectations. As in many peers, inflation expectations have risen with the recent inflation surprises, indicating a shift towards a longer timeline to normalize inflation. Nonetheless, with planned wage and pension increases barely compensating for inflation, expectations have remained broadly consistent with the projected declining inflation path. The authorities emphasized the role of the stable exchange rate in containing inflationary pressures, particularly those from high international energy and food prices, and the need for careful calibration of monetary policy tightening to limit recession risks given the significant growth deceleration.

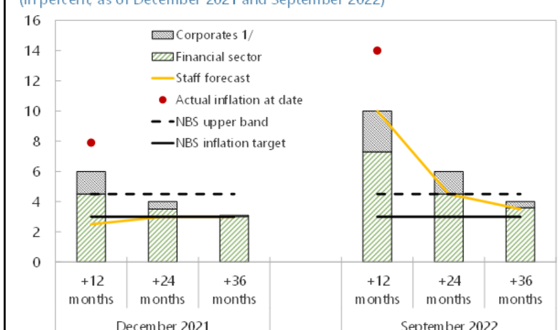
Serbia: Interest Rates
(Percent)



Sources: National Bank of Serbia; and Haver Analytics

26. Staff supported the monetary tightening and encouraged the NBS to take further action to curb high inflation and help contain risks to reserves. They encouraged reaching positive real interest rates (on a forward-looking basis) in 2023. Staff acknowledged that a more measured pace of monetary tightening in Serbia compared with emerging market peers could be justified in light of the stabilization of the exchange rate to the euro, which has helped moderate imported inflation and inflation expectations. At the same time, because of the stable exchange rate high inflation could be especially costly by worsening competitiveness. Staff advised the authorities to prioritize reducing inflation and to raise the policy rate further during the coming months.

Serbia: Inflation Expectations 12/24/36 Months Ahead
(in percent, as of December 2021 and September 2022)



Note: 1/ Width of bands indicates additional inflation expectation for corporates above the financial sector.
Sources: NBS and IMF staff calculations.

27. Monetary tightening should also help contain the recent reversal in deposit dinarization. Deposit dinarization fell from an all-time high of 41.3 percent at end-2021, to 36.9 percent in August 2022 driven by higher risk aversion connected to Russia's war in Ukraine.[5] Higher interest rates in the euro area feed into euro deposit rates, and would incentivize a further drop in dinarization unless counteracted by interest rate increases in domestic currency.

[5] Dinarization has been promoted by a range of monetary, micro- and macro-prudential policies since 2011 and by support for dinar credit during the COVID pandemic.

28. The authorities affirmed their intention to maintain exchange rate stability through the crisis period as they consider it essential for macroeconomic stability. They noted the adverse impact of a hypothetical significant depreciation on confidence, inflation, FX denominated debt and the dinarization strategy. Staff acknowledged the benefits of maintaining exchange rate stability under current uncertain conditions to maintain confidence, and recognized that recent appreciation pressures had permitted the NBS to build up reserves. Nevertheless, staff noted the risks to reserves, and reiterated that a gradual return to a more flexible exchange rate over the medium term would be more aligned with a regime of inflation targeting, provide additional flexibility to buffer large shocks, and could help limit risks from the build-up of unhedged FX loans.

29. Notwithstanding comfortable prudential indicators (Table 10), close monitoring of risks in the banking sector remains critical. The NPL ratio declined to 3.2 percent at end-September 2022. Yet, the expected slowdown and the diverging impact of rising inflationary pressures across companies and households warrants close monitoring, particularly for mortgages (17 percent of total loans) and for SMEs and micro-loans. The settings of macroprudential policies (including to help limit euroization) remain appropriate at this stage. In order to resolve the residual assets of the Deposit Insurance Agency's portfolio (EUR 492 million), the authorities are launching the third and final tendering process in December 2022 with a goal to complete this important process by in 2023:H1.

30. The authorities have introduced measures to promote financial inclusion and mitigate adverse spillovers on the banking system:

- In June 2022, the NBS adopted a regulation enabling banks to mitigate the negative effects of the change in government bonds' prices on bank capital by excluding 70 percent of the net unrealized losses and gains from the valuation of the bonds from the calculation of CET 1 capital until the end of 2022. Staff noted the importance of ensuring transparency and market discipline and emphasized that this measure should be strictly temporary.

- In August 2022, the NBS introduced a limit on the fees for a basic bank account in dinar and required banks to report any fee changes. While recognizing the need to preserve access to basic banking services, staff stressed the need for banks to be able to set their fees in a competitive manner.

- In September 2022, the NBS mandated the option to reschedule principal payments on agricultural loans for six to twelve months, as the sector has been severely hit by the drought.

31. The authorities plan to enhance the role of capital markets. Serbia's financial system is largely bank-based. Creating additional channels for financing could help boost domestic private investment. As an initial step within the authorities' capital market development strategy, a new Law on Capital Markets will be fully applied from January 2023. Further plans for 2023 include a One Stop Shop offering real-time information on capital markets and a new unit in the Ministry of Finance to support capital market participants. However, the introduction of a primary dealer system for one benchmark issuance in 2023:Q1—which was a reform target under the PCI for end-March

2023—no longer seems feasible in the near term, because of banks' lack of interest in the context of the extended crisis. Staff reiterated that the introduction of covered bonds could be useful for developing capital markets and to support longer-term bank lending.

F. Structural Reforms

32. A new law on the management of SOEs should be finalized soon (end-December PCI RT and SBA SB). The new law aims to improve the oversight and governance of non-financial SOEs. It centralizes the ownership role of the government within the Ministry of Economy, except for energy companies, and it requires SOEs to be corporatized. Staff noted the importance of properly distinguishing between ownership and management responsibilities. Important elements of the underlying SOE strategy will be regulated through by-laws that will be developed as a next step, and staff urged incorporating good international practices for company governance, reporting, and auditing.

33. Staff encouraged the authorities to refrain from export restrictions and limit direct market interventions. Temporary export bans for several basic food products including corn, wheat flour and sunflower oil were introduced in March. Since then, these measures have been gradually relaxed, converted into export quota, and most have been removed. However, quotas remain in place for a few products, including milk. The authorities noted that these measures had benefitted the most vulnerable and helped ensure food security. Staff emphasized the associated market distortions and adverse effects of export restrictions on profitability of firms, and price levels and volatility in regional markets, and reiterated its advice to remove the remaining restrictions as soon as possible. The authorities concurred and indicated that these measures would be phased out completely as soon as food security concerns subside.

34. The authorities noted they were continuing to strengthen anti-corruption and governance initiatives. They highlighted that GRECO no longer listed Serbia's performance as unsatisfactory (in the Fourth Evaluation Round), and that they are implementing the remaining and new GRECO recommendations from the Fourth and Fifth Rounds. Next steps would include the recommended strengthening (and subsequent enforcement) of the asset and income declaration regime for top executive functions. Staff encouraged ongoing progress and will continue to explore the need for further reforms that could be macro-critical in consultation with the authorities during the program period. Staff also encouraged continued efforts to strengthen the implementation of AML/CFT measures, in particular, the supervision of banks and gatekeepers, and measures to monitor and prevent potential spillovers from the war in Ukraine.

PROGRAM MODALITIES

A. Duration, Access, and Financing Assurances

35. The SBA is proposed for two years (December 2022–December 2024) at 290 percent of quota (equivalent to SDR 1,898.92 million or about EUR 2.4 bn). The proposed duration offers sufficient time for restoring financial viability of the energy sector and meeting the associated financing needs, while also completing the reforms planned under the PCI. Furthermore, resolving the balance of payments problem requires focused structural reforms targeting the energy sector. Consistent with the projected actual balance of payments need, the first purchase, upon approval, would amount to SDR 785.76 million (120 percent of quota or about EUR 1 bn) in late 2022. Two subsequent purchases are foreseen, of SDR 163.70 million (25 percent of quota) by mid-2023 and of SDR 316.53 million (48.34 percent of quota) by late 2023. For 2024, at this time, a potential balance of payment need is projected under an adverse scenario only, *inter alia* in case high energy prices or low trade partner growth were to persist longer than assumed in the baseline (Annex IV). Two purchases, available on a precautionary basis, are scheduled for 2024 that would amount to SDR 316.46 million (48.33 percent of quota) and SDR 316.47 million (48.33 percent of quota), respectively (Table 11b).

36. Purchases would boost buffers and provide direct budget financing.[6] The first program purchase in late 2022 will provide actual, immediate reserve buffer needs equivalent to the purchased amount, given heightened uncertainties. These buffers would also help attend the balance of payments needs arising from the energy crisis are associated with actual and prospective fiscal financing needs in early 2023 that cannot be met through indirect budget financing through the domestic banking system.[7] Moreover, further program purchases under the SBA in 2023 would be also expected to be used as budget support given the energy-related BOP gap.

37. Financing Assurances. The external financing needs over the first twelve months of the program are projected to be fully financed, with good prospects for the remainder of the program. In particular, current projections foresee a remaining external financing gap of EUR 0.9 bn over 2022–24 in the baseline (Table 5a), after Fund financing. This is expected to be covered by an EBRD liquidity loan of EUR 0.2 bn and 0.1 bn (early 2023 and early 2024), and a World Bank-led development policy operation with two tranches of USD 0.3– 0.4 bn each available in 2023 and 2024, respectively; discussions are well advanced.

B. Capacity to Repay the Fund and Risks to the Program

38. Serbia's capacity to repay the Fund is assessed to be adequate (Table 5b), including under the adverse scenario (Annex IV). Serbia's track record of using Fund resources and maintaining macroeconomic stability is strong. Under the baseline, with proposed access of 290 percent of quota, Fund credit outstanding would reach a maximum of 3.3 percent of GDP and 14.1 percent of gross reserves in 2024, while debt service to the Fund would rise to 1.9 percent of exports of goods and nonfactor services in 2027.

[6] The associated transactions will be designed in compliance with domestic legal and institutional frameworks. The responsibilities of the NBS and the Ministry of Finance for timely servicing the country's financial obligations to the IMF will be formalized as needed in legislation and/or through a legal instrument such as an MOU or a service legal agreement.

[7] The latter route has been constrained by liquidity constraints and liquidity risks in the context of the crisis.

39. The proposed program carries moderate risks while uncertainty is substantial. Key risks to the program stem from the uncertain duration of the war in Ukraine and its economic repercussions across Europe, global recession risks and further commodity price shocks (Annex I). Delays in increasing energy tariffs or reforming the energy sector could prolong the fiscal drain. Confidence shocks could result in large and sudden deposit withdrawals and reserve losses. To mitigate the risk of undue reserve losses, a floor on NIR is included in the program. If an adverse scenario were to materialize, further policy adjustment would be an important mitigant to program risks, as illustrated in Annex IV. The authorities have a strong track record of program implementation even at difficult times.

C. Program Monitoring, Conditionality and Safeguards Assessment

40. The program will be monitored through semi-annual reviews, quantitative targets, and structural benchmarks. Test dates will be end-December and end-June. Indicative quantitative targets will be set for end-March and end-September.

- **Quantitative targets** (see MEFP Tables 1b and 1c). Staff proposes performance criteria for end-June and end-December 2023, as well as indicative targets (ITs) for end-March and end-September 2023. These include a ceiling on the general government fiscal deficit, ceiling on current primary expenditures, and a floor on net international reserves consistent with gross reserves at 80 percent of the ARA metric, an IT ceiling on accumulating domestic arrears, and a continuous zero ceiling on accumulation of external debt payment arrears (see MEFP and TMU). The program also includes inflation consultation and natural gas price consultation clauses. Standard continuous performance criteria also apply.

- **Structural conditionality** (see MEFP Table 2b).

    - The SBA program includes three prior actions: (i) adopting the 2023 Budget by the National Assembly consistent with key fiscal parameters agreed with staff, including the overall deficit; (ii) increasing average natural gas tariffs by at least 11 percent from January 2023; (iii) increasing electricity tariffs by 8 percent from January 2023.

    - The SBA also takes forward the PCI reform targets to (i) adopt a new SOE law, (ii) change the legal status of EPS to a joint stock company, and (iii) establish a central electronic public wage and employment registry that will help rationalize pay and improve incentives across the public sector. Structural benchmarks requiring step increases in domestic electricity and gas tariffs will reduce fiscal costs. Among the critical benchmarks to support energy security are the formulation of a strategic restructuring plan for EPS and the development of a prioritized investment plan for the energy sector. A new set of fiscal rules adopted under the PCI will be further enhanced by reflecting upcoming data upgrades and medium-term budgeting.

41. An update safeguards assessment of the NBS will be conducted before the first review of the program. The previous safeguards assessment was completed in 2015 and found that the NBS had maintained generally strong controls.

STAFF APPRAISAL

42. Notwithstanding a history of responsible macroeconomic policies, the ongoing external economic shocks have brought to the fore Serbia's vulnerabilities in the energy sector. Under consecutive Fund-supported programs, Serbia rebuilt its financial buffers and financial reputation, and successfully supported the economy through the pandemic crises. However, poor management and investment planning in the energy sector have resulted in severe shortfalls in electricity production since late 2021, and a focus on providing low-cost energy has, at times, limited tariff increases to underpin medium-term cost recovery. Against this background, energy import costs have escalated in the wake of Russia's invasion of Ukraine, which resulted in a severe terms-of-trade shock for most countries in Europe. More broadly, the war has caused a further rise in inflation, lower growth across partner countries, and constrained financial markets. As a result, a slowdown in Serbia's growth and serious balance of payments and fiscal financing needs are projected for 2023, with risks continuing through 2024.

43. While domestic policies cannot control the ongoing external energy shocks, they are critical for a return to fiscal and external sustainability. Part of the rise in energy import costs due to higher oil and gas prices is expected to be permanent. In addition, urgent reforms are needed to resolve the structural weaknesses in the energy sector. Domestic energy tariffs need to increase to promote energy conservation and ensure medium-term cost recovery for the energy companies, taking into account higher investment needs to ensure energy security and the greening of energy supply.

44. Furthermore, both monetary and fiscal policies should be tightened, to help contain high inflation and support the stabilized exchange rate. While high inflation was triggered by rising food and energy prices, the ongoing tightening of monetary policy is crucial for ensuring that it does not become entrenched. Fiscal consolidation will be important to support monetary policy. The stabilized exchange rate reinforces the need for tight macroeconomic policies, to help maintain adequate reserves as well as confidence in the financial outlook. That said, gradually allowing more exchange rate flexibility once the crisis is over could be beneficial.

45. Important measures have been adopted to address the fiscal and external imbalances, and will be expanded under the program. Initial increases in domestic gas and electricity prices this past fall are complemented by further steps at the start of the program. Targeted support for energy-poor households has been expanded. The budget for 2023 contains the non-energy fiscal deficit, despite the economic slowdown. Wage and pension spending will be controlled. Over time, these policies are also expected to reduce the current account deficit.

46. Building on Serbia's strong track record of policy implementation, the program foresees continued measures to put the energy sector on a sound financial footing. The energy companies should become financially sustainable within the program period. A next tariff increase of energy tariffs will become effective after the winter, followed by further adjustments. Investments in electricity generation should shift to renewables, guided by new business plans, possibly supported with private sector involvement, and implemented by professional, permanent management.

47. More broadly, Serbia's public finances should be bolstered by ongoing reforms to public financial management. The recent adoption of new fiscal rules serves to anchor fiscal consolidation and support fiscal buffers beyond the program period. The program also includes reforms to improve medium-term budgeting, tax administration, and the control of wage and pension costs.

48. Risks to the program are moderate. The authorities' strong track record provides assurances of sound policy implementation, including fiscal consolidation and structural reforms. The possible need for further energy tariff adjustment will be assessed on a regular basis during the program reviews. The authorities' immediate focus on bolstering energy security should help shield against supply risks.

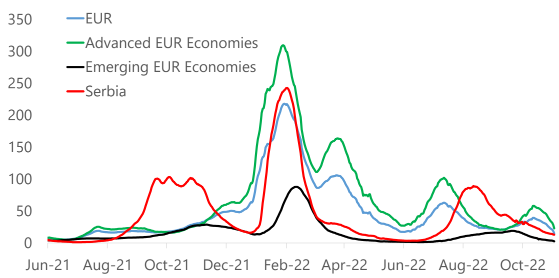
49. Access of 290 percent of quota is justified by Serbia's actual and potential balance of payments needs. The program is strong; it includes targeted and feasible measures to address the energy shock as well as to strengthen institutions that underpin growth and financial stability over the medium term. Furthermore, the authorities have been successful in identifying additional financing sources, which could supplement the Fund's resources, while absence of the Fund's seal of approval might jeopardize access to those sources**.** The proposed level of access is appropriate, conditional on the continued support from other official creditors; and consistent with medium-term debt sustainability, provided the program is implemented as envisaged and unforeseen shocks are addressed promptly.

50. Staff supports the authorities' request for a 2-year SBA and the completion of the 3rd Review under the PCI.

Figure 1. Serbia: COVID-19 Evolution

New Covid-19 infection rates are moderating…

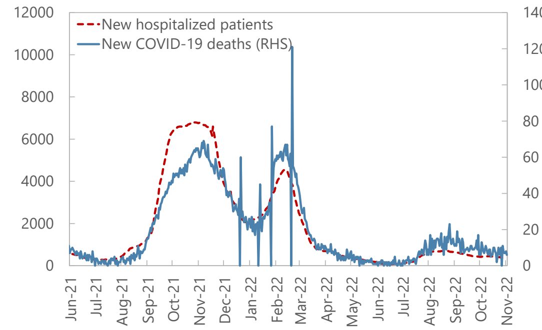
New Weekly Covid-19 Cases: Aggregates
(7-day moving average cases per day per 100,000 people)



Sources: WHO and IMF Staff calculations.
Data as of 11/3/2022

… while hospitalizations remain low.

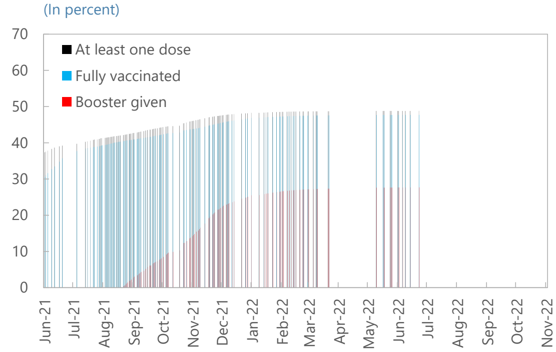
Daily COVID-19 Deaths and Hospital Occupancy
(Number of patients in hospital due to COVID-19 on a given date)



Source: Our world in data

But vaccination uptake has stalled at around 50 percent of the population…

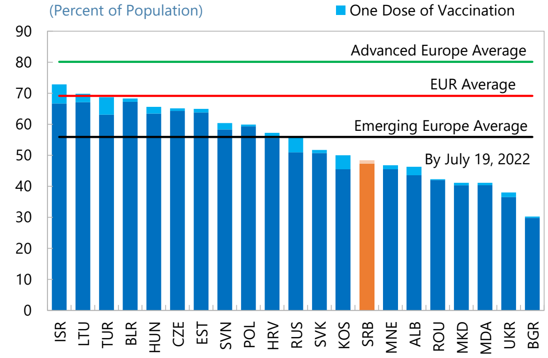
Vaccinations
(In percent)



Source: Our world in data

… well below that of advanced Europe.

CESEE: Vaccinated People
(Percent of Population)

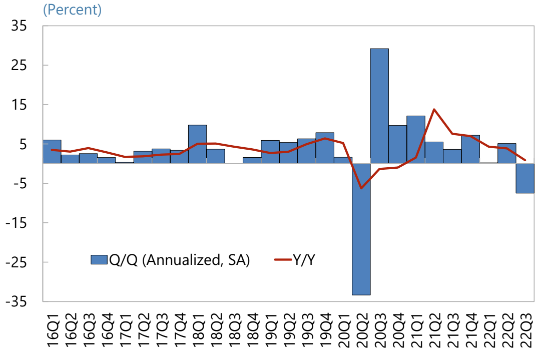


Source: Our World in Data.

Figure 2. Serbia: Real Sector Developments

Growth rebounded well in 2022:H1 but slowed sharply in Q3 ....

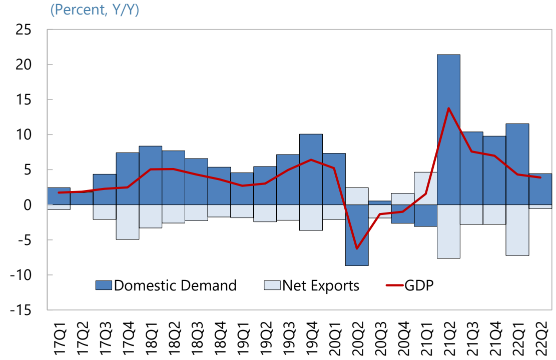
Gross Domestic Product
(Percent)



Sources: Haver Analytics; SORS; and IMF Staff calculations

...with domestic demand remaining the main driver.

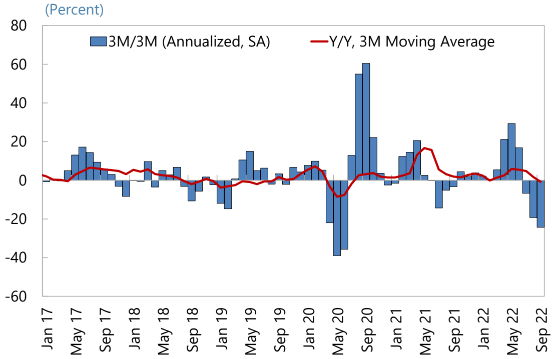
Contribution to Growth
(Percent, Y/Y)



Sources: Haver Analytics; SORS; and IMF Staff calculations

Latest indicators show softening industrial production....

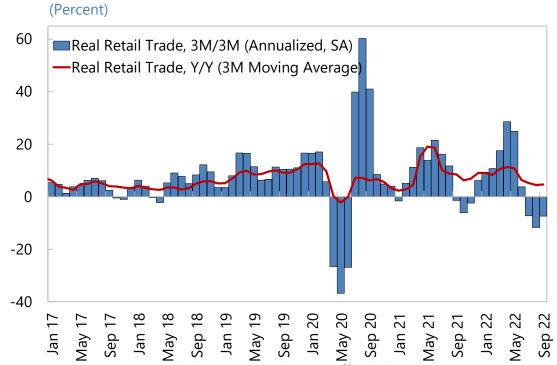
Industrial Production
(Percent)



Sources: Haver Analytics; SORS; and IMF Staff calculations

...and declining retail sales.

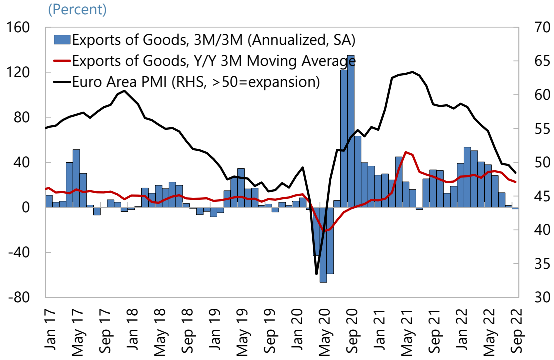
Retail Turnover
(Percent)



Sources: Haver Analytics; SORS; and IMF Staff calculations

Exports performed well as the pandemic subsided but declined recently in line with the euro area slow down.

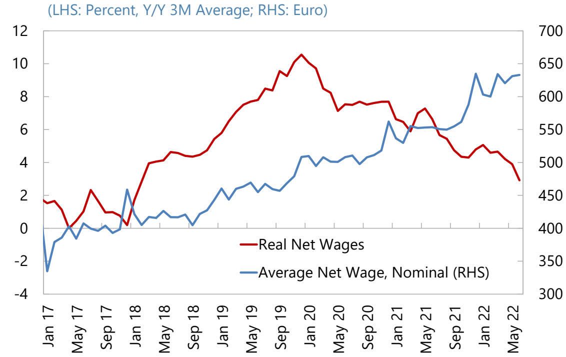
Exports of Goods and Euro Area PMI
(Percent)



Sources: Haver Analytics; SORS; and IMF Staff calculations

Net nominal wage growth has picked up in recent months as inflation increased, but still below GDP growth.

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

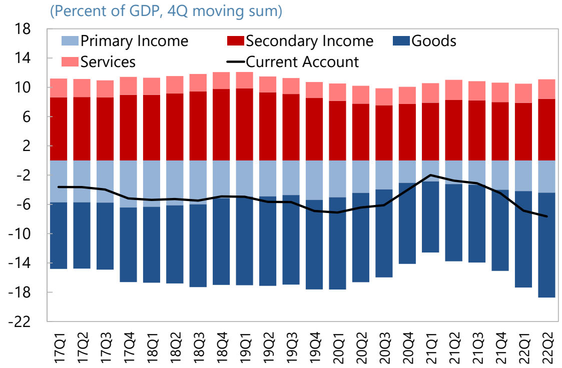


Sources: Haver Analytics; SORS; and IMF Staff calculations

Figure 3. Serbia: Balance of Payments and NIR

The current account deficit widened substantially in 2021:H1 driven by goods, energy imports.

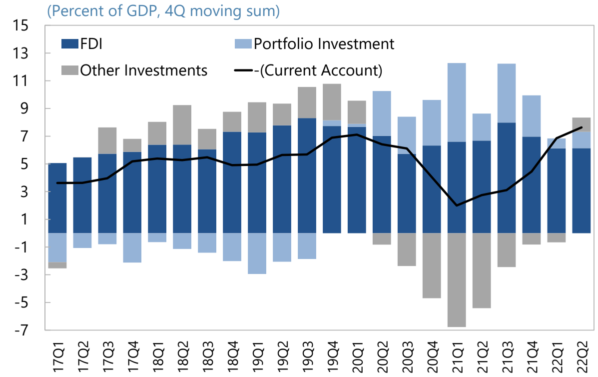
Current Account Balance
(Percent of GDP, 4Q moving sum)



Sources: Haver Analytics; and IMF Staff calculations

FDI continues to remain robust, expected to help finance the large 2022 current account deficit.

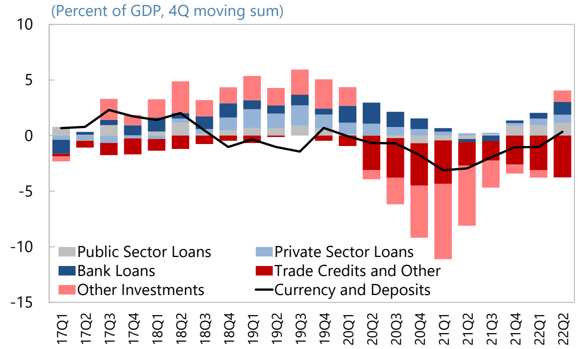
Financial Account Composition
(Percent of GDP, 4Q moving sum)



Sources: Haver Analytics; and IMF Staff calculations

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

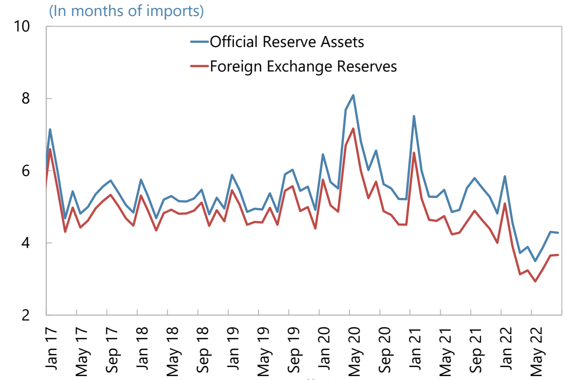
Other Investments 1/
(Percent of GDP, 4Q moving sum)



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

International reserves declined sharply in 1H2022 but have recovered strongly since.

Reserves
(In months of imports)



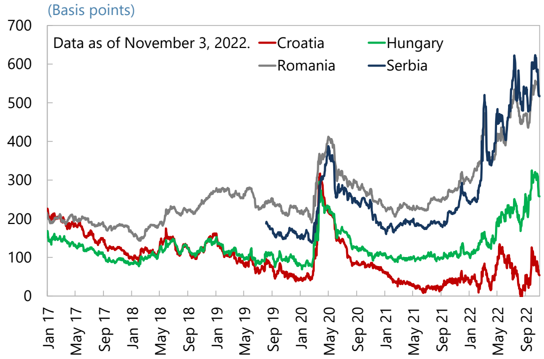
Sources: Haver Analytics; and IMF Staff calculations

Figure 4. Serbia: Financial and Exchange Rate Developments

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

Sovereign Risk - Euro EMBIG Spreads

(Basis points)

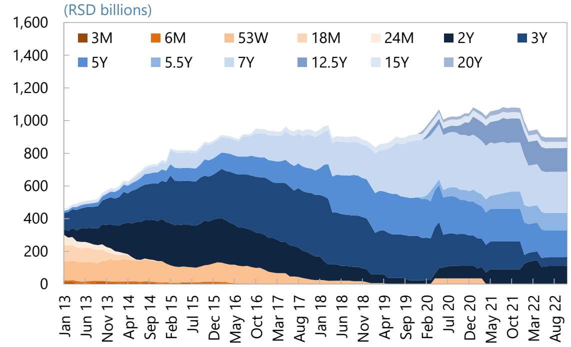


Source: Bloomberg

…. while the maturity structure of domestic securities continues to be lengthened.

Domestic Debt Stock 1/

(RSD billions)



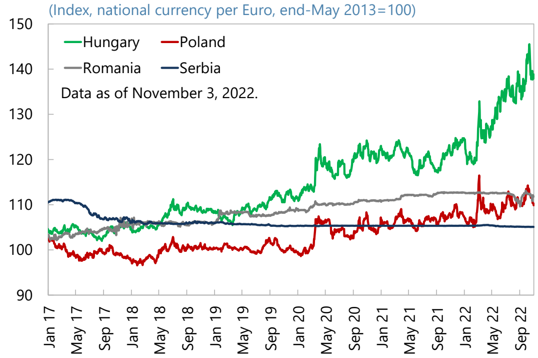
Source: National Bank of Serbia

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

The exchange rate against the euro remains stable….

Exchange Rates in the Region

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

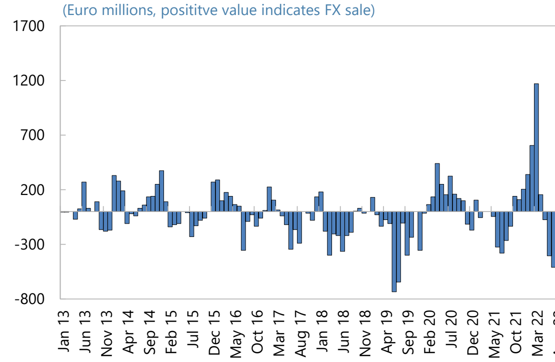


Sources: Bloomberg

… while the NBS started to repurchase foreign exchange from May 2022, following the large net sales during the confidence shock in February/ March 2022.

FX Interventions by NBS

(Euro millions, posititve value indicates FX sale)

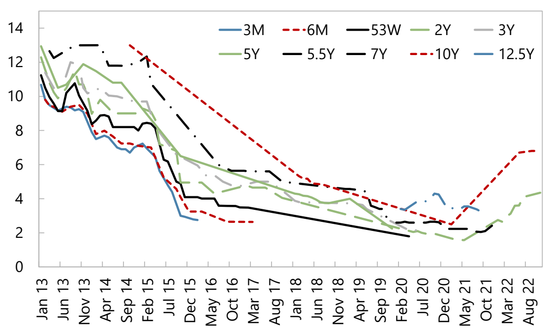


Source: National Bank of Serbia

Yields have picked up in recent months, but remain negative in real terms for dinar-denominated securities.

Yields on Dinar-Denominated Domestic Securities

(Percent)

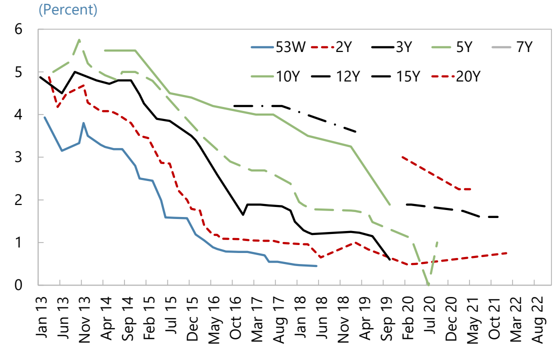


Source: National Bank of Serbia

Euro-denominated domestic securities also showed moderate increases in yields especially for short maturities.

Yields on Euro-Denominated Domestic Securities

(Percent)



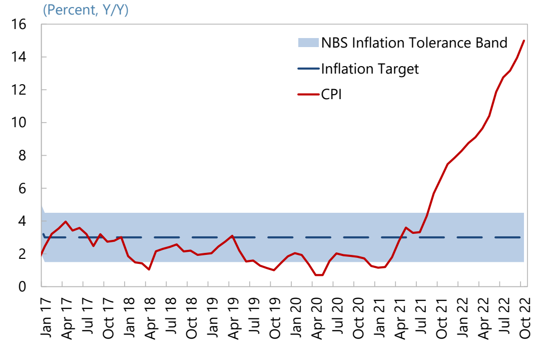
Source: National Bank of Serbia

Figure 5. Serbia: Inflation and Monetary Policy

Inflation moved outside the target band in 2021:H2 and continued to surprise on the upside ...

Inflation

(Percent, Y/Y)

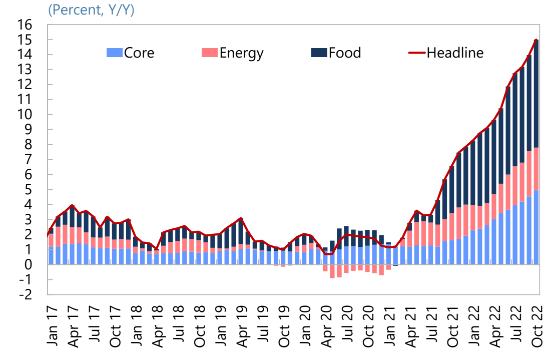


Source: National Bank of Serbia; and IMF Staff calculations

.... led by high food inflation, but also significant contributions from both energy and core inflation.

Contribution to Annual Inflation

(Percent, Y/Y)

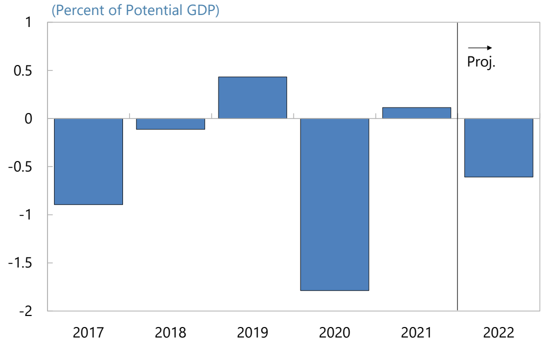


Source: SORS

A negative output gap is expected to reemerge in 2022.

Output Gap

(Percent of Potential GDP)

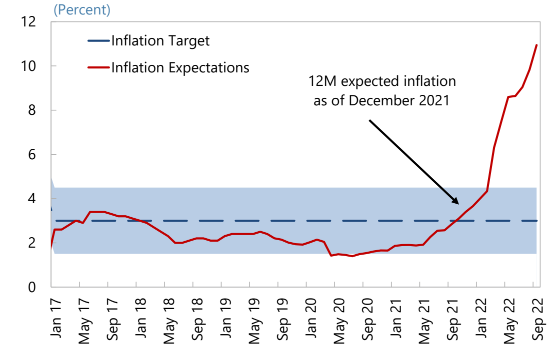


Sources: National Bank of Serbia; and IMF Staff projections

Inflation expectations picked up in late 2022 above the target band but remain well below current inflation.

One-Year-Ahead Inflation Expectations

(Percent)

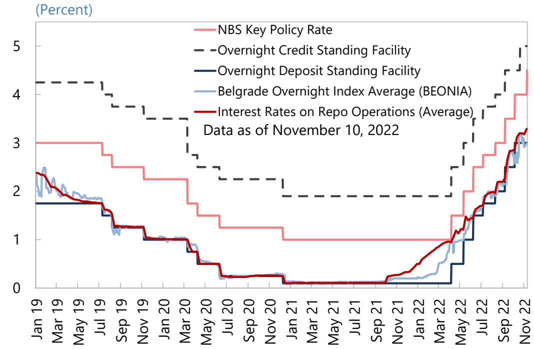


Sources: Bloomberg; SORS; and IMF Staff projections

The key policy rate has been increased to 4.5 percent in November, intensifying monetary tightening.

Interest Rates

(Percent)

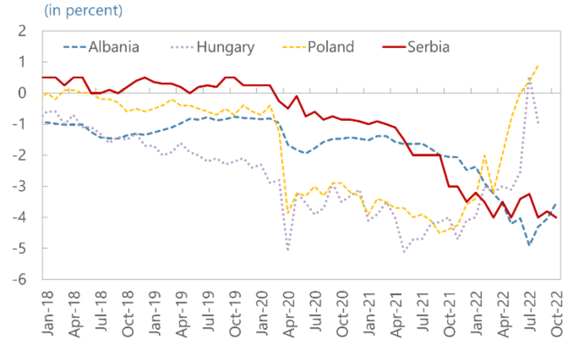


Sources: National Bank of Serbia; and Haver Analytics

Yet the policy rate is still significantly negative in real terms and on the low end compared with peer countries.

Policy Rate in Real Terms in Selected Countries

(in percent)

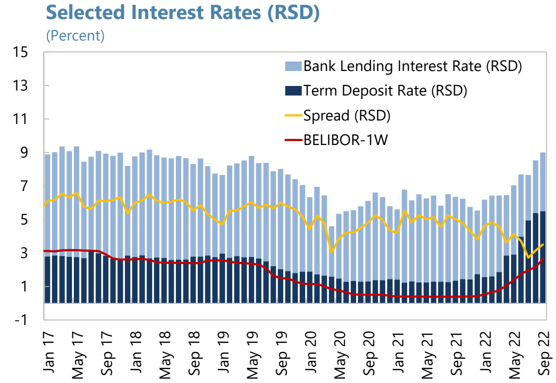


Sources: Haver Analytics and IMF staff calculations

Note: Nominal policy rates adjusted by 1- year ahead inflation expectations. October data were available only for Albania and Serbia.

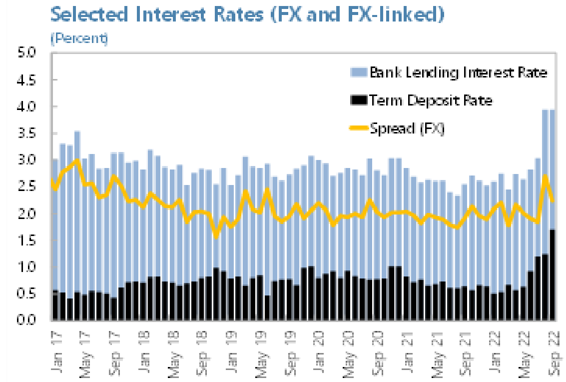
Figure 6. Serbia: Selected Interest Rates and Credit Developments

RSD deposit rates have increased and narrowed the spread between RSD deposit and lending rates …



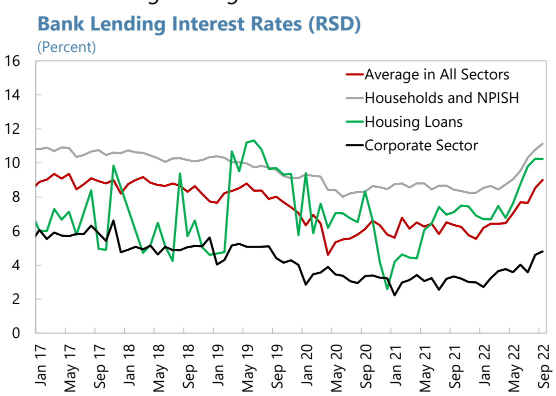
Source: National Bank of Serbia

… as have FX (and FX-linked) rates.



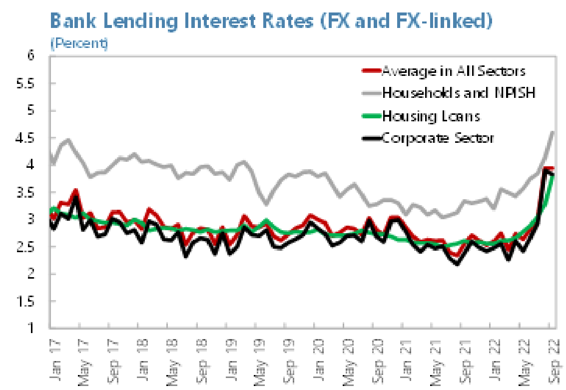
Source: National Bank of Serbia

The small market for dinar-denominated mortgages shows increasing lending rates…



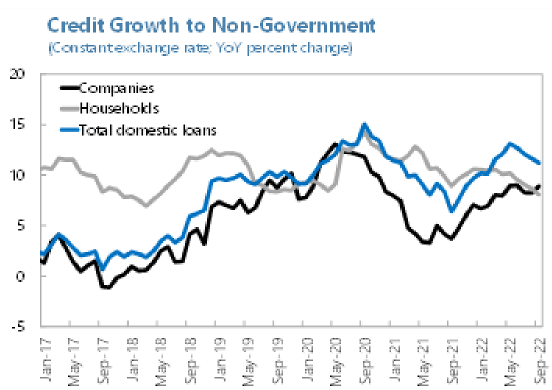
Source: National Bank of Serbia

…. while rates on FX (and FX-linked) loans have also increased….



Source: National Bank of Serbia

…. weakening credit growth.

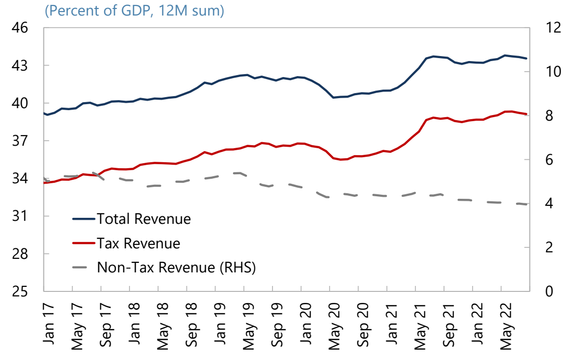


Source: National Bank of Serbia

Figure 7. Serbia: Fiscal Developments

Revenues continue to perform strongly since the recovery from the Covid pandemic.

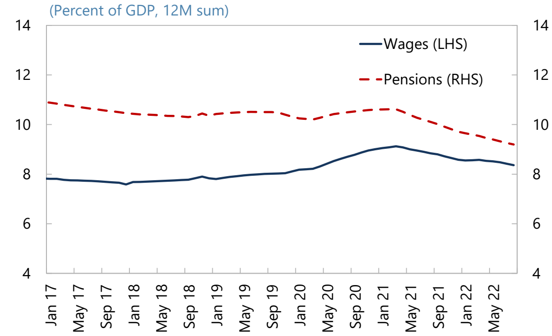
Total Revenue Composition
(Percent of GDP, 12M sum)



Sources: Ministry of Finance; and IMF Staff calculations

The public sector wage and pension bills have declined (as a share of GDP), reflecting unexpectedly high inflation.

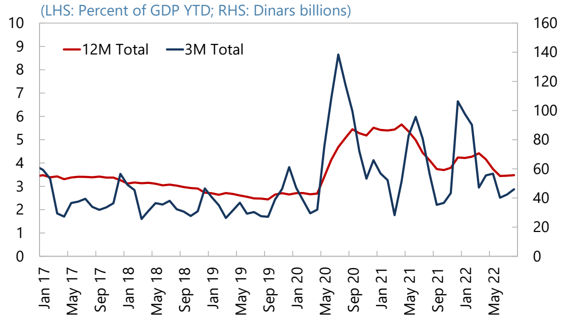
Wages and Pensions 1/
(Percent of GDP, 12M sum)



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

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

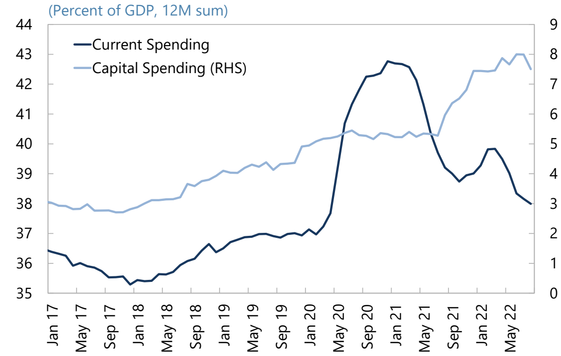
State Aid 2/
(LHS: Percent of GDP YTD; RHS: Dinars billions)



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

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

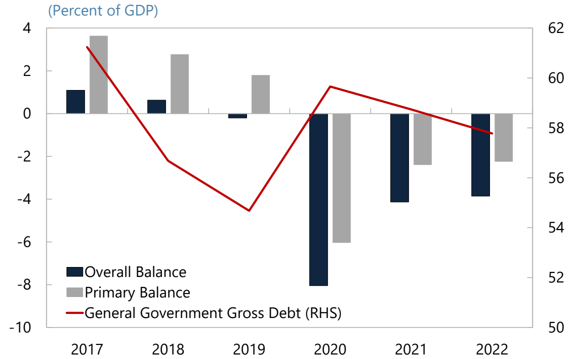
Current and Capital Spending
(Percent of GDP, 12M sum)



Sources: Ministry of Finance; and IMF Staff calculations

Government debt is expected to have peaked in 2020…

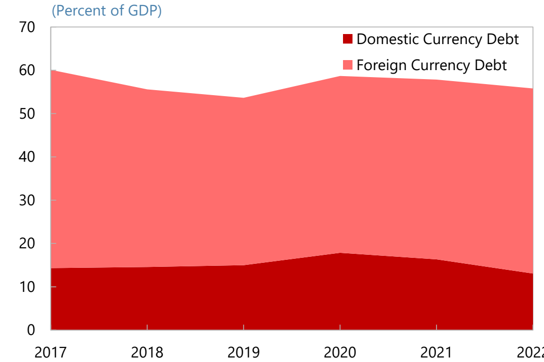
Fiscal Balance and Debt
(Percent of GDP)



Sources: Ministry of Finance; and IMF Staff calculations

….with its currency composition broadly unchanged.

Public Debt
(Percent of GDP)

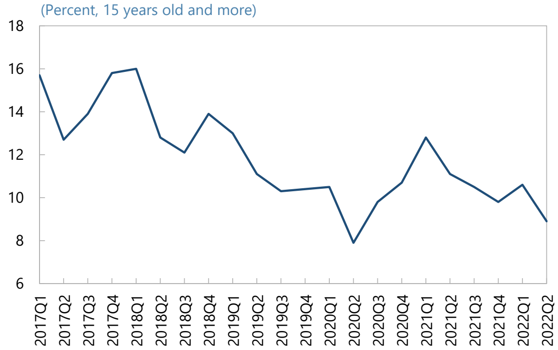


Sources: Ministry of Finance; and IMF Staff calculations

Figure 8. Serbia: Labor Market Developments

Unemployment continues to decline....

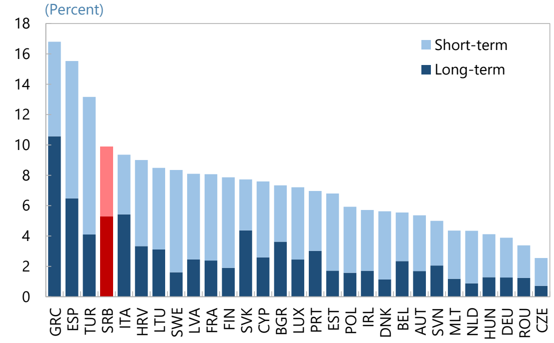
Unemployment Rate
(Percent, 15 years old and more)



Source: SORS

.... although the unemployment rate is still relatively high compared with peer countries.

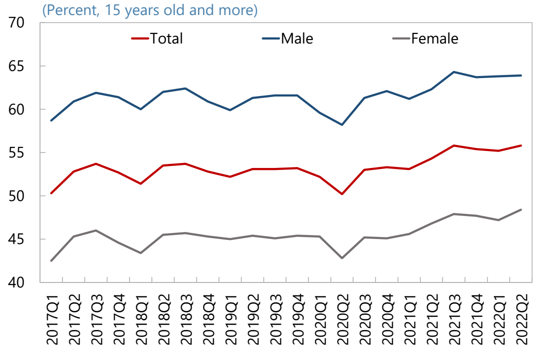
Unemployment Rate, 2021 or latest available
(Percent)



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

Labor market participation increased since 2021....

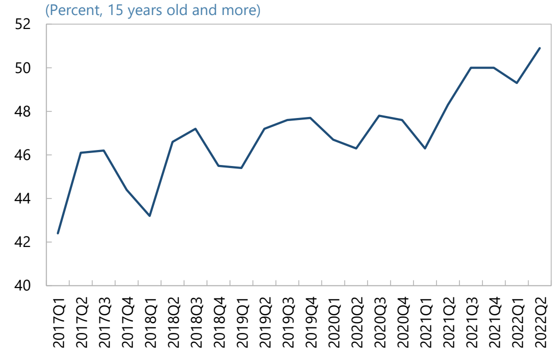
Labor Participation Rate
(Percent, 15 years old and more)



Sources: SORS

.... along with employment growth.

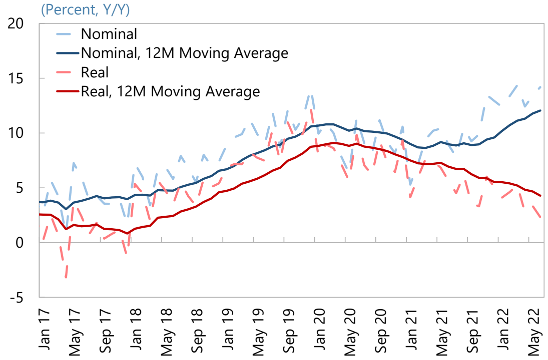
Employment Rate
(Percent, 15 years old and more)



Sources: SORS

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

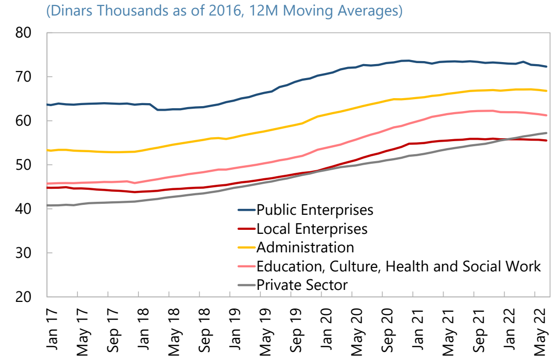
Net Wage Growth
(Percent, Y/Y)



Source: SORS

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

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



Sources: SORS; and IMF Staff calculations

Table 1. Serbia: Selected Economic and Social Indicators, 2019–2027

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)											
Real sector												
Real GDP	4.3	-0.9	7.5	**3.5**	2.5	**4.0**	2.3	**4.0**	3.0	4.5	4.0	4.0
Real domestic demand (absorption)	6.3	-0.9	7.7	**3.6**	2.9	**4.7**	2.3	**4.8**	1.3	4.1	4.4	4.2
Consumer prices (average)	1.9	1.6	4.1	**9.0**	12.1	**5.9**	12.2	**3.7**	5.3	3.5	3.2	3.0
Consumer prices (end of period)	1.9	1.3	7.9	**8.0**	15.8	**4.3**	8.2	**3.7**	4.0	3.5	3.2	3.0
GDP deflator	2.4	2.4	5.9	**6.8**	10.3	**7.0**	10.7	**5.2**	6.7	4.5	4.0	3.4
Unemployment rate (in percent) 1/	11.2	9.7	11.0	**…**	10.5	**…**	11.1	**…**	10.6	9.9	9.6	9.6
Nominal GDP (in billions of dinars)	5,422	5,504	6,270	**6,931**	7,088	**7,711**	8,026	**8,437**	8,821	9,631	10,422	11,209
	(Percent of GDP)											
General government finances												
Revenue 2/	42.0	41.0	43.3	**41.3**	43.0	**41.6**	41.6	**41.7**	41.6	41.8	42.0	42.3
Expenditure 2/	42.2	49.0	47.4	**44.3**	46.8	**43.1**	44.9	**42.9**	43.8	43.2	43.4	43.5
Current 2/	36.9	42.7	39.0	**37.5**	37.1	**36.2**	36.1	**35.9**	36.0	36.1	36.3	36.5
Capital and net lending	5.1	6.1	8.3	**6.8**	9.4	**6.6**	8.4	**6.7**	7.5	6.9	6.9	6.9
Amortization of called guarantees	0.2	0.1	0.1	**0.0**	0.3	**0.3**	0.3	**0.2**	0.3	0.2	0.2	0.2
Fiscal balance 3/	-0.2	-8.0	-4.1	**-3.0**	-3.8	**-1.5**	-3.3	**-1.1**	-2.2	-1.5	-1.4	-1.3
Primary fiscal balance (cash basis)	1.8	-6.0	-2.4	**-1.3**	-2.2	**0.8**	-1.5	**0.6**	-0.4	0.3	0.4	0.6
Structural primary fiscal balance 4/	1.5	-4.1	-2.5	**-1.0**	-0.6	**0.7**	0.4	**0.5**	0.7	0.3	0.4	0.6
Gross debt 5/	52.8	57.8	57.1	**55.1**	56.8	**50.8**	56.4	**47.2**	53.2	50.8	47.8	44.0
	(End of period 12-month change, percent)											
Monetary sector												
Broad money (M2)	8.8	18.4	13.0	**11.8**	3.3	**7.3**	7.9	**6.0**	10.9	12.6	11.4	11.2
Domestic credit to non-government 6/	9.5	12.0	9.9	**13.5**	10.3	**7.5**	7.7	**6.6**	10.5	12.5	11.0	10.3
	(Period average, percent)											
Interest rates (dinar)												
NBS key policy rate	2.3	1.0	1.0	**…**	…	**…**	…		…	…	…	…
Interest rate on new FX and FX-indexed loans	3.1	3.0	2.5	**…**	…	**…**	…		…	…	…	…
	(Percent of GDP, unless otherwise indicated)											
Balance of payments												
Current account balance	-6.9	-4.1	-4.3	**-6.1**	-9.0	**-5.7**	-8.4	**-6.0**	-6.0	-5.3	-5.3	-5.3
Trade of goods balance	-12.2	-11.1	-11.1	**-12.7**	-14.8	**-11.9**	-13.1	**-11.2**	-10.3	-9.4	-9.4	-9.7
Exports of goods	35.7	34.3	39.0	**38.7**	42.8	**36.7**	43.2	**36.0**	42.5	41.8	41.5	41.3
Imports of goods	-47.9	-45.5	-50.1	**-51.4**	-57.6	**-48.6**	-56.3	**-47.2**	-52.8	-51.2	-50.9	-51.0
Capital and financial account balance	10.6	5.0	8.9	**3.2**	7.0	**7.2**	7.3	**6.9**	6.7	7.5	8.0	7.2
External debt (percent of GDP)	65.7	70.3	71.3	**66.2**	68.0	**62.3**	65.4	**58.0**	61.5	58.7	56.2	53.2
of which: Private external debt	31.3	33.8	32.6	**29.0**	29.4	**26.4**	26.8	**24.4**	25.1	23.3	22.0	20.9
Gross official reserves (in billions of euro)	13.4	13.5	16.5	**14.7**	16.3	**15.7**	16.6	**16.4**	17.6	19.4	21.2	22.1
(in months of prospective imports)	6.1	4.9	4.6	**4.4**	4.1	**4.4**	4.1	**4.3**	4.1	4.2	4.2	4.4
(percent of short-term debt)	275.0	277.3	338.2	**458.9**	335.1	**489.5**	341.9	**510.5**	361.2	398.8	435.0	453.5
(percent of risk-weighted metric) 7/	125.0	121.9	131.5	**114.3**	118.9	**113.9**	111.8	**112.8**	110.4	112.0	113.2	110.0
Exchange rate (dinar/euro, period average)	117.9	117.6	117.6	**…**	…	**…**	…	**…**	…	…	…	…
REER (annual average change, in percent; + indicates appreciation)	1.0	1.5	1.4	**…**	…	**…**	…	**…**	…	…	…	…
Social indicators												
Per capita GDP (in US$)	7,397	7,703	9,180	**9,597**	9,309	**10,883**	10,203	**12,145**	11,222	12,338	13,452	14,587
Population (in million)	7.0	6.9	6.9	**6.8**	6.8	**6.8**	6.8	**6.8**	6.8	6.8	6.7	6.7

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

1/ Unemployment rate of the 15+ labor force.

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

4/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs. The calculation of the structural balance has been revised to include temporary one-off measures to respond to the pandemic and to the energy crisis.

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

6/ At constant exchange rates.

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

Table 2. Serbia: Medium-Term Framework, 2019–2027

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
						(percent change)						
Real sector												
GDP growth	4.3	-0.9	7.5	**3.5**	2.5	**4.0**	2.3	**4.0**	3.0	4.5	4.0	4.0
Domestic demand (contribution)	6.9	-1.0	8.5	**4.1**	3.3	**5.3**	2.6	**5.4**	1.5	4.5	4.8	4.7
Net exports (contribution)	-2.6	0.1	-1.0	**-0.5**	-0.8	**-1.3**	-0.3	**-1.4**	1.5	0.0	-0.8	-0.7
Consumer price inflation (average)	1.9	1.6	4.1	**9.0**	12.1	**5.9**	12.2	**3.7**	5.3	3.5	3.2	3.0
Consumer price inflation (end of period)	1.9	1.3	7.9	**8.0**	15.8	**4.3**	8.2	**3.7**	4.0	3.5	3.2	3.0
Output gap (in percent of potential)	0.4	-1.8	0.1	**-0.5**	-0.6	**-0.3**	-1.1	**-0.2**	-1.1	-0.1	0.0	0.0
Potential GDP growth	3.8	1.3	5.5	**4.4**	3.2	**3.8**	2.8	**3.9**	3.0	3.5	3.9	4.0
Domestic credit to non-gov. (constant exchange rate) 1/	9.5	12.0	9.9	**13.5**	10.3	**7.5**	7.7	**6.6**	10.5	12.5	11.0	10.3
						(percent of GDP, unless otherwise indicated)						
General government												
Revenue 2/	42.0	41.0	43.3	**41.3**	43.0	**41.6**	41.6	**41.7**	41.6	41.8	42.0	42.3
Expenditure 2/	42.2	49.0	47.4	**44.3**	46.8	**43.1**	44.9	**42.9**	43.8	43.2	43.4	43.5
Current 2/	36.9	42.7	39.0	**37.5**	37.1	**36.2**	36.1	**35.9**	36.0	36.1	36.3	36.5
of which: Wages and salaries 2/	9.5	10.5	10.0	**9.9**	9.7	**9.7**	9.6	**9.9**	9.8	9.8	9.8	9.8
of which: Pensions	10.5	10.9	9.9	**9.9**	9.0	**9.8**	9.6	**9.8**	9.9	9.9	10.0	10.1
of which: Goods and services	8.7	11.0	10.4	**9.3**	10.1	**8.5**	8.8	**8.3**	8.8	8.8	8.8	8.8
Capital and net lending	5.1	6.1	8.3	**6.8**	9.4	**6.6**	8.4	**6.7**	7.5	6.9	6.9	6.9
Amortization of called guarantees	0.2	0.1	0.1	**0.0**	0.3	**0.3**	0.3	**0.2**	0.3	0.2	0.2	0.2
Fiscal balance 3/	-0.2	-8.0	-4.1	**-3.0**	-3.8	**-1.5**	-3.3	**-1.1**	-2.2	-1.5	-1.4	-1.3
change (+ = consolidation)	*-0.8*	*-7.8*	*3.9*	***1.1***	*0.3*	***1.5***	*0.5*	***0.4***	*1.1*	*0.7*	*0.1*	*0.1*
Primary fiscal balance	1.8	-6.0	-2.4	**-1.3**	-2.2	**0.8**	-1.5	**0.6**	-0.4	0.3	0.4	0.6
change (+ = consolidation)	*-1.0*	*-7.8*	*3.6*	***1.1***	*0.2*	***2.0***	*0.7*	***-0.1***	*1.1*	*0.7*	*0.1*	*0.2*
One-off fiscal items, net 4/	0.1	-1.3	0.0	**-0.2**	-1.4	**0.0**	-1.4	**0.0**	-0.7	0.0	0.0	0.0
Structural primary balance	1.5	-4.1	-2.5	**-1.0**	-0.6	**0.7**	0.4	**0.5**	0.7	0.3	0.4	0.6
change (+ = consolidation)	*-1.4*	*-5.6*	*1.6*	***1.6***	*1.9*	***1.6***	*0.9*	***-0.1***	*0.4*	*-0.4*	*0.1*	*0.2*
Structural primary balance net of capital expenditures	6.4	1.3	5.0	**5.7**	6.7	**7.2**	7.3	**7.2**	7.4	7.2	7.3	7.5
Gross debt	52.8	57.8	57.1	**55.1**	56.8	**50.8**	56.4	**47.2**	53.2	50.8	47.8	44.0
Effective interest rate on government borrowing (percent)	3.9	3.9	3.4	**3.7**	3.2	**4.5**	3.6	**3.7**	3.5	3.6	3.8	4.2
Domestic borrowing (including FX)	4.6	4.3	4.5	**4.4**	5.0	**4.4**	5.4	**4.6**	6.1	6.2	6.7	7.0
External borrowing	3.5	3.2	2.4	**2.9**	2.1	**3.1**	2.0	**3.3**	2.9	3.0	3.3	3.8
						(percent of GDP, unless otherwise indicated)						
Balance of payments												
Current account	-6.9	-4.1	-4.3	**-6.1**	-9.0	**-5.7**	-8.4	**-6.0**	-6.0	-5.3	-5.3	-5.3
of which: Trade balance	-12.2	-11.1	-11.1	**-12.7**	-14.8	**-11.9**	-13.1	**-11.2**	-10.3	-9.4	-9.4	-9.7
of which: Current transfers, net (excl. grants)	7.9	7.1	7.5	**8.0**	7.6	**8.0**	6.7	**7.8**	6.6	6.5	6.6	6.6
Capital and financial account	10.6	5.0	8.9	**3.2**	7.0	**7.2**	7.3	**6.9**	6.7	7.5	8.0	7.2
of which: Foreign direct investment	7.7	6.3	6.9	**5.7**	6.1	**5.7**	5.2	**5.5**	5.5	5.7	5.7	5.8
External debt (end of period)	65.7	70.3	71.3	**66.2**	68.0	**62.3**	65.4	**58.0**	61.5	58.7	56.2	53.2
of which: Private external debt	31.3	33.8	32.6	**29.0**	29.4	**26.4**	26.8	**24.4**	25.1	23.3	22.0	20.9
Gross official reserves												
(in billions of euros)	13.4	13.5	16.5	**14.7**	16.3	**15.7**	16.6	**16.4**	17.6	19.4	21.2	22.1
(in percent of short-term external debt)	275.0	277.3	338.2	**458.9**	335.1	**489.5**	341.9	**510.5**	361.2	398.8	435.0	453.5
REER (ann. av. change; + = appreciation)	1.0	1.5	1.4	**...**	...	**...**	...	**...**	...	...	...	...

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

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

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

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

Table 3. Serbia: Growth Composition, 2019–2027

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
				(Percent change, unless otherwise noted)								
Real												
Gross Domestic Product (GDP)	4.3	-0.9	7.5	**3.5**	2.5	**4.0**	2.3	**4.0**	3.0	4.5	4.0	4.0
Domestic demand	6.3	-0.9	7.7	**3.6**	2.9	**4.7**	2.3	**4.8**	1.3	4.1	4.4	4.2
Consumption	3.4	-1.0	7.1	**3.3**	1.9	**4.2**	2.1	**4.2**	2.6	3.4	3.8	3.7
Non-government	3.7	-1.9	7.7	**4.6**	2.5	**4.0**	2.5	**4.6**	2.5	3.5	3.9	3.8
Government	2.0	2.9	4.3	**-2.5**	-0.8	**5.4**	0.0	**2.2**	3.0	2.8	3.4	3.2
Investment	17.4	-0.4	9.6	**4.6**	6.3	**6.0**	3.1	**6.6**	-2.4	6.4	6.3	5.9
Gross fixed capital formation	17.2	-1.9	15.9	**5.3**	0.3	**7.1**	2.1	**7.6**	1.9	7.1	6.9	6.6
Non-government	14.5	-4.9	17.8	**8.9**	2.5	**7.5**	1.0	**7.7**	2.0	7.0	7.5	7.3
Government	30.8	11.5	8.6	**-8.7**	-8.6	**5.1**	6.9	**6.8**	1.7	7.3	4.1	3.2
Exports of goods and services	7.7	-4.2	19.5	**3.3**	5.2	**3.5**	3.1	**5.1**	4.5	5.0	5.1	5.2
Imports of goods and services	10.7	-3.6	17.7	**3.5**	5.5	**4.7**	3.0	**6.2**	1.7	4.4	5.4	5.4
				(contributions to GDP, percent)								
Gross Domestic Product (GDP)	4.3	-0.9	7.5	**3.5**	2.5	**4.0**	2.3	**4.0**	3.0	4.5	4.0	4.0
Domestic demand (absorption)	6.9	-1.0	8.5	**4.1**	3.3	**5.3**	2.6	**5.4**	1.5	4.5	4.8	4.7
Net exports of goods and services	-2.6	0.1	-1.0	**-0.5**	-0.8	**-1.3**	-0.3	**-1.4**	1.5	0.0	-0.8	-0.7
Consumption	2.9	-0.9	6.0	**2.8**	1.6	**3.6**	1.7	**3.5**	2.2	2.8	3.1	3.1
Non-government	2.6	-1.3	5.3	**3.2**	1.7	**2.8**	1.7	**3.2**	1.7	2.4	2.6	2.6
Government	0.3	0.4	0.7	**-0.4**	-0.1	**0.8**	0.0	**0.3**	0.4	0.4	0.5	0.5
Investment	4.0	-0.1	2.5	**1.3**	1.7	**1.7**	0.9	**1.9**	-0.7	1.7	1.7	1.6
Gross fixed capital formation	3.5	-0.4	3.6	**1.3**	0.1	**1.7**	0.5	**1.9**	0.5	1.7	1.7	1.6
Non-government	2.5	-0.9	3.2	**1.7**	0.5	**1.5**	0.2	**1.6**	0.4	1.3	1.5	1.5
Government	1.0	0.5	0.4	**-0.4**	-0.4	**0.2**	0.3	**0.3**	0.1	0.3	0.2	0.1
Change in inventories	0.5	0.3	-1.1	**0.0**	1.6	**0.0**	0.4	**0.0**	-1.1	0.0	0.0	0.0
Exports of goods and services	4.1	-2.3	10.4	**2.0**	3.1	**2.1**	1.9	**3.0**	2.8	3.1	3.2	3.3
Imports of goods and services	6.7	-2.4	11.4	**2.5**	3.9	**3.3**	2.2	**4.5**	1.3	3.1	3.9	4.0
				(Percent change, unless otherwise noted)								
Nominal												
Gross Domestic Product (GDP)	6.9	1.5	13.9	**10.6**	13.0	**11.2**	13.2	**9.4**	9.9	9.2	8.2	7.5
Domestic demand (absorption), contribution to GDP growth	8.9	0.0	14.5	**13.5**	18.5	**11.6**	13.0	**9.9**	7.5	8.8	8.6	8.2
Net exports of goods and services, contribution to GDP growth	-2.0	1.5	-0.6	**-2.9**	-5.4	**-0.4**	0.2	**-0.5**	2.4	0.3	-0.4	-0.7
Non-government	5.0	-0.9	12.8	**14.0**	14.9	**10.1**	15.1	**8.5**	8.0	7.2	7.2	6.9
Government	7.4	6.8	9.8	**4.9**	10.9	**13.4**	10.8	**9.3**	10.7	8.8	8.5	7.4
Investment	18.4	-2.1	17.8	**13.7**	27.4	**10.1**	4.1	**10.3**	1.3	10.9	10.4	10.1
Gross fixed capital formation	19.8	-3.1	22.7	**11.5**	19.7	**11.5**	3.7	**11.4**	6.5	11.3	10.6	10.2
Non-government	16.4	-6.8	10.7	**17.8**	24.0	**12.2**	2.0	**11.7**	6.6	11.2	11.7	11.5
Government	33.6	10.1	59.2	**-1.2**	10.6	**9.7**	7.9	**10.8**	6.3	11.5	8.2	7.3
Exports of goods and services	8.1	-4.0	28.7	**10.2**	24.4	**6.1**	12.4	**7.5**	7.6	7.5	7.6	7.4
Imports of goods and services	10.3	-5.9	25.6	**13.6**	30.1	**5.7**	10.1	**7.2**	3.0	6.2	7.5	7.8
Memorandum items:												
GDP deflator (percent)	2.4	2.4	5.9	**6.8**	10.3	**7.0**	10.7	**5.2**	6.7	4.5	4.0	3.4
Nominal GDP (billions of dinars)	5422	5504	6270	**6931**	7088	**7711**	8026	**8437**	8821	9631	10422	11209

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

Table 4a. Serbia: Balance of Payments, 2019–2027 1/
(Billions of euros)

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
	(Billions of euros)											
Current account balance	-3.2	-1.9	-2.3	**-3.6**	-5.4	**-3.7**	-5.7	**-4.3**	-4.4	-4.2	-4.6	-5.0
Trade of goods balance	-5.6	-5.2	-5.9	**-7.5**	-8.9	**-7.8**	-8.9	**-8.1**	-7.6	-7.6	-8.2	-9.0
Exports of goods	16.4	16.1	20.8	**22.8**	25.8	**24.1**	29.3	**25.9**	31.5	33.8	36.1	38.6
Imports of goods	-22.0	-21.3	-26.7	**-30.3**	-34.7	**-31.9**	-38.2	**-34.0**	-39.2	-41.4	-44.3	-47.7
Services balance	1.0	1.1	1.4	**1.4**	1.4	**1.4**	1.4	**1.4**	1.8	2.0	2.2	2.4
Exports of nonfactor services	6.9	6.2	7.8	**8.7**	9.7	**9.3**	10.7	**10.0**	11.5	12.5	13.6	14.8
Imports of nonfactor services	-5.9	-5.1	-6.4	**-7.3**	-8.3	**-7.9**	-9.2	**-8.6**	-9.7	-10.5	-11.4	-12.4
Income balance	-2.5	-1.4	-2.1	**-2.5**	-2.7	**-2.8**	-3.2	**-3.5**	-3.7	-4.1	-4.6	-4.7
Net interest	-0.7	-0.6	-0.7	**-0.7**	-0.9	**-0.7**	-1.0	**-0.7**	-1.1	-1.1	-1.3	-1.5
Current transfer balance	3.9	3.6	4.3	**4.9**	4.8	**5.5**	5.0	**5.9**	5.2	5.5	6.0	6.4
Others, including private remittances	3.7	3.3	4.0	**4.7**	4.6	**5.2**	4.5	**5.6**	4.9	5.3	5.7	6.1
Capital and financial account balance 1/	4.9	2.3	4.7	**1.9**	4.2	**4.7**	4.9	**5.0**	5.0	6.1	6.9	6.7
Foreign direct investment balance	3.6	2.9	3.7	**3.4**	3.7	**3.7**	3.5	**4.0**	4.1	4.6	4.9	5.4
Portfolio investment balance	0.2	1.6	1.6	**0.0**	-0.3	**0.9**	-0.3	**0.5**	0.7	1.0	1.1	0.1
of which: debt liabilities	0.3	1.6	1.6	**0.0**	-0.3	**0.9**	-0.3	**0.5**	0.7	1.0	1.1	0.1
Other investment balance	1.2	-2.2	-0.4	**-1.5**	0.9	**0.1**	1.7	**0.5**	0.2	0.5	0.9	1.1
Public sector 1/ 2/	0.3	-0.3	0.5	**0.0**	1.9	**0.8**	2.4	**0.1**	-0.1	0.7	0.8	1.2
Domestic banks	0.6	-0.2	-0.6	**-0.2**	-0.1	**-0.4**	-0.1	**-0.1**	0.0	-0.1	0.0	0.0
Other private sector 3/	0.4	-1.7	-0.4	**-1.3**	-0.9	**-0.3**	-0.5	**0.5**	0.3	-0.1	0.1	-0.1
Errors and omissions	0.2	-0.1	0.2	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	1.9	0.3	2.6	**-1.7**	-1.2	**1.0**	-0.8	**0.7**	0.5	1.8	2.3	1.7
Financing	-1.9	-0.3	-2.6	**1.7**	1.2	**-1.0**	0.8	**-0.7**	-0.5	-1.8	-2.3	-1.7
Gross international reserves (increase, -)	-1.9	-0.3	-2.6	**1.7**	0.2	**-1.0**	-0.3	**-0.7**	-0.9	-1.8	-1.8	-0.9
Financing Gap					1.0		1.1		0.4	0.0	-0.6	-0.8
Use of Fund credit, net					1.0		0.6		0.0	0.0	-0.6	-0.8
Purchases					1.0		0.6		0.0	0.0	0.0	0.0
Repurchases					0.0		0.0		0.0	0.0	-0.6	-0.8
Development partners					0.0		0.5		0.4	0.0	0.0	0.0
GDP (billions of euros)	46.0	46.0	53.3	**58.9**	60.3	**65.6**	67.9	**72.0**	74.1	80.7	87.1	93.4

Sources: NBS; and IMF staff estimates and projections.

1/ Excluding net use of IMF resources.
2/ Includes SDR allocations in 2021.
3/ Includes trade credits (net).

Table 4b. Serbia: Balance of Payments,2019–2027 1/
(Percent of GDP)

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
						(Percent of GDP)						
Current account balance	-6.9	-4.1	-4.3	**-6.1**	-9.0	**-5.7**	-8.4	**-6.0**	-6.0	-5.3	-5.3	-5.3
Trade of goods balance	-12.2	-11.1	-11.1	**-12.7**	-14.8	**-11.9**	-13.1	**-11.2**	-10.3	-9.4	-9.4	-9.7
Exports of goods	35.7	34.3	39.0	**38.7**	42.8	**36.7**	43.2	**36.0**	42.5	41.8	41.5	41.3
Imports of goods	-47.9	-45.5	-50.1	**-51.4**	-57.6	**-48.6**	-56.3	**-47.2**	-52.8	-51.2	-50.9	-51.0
Services balance	2.2	2.4	2.6	**2.4**	2.3	**2.2**	2.1	**1.9**	2.4	2.4	2.5	2.6
Income balance	-5.4	-3.0	-3.9	**-4.2**	-4.4	**-4.3**	-4.8	**-4.9**	-5.1	-5.1	-5.2	-5.1
Current transfer balance	8.5	7.7	8.0	**8.4**	7.9	**8.3**	7.3	**8.2**	7.0	6.9	6.9	6.9
Official grants	0.6	0.5	0.6	**0.4**	0.3	**0.4**	0.7	**0.4**	0.3	0.3	0.3	0.3
Others, including private remittances	7.9	7.1	7.5	**8.0**	7.6	**8.0**	6.7	**7.8**	6.6	6.5	6.6	6.6
Capital and financial account balance 1/	10.6	5.0	8.9	**3.2**	7.0	**7.2**	7.3	**6.9**	6.7	7.5	8.0	7.2
Capital transfers balance	-0.2	-0.1	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Foreign direct investment balance	7.7	6.3	6.9	**5.7**	6.1	**5.7**	5.2	**5.5**	5.5	5.7	5.7	5.8
Portfolio investment balance	0.4	3.5	2.9	**0.1**	-0.6	**1.4**	-0.5	**0.7**	0.9	1.2	1.3	0.1
Other investment balance	2.7	-4.7	-0.8	**-2.6**	1.5	**0.1**	2.6	**0.7**	0.3	0.7	1.0	1.2
Public sector 1/ 2/	0.6	-0.6	0.9	**0.0**	3.2	**1.2**	3.5	**0.1**	-0.1	0.9	1.0	1.2
Domestic banks	1.3	-0.5	-1.0	**-0.4**	-0.1	**-0.6**	-0.2	**-0.1**	0.0	-0.1	-0.1	0.0
Other private sector 3/	0.8	-3.6	-0.7	**-2.2**	-1.6	**-0.5**	-0.7	**0.7**	0.4	-0.1	0.1	-0.1
Errors and omissions	0.4	-0.3	0.3	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	4.1	0.6	4.9	**-3.0**	-1.9	**1.5**	-1.2	**0.9**	0.7	2.3	2.7	1.8
Financing	-4.1	-0.6	-4.9	**3.0**	1.9	**-1.5**	1.2	**-0.9**	-0.7	-2.3	-2.7	-1.8
Gross international reserves (increase, -)	-4.1	-0.6	-4.9	**3.0**	0.3	**-1.5**	-0.5	**-0.9**	-1.3	-2.3	-2.0	-1.0
Financing Gap					1.7		1.7		0.5	0.0	-0.6	-0.9
Use of Fund credit, net					1.7		0.9		0.0	0.0	-0.6	-0.9
Purchases					1.7		0.9		0.0	0.0	0.0	0.0
Repurchases					0.0		0.0		0.0	0.0	-0.6	-0.9
Development partners					0.0		0.7		0.5	0.0	0.0	0.0
Memorandum items:												
Nominal growth of exports of goods	8.7	-2.0	29.3	**9.9**	24.2	**5.6**	13.5	**7.4**	7.6	7.1	7.1	6.8
Nominal growth of import of goods	9.1	-3.4	25.5	**13.6**	30.1	**5.1**	9.9	**6.6**	2.6	5.6	7.2	7.5
Volume growth of exports of goods	8.4	-2.8	14.7	**3.0**	5.1	**3.0**	4.1	**5.0**	4.6	4.6	4.6	4.6
Volume growth of import of goods	9.8	0.3	14.1	**3.5**	5.5	**4.1**	2.9	**5.6**	1.4	3.8	5.2	5.2
Trading partner import growth	2.9	-6.5	11.4	**3.4**	4.7	**5.2**	3.0	**4.5**	4.5	4.3	4.0	3.7
Export prices growth	0.2	0.8	12.7	**6.7**	18.2	**2.5**	9.0	**2.3**	2.9	2.4	2.4	2.1
Import prices growth	-0.6	-3.7	10.0	**9.8**	23.3	**1.0**	6.8	**0.9**	1.2	1.8	1.9	2.2
Change in terms of trade	0.8	4.7	2.5	**-2.9**	-4.1	**1.5**	2.0	**1.3**	1.7	0.6	0.4	-0.1
Gross official reserves (in billions of euro)	13.4	13.5	16.5	**14.7**	16.3	**15.7**	16.6	**16.4**	17.6	19.4	21.2	22.1
(In months of prospective imports of GNFS)	6.1	4.9	4.6	**4.4**	4.1	**4.4**	4.1	**4.3**	4.1	4.2	4.2	4.4
(in percent of short-term debt)	275.0	277.3	338.2	**458.9**	335.1	**489.5**	341.9	**510.5**	361.2	398.8	435.0	453.5
(in percent of broad money, M2)	56.7	48.3	52.1	**49.7**	45.7	**47.5**	41.6	**45.2**	40.0	40.7	41.1	40.0
(in percent of risk-weighted metric) 4/	125.0	121.9	131.5	**114.3**	118.9	**113.9**	111.8	**112.8**	110.4	112.0	113.2	110.0
GDP (billions of euros)	46.0	46.8	53.3	**58.9**	60.3	**65.6**	67.9	**72.0**	74.1	80.7	87.1	93.4

Sources: NBS; and IMF staff estimates and projections.
1/ Excluding net use of IMF resources.
2/ Includes SDR allocations in 2021.
3/ Includes trade credits (net).
4/ The risk-weighted metric is IMF's ARA metric for the fixed exchange rate. Serbia was reclassified as stabilized exchange rate regime in 2019.

Table 5a. Serbia: External Financing Requirements and Sources (Baseline), 2020–2027

(In billions of euros)

	2020	2021	2022	2023	2024	2025	2026	2027
					Proj.			
Total financing requirement	**7.1**	**10.2**	**9.6**	**9.9**	**9.8**	**9.2**	**10.1**	**11.5**
Current account deficit	1.9	2.3	5.4	5.7	4.4	4.2	4.6	5.0
Debt amortization	4.9	5.2	4.3	3.8	4.4	3.1	3.7	5.6
Medium and long-term debt	2.9	3.7	3.3	2.8	3.4	2.0	2.6	4.6
Public sector	2.2	2.5	1.6	1.6	2.3	1.3	1.8	4.0
Of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.8
Of which: Eurobonds	0.2	0.6	0.0	0.0	0.2	0.2	0.0	2.0
Of which: Domestic bonds (non-residents)	1.1	1.1	0.9	0.6	0.2	0.2	0.3	0.3
Commercial banks	0.3	0.4	0.7	0.6	0.6	0.3	0.2	0.2
Corporate sector	0.4	0.8	1.0	0.6	0.5	0.4	0.6	0.4
Short-term debt	1.9	1.6	1.1	1.1	1.1	1.1	1.1	1.1
Commercial banks	1.4	1.5	1.1	1.1	1.1	1.1	1.1	1.1
Corporate sector	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in gross reserves (increase=+)	0.3	2.6	-0.2	0.3	0.9	1.8	1.8	0.9
Total financing sources	**7.1**	**10.2**	**8.6**	**8.8**	**9.4**	**9.2**	**10.6**	**12.3**
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	2.9	3.7	3.7	3.5	4.1	4.6	4.9	5.4
Portfolio investment (net) 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing (excl. except. financing)	7.7	7.7	6.3	6.1	5.2	4.9	5.3	6.3
Medium and long-term debt	5.7	6.1	5.2	5.0	4.2	3.9	4.2	5.2
Public sector 2/	4.4	4.6	3.2	3.6	2.8	2.9	3.1	4.3
Of which: Eurobonds	3.0	2.7	0.0	0.0	0.7	1.0	1.0	2.0
Of which: Domestic bonds (non-residents)	0.7	0.5	0.6	0.3	0.2	0.3	0.3	0.3
Commercial banks	0.7	0.6	0.8	0.7	0.7	0.3	0.3	0.3
Corporate sector	0.7	0.9	1.2	0.8	0.7	0.6	0.8	0.7
Short-term debt	1.9	1.6	1.1	1.1	1.1	1.1	1.1	1.1
Other net capital inflows 3/	-3.5	-1.1	-1.4	-0.9	0.1	-0.3	0.4	0.6
o/w trade credit and currency and deposits	-2.6	-2.0	-1.4	-0.8	0.0	-0.4	-0.3	-0.4
Total financing needs	**0.0**	**0.0**	**1.0**	**1.1**	**0.4**	**0.0**	**-0.6**	**-0.8**
Exceptional financing (net)			**1.0**	**1.1**	**0.4**	**0.0**	**-0.6**	**-0.8**
IMF			1.0	0.6	0.0	0.0	-0.6	-0.8
Development partners, *by debtor:*			0.0	0.5	0.4	0.0	0.0	0.0
General government			0.0	**0.3**	**0.3**	0.0	0.0	0.0
SOEs (from IFIs)			**0.0**	0.2	0.1	0.0	0.0	0.0
Memorandum items:								
Gross international reserves (**without** except. financing)			15.3	14.5	15.0	16.9	19.2	20.9
as % of ARA Metric			111.4	97.4	94.4	97.3	102.6	104.2
Gross international reserves (**with** except. financing)	13.5	16.5	16.3	16.6	17.6	19.4	21.2	22.1
as % of ARA Metric	121.9	131.5	118.9	111.8	110.4	112.0	113.2	110.0
Debt service	5.5	6.0	5.1	4.7	5.1	3.9	4.4	6.4
Interest	0.7	0.7	0.8	0.9	0.7	0.8	0.7	0.8
Amortization	4.9	5.2	4.3	3.8	4.4	3.1	3.7	5.6

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 5b. Serbia: Indicators of Capacity to Repay the Fund (Baseline), 2020–2027 1/

	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Fund repurchases and charges 2/								
In millions of SDRs	1	0	7	56	83	108	537	789
In millions of euro	2	0	9	73	108	141	698	1,026
In percent of exports of goods and NFS	0.0	0.0	0.0	0.2	0.3	0.3	1.4	1.9
In percent of GDP	0.0	0.0	0.0	0.1	0.1	0.2	0.8	1.1
In percent of quota	0.2	0.0	1.0	8.6	12.6	16.5	82.0	120.5
In percent of total external debt service	0.0	0.0	0.2	1.6	2.1	3.6	15.8	15.9
In percent of gross international reserves	0.0	0.0	0.1	0.4	0.6	0.7	3.3	4.6
Fund credit outstanding (end-period)								
In millions of SDRs	0	0	786	1266	1899	1899	1465	753
In millions of euro	0	0	1018	1645	2471	2470	1905	978
In percent of exports of goods and NFS	0.0	0.0	2.9	4.1	5.7	5.3	3.8	1.8
In percent of GDP	0.0	0.0	1.7	2.4	3.3	3.1	2.2	1.0
In percent of quota	0	0	120	193	290	290	224	115
In percent of total external debt	0.0	0.0	2.5	3.7	5.4	5.2	3.9	2.0
In percent of gross international reserves	0.0	0.0	6.2	9.9	14.1	12.7	9.0	4.4
Memorandum items:								
Exports of goods and NFS	22,271	28,583	35,561	39,981	43,009	46,248	49,741	53,431
Quota (in millions of SDRs)	654.8	654.8	654.8	654.8	654.8	654.8	654.8	654.8
GDP	46,815	53,329	60,275	67,857	74,136	80,703	87,072	93,422
Total external debt service	5,531	5,978	5,139	4,697	5,149	3,876	4,414	6,440
Public sector external debt	17,096	20,648	23,252	26,212	27,006	28,571	29,825	30,155
Total external debt	32,905	38,042	40,979	44,375	45,578	47,408	48,969	49,654
Total external debt stock excluding IMF	32,905	38,042	39,961	42,733	43,936	45,766	47,890	49,398
Gross international reserves	13,492	16,455	16,303	16,636	17,573	19,406	21,168	22,065

Source: Fund staff estimates.

1/ Assumes purchase of the full authorized access under the SBA arrangement including precautionary tranches.
2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.

Table 6a. Serbia: General Government Fiscal Operations, 2019–2027 1/

(Billions of RSD)

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
				(Billions of RSD)								
Revenue	2,279	2,255	2,712	**2,861**	3,048	**3,208**	3,339	**3,522**	3,670	4,022	4,382	4,740
Taxes	1,994	1,991	2,420	**2,578**	2,746	**2,902**	2,974	**3,204**	3,283	3,605	3,936	4,258
Personal income tax	204	204	256	**284**	298	**312**	333	**345**	376	422	466	497
Social security contributions 2/	676	674	862	**951**	947	**1,064**	1,019	**1,179**	1,144	1,254	1,361	1,461
Taxes on profits	127	123	159	**146**	209	**182**	199	**211**	216	232	263	289
Value-added taxes	551	549	659	**700**	777	**779**	869	**849**	930	1,008	1,098	1,195
Excises	307	306	330	**338**	337	**383**	355	**421**	399	456	499	545
Taxes on international trade	48	52	62	**63**	80	**76**	88	**85**	91	96	103	111
Other taxes	82	83	92	**96**	98	**106**	111	**114**	127	136	145	159
Non-tax revenue	259	239	261	**257**	268	**277**	297	**287**	341	369	396	429
Capital revenue	11	14	12	**0**	13	**0**	14	**0**	16	17	19	20
Grants	15	11	19	**26**	22	**29**	53	**31**	30	30	31	33
Expenditure	2,290	2,698	2,971	**3,069**	3,320	**3,322**	3,603	**3,616**	3,860	4,163	4,524	4,881
Current expenditure	2,002	2,353	2,445	**2,598**	2,629	**2,789**	2,899	**3,027**	3,178	3,473	3,781	4,088
Wages and salaries 3/	516	579	629	**683**	688	**752**	774	**832**	861	940	1,017	1,093
Goods and services	472	606	651	**646**	718	**653**	708	**704**	778	843	918	985
Interest	109	110	109	**119**	115	**172**	145	**146**	157	168	186	210
Subsidies	121	251	206	**216**	186	**190**	216	**213**	217	237	256	271
Transfers	783	806	850	**935**	922	**1,022**	1,056	**1,132**	1,165	1,284	1,404	1,530
Pensions 4/	568	599	619	**686**	639	**754**	772	**828**	873	958	1,043	1,138
Other transfers 5/	215	207	231	**249**	283	**268**	284	**305**	292	327	362	393
Capital expenditure	266	293	467	**461**	516	**506**	557	**560**	592	661	715	767
Net lending	11	44	52	**13**	153	**7**	119	**8**	65	7	7	8
Amortization of activated guarantees	11	7	8	**-3**	21	**20**	28	**20**	25	22	20	18
Fiscal balance	-11	-443	-259	**-208**	-272	**-114**	-264	**-93**	-190	-141	-142	-141
Financing	11	443	259	**208**	272	**114**	264	**93**	190	141	142	141
Privatization proceeds	49	53	0	**0**	0	**0**	0	**0**	0	0	0	0
Equity investment	-26	0	0	**0**	0	**0**	0	**0**	0	0	0	0
Domestic	-59	169	-63	**-14**	-37	**-62**	-192	**4**	52	-42	-16	101
External	47	221	322	**223**	308	**176**	279	**89**	56	183	217	137
Program	0	0	0	**6**	146	**0**	183	**0**	0	0	0	0
Project	90	70	126	**160**	154	**201**	176	**201**	177	179	194	209
Bonds and loans	213	355	346	**170**	9	**114**	32	**128**	130	135	138	267
IMF resources (net)				**...**	83	**...**	0	**...**	0	0	0	0
Amortization	-256	-204	-151	**-113**	-83	**-138**	-112	**-240**	-251	-131	-115	-339
Financing gap				**...**	0	**...**	177	**...**	82	0	-60	-96
IMF - SBA				**...**	0	**...**	143	**...**	48	0	-60	-96
Development partners				**...**	0	**...**	35	**...**	35	0	0	0
Memorandum items:												
Gross wages and salaries	440	495	538	**587**	590	**642**	663	**710**	739	806	872	937
Arrears accumulation (domestic)	2	-3	0	**-1**	-1	**0**	0	**0**	0	0	0	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	15	19	23	**31**	75	**9**	9	**5**	5	5	5	5
Government deposits (stock)	212	207	326	**227**	311	**223**	403	**220**	351	424	440	343
Gross public debt 6/	2860	3184	3582	**3819**	4023	**3917**	4526	**3981**	4689	4895	4984	4934
Gross public debt (including restitution) 6/	2860	3184	3582	**4062**	4031	**4145**	4534	**4189**	4697	4903	4992	4941
Nominal GDP (billions of dinars)	5422	5504	6270	**6931**	7088	**7711**	8026	**8437**	8821	9631	10422	11209

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

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

2/ Includes employer contributions.

3/ Including severence payments. Includes employer contributions.

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

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

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

Table 6b. Serbia: General Government Fiscal Operation, 2019–2027 1/

(Percent of GDP)

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
				(percent of GDP)								
Revenue	42.0	41.0	43.3	**41.3**	43.0	**41.6**	41.6	**41.7**	41.6	41.8	42.0	42.3
Taxes	36.8	36.2	38.6	**37.2**	38.7	**37.6**	37.1	**38.0**	37.2	37.4	37.8	38.0
Personal income tax	3.8	3.7	4.1	**4.1**	4.2	**4.1**	4.1	**4.1**	4.3	4.4	4.5	4.4
Social security contributions 2/	12.5	12.2	13.7	**13.7**	13.4	**13.8**	12.7	**14.0**	13.0	13.0	13.1	13.0
Taxes on profits	2.3	2.2	2.5	**2.1**	2.9	**2.4**	2.5	**2.5**	2.5	2.4	2.5	2.6
Value-added taxes	10.2	10.0	10.5	**10.1**	11.0	**10.1**	10.8	**10.1**	10.5	10.5	10.5	10.7
Excises	5.7	5.6	5.3	**4.9**	4.8	**5.0**	4.4	**5.0**	4.5	4.7	4.8	4.9
Taxes on international trade	0.9	0.9	1.0	**0.9**	1.1	**1.0**	1.1	**1.0**	1.0	1.0	1.0	1.0
Other taxes	1.5	1.5	1.5	**1.4**	1.4	**1.4**	1.4	**1.4**	1.4	1.4	1.4	1.4
Non-tax revenue	4.8	4.3	4.2	**3.7**	3.8	**3.6**	3.7	**3.4**	3.9	3.8	3.8	3.8
Capital revenue	0.2	0.3	0.2	**0.0**	0.2	**0.0**	0.2	**0.0**	0.2	0.2	0.2	0.2
Grants	0.3	0.2	0.3	**0.4**	0.3	**0.4**	0.7	**0.4**	0.3	0.3	0.3	0.3
Expenditure	42.2	49.0	47.4	**44.3**	46.8	**43.1**	44.9	**42.9**	43.8	43.2	43.4	43.5
Current expenditure	36.9	42.7	39.0	**37.5**	37.1	**36.2**	36.1	**35.9**	36.0	36.1	36.3	36.5
Wages and salaries 3/	9.5	10.5	10.0	**9.9**	9.7	**9.7**	9.6	**9.9**	9.8	9.8	9.8	9.8
Goods and services	8.7	11.0	10.4	**9.3**	10.1	**8.5**	8.8	**8.3**	8.8	8.8	8.8	8.8
Interest	2.0	2.0	1.7	**1.7**	1.6	**2.2**	1.8	**1.7**	1.8	1.7	1.8	1.9
Subsidies	2.2	4.6	3.3	**3.1**	2.6	**2.5**	2.7	**2.5**	2.5	2.5	2.5	2.4
Transfers	14.4	14.6	13.6	**13.5**	13.0	**13.3**	13.2	**13.4**	13.2	13.3	13.5	13.7
Pensions 4/	10.5	10.9	9.9	**9.9**	9.0	**9.8**	9.6	**9.8**	9.9	9.9	10.0	10.1
Other transfers 5/	4.0	3.8	3.7	**3.6**	4.0	**3.5**	3.5	**3.6**	3.3	3.4	3.5	3.5
Capital expenditure	4.9	5.3	7.4	**6.6**	7.3	**6.6**	6.9	**6.6**	6.7	6.9	6.9	6.8
Net lending	0.2	0.8	0.8	**0.2**	2.2	**0.1**	1.5	**0.1**	0.7	0.1	0.1	0.1
Amortization of activated guarantees	0.2	0.1	0.1	**0.0**	0.3	**0.3**	0.3	**0.2**	0.3	0.2	0.2	0.2
Fiscal balance	-0.2	-8.0	-4.1	**-3.0**	-3.8	**-1.5**	-3.3	**-1.1**	-2.2	-1.5	-1.4	-1.3
Financing	0.2	8.0	4.1	**3.0**	3.8	**1.5**	3.3	**1.1**	2.2	1.5	1.4	1.3
Privatization proceeds	0.9	1.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Equity investment	-0.5	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Domestic	-1.1	3.1	-1.0	**-0.2**	-0.5	**-0.8**	-2.4	**0.0**	0.6	-0.4	-0.2	0.9
External	0.9	4.0	5.1	**3.2**	4.3	**2.3**	3.5	**1.1**	0.6	1.9	2.1	1.2
Program	0.0	0.0	0.0	**0.1**	2.1	**0.0**	2.3	**0.0**	0.0	0.0	0.0	0.0
Project	1.7	1.3	2.0	**2.3**	2.2	**2.6**	2.2	**2.4**	2.0	1.9	1.9	1.9
Bonds and loans	3.9	6.4	5.5	**2.4**	0.1	**1.5**	0.4	**1.5**	1.5	1.4	1.3	2.4
IMF resources (net)				**...**	1.2	**...**	0.0	**...**	0.0	0.0	0.0	0.0
Amortization	-4.7	-3.7	-2.4	**-1.6**	-1.2	**-1.8**	-1.4	**-2.8**	-2.8	-1.4	-1.1	-3.0
Financing gap				**...**	0.0	**...**	2.2	**...**	0.9	0.0	-0.6	-0.9
IMF - SBA				**...**	0.0	**...**	1.8	**...**	0.5	0.0	-0.6	-0.9
Development partners				**...**	0.0	**...**	0.4	**...**	0.4	0.0	0.0	0.0
Memorandum items:												
Gross wages and salaries	8.1	9.0	8.6	**8.5**	8.3	**8.3**	8.3	**8.4**	8.4	8.4	8.4	8.4
Arrears accumulation (domestic)	0.0	-0.1	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Government deposits (stock)	3.9	3.8	5.2	**3.3**	4.4	**2.9**	5.0	**2.6**	4.0	4.4	4.2	3.1
Gross financing need	10.7	14.9	9.1	**8.0**	8.9	**7.5**	9.0	**5.8**	6.9	4.2	4.3	4.5
Gross public debt 6/	52.8	57.8	57.1	**55.1**	56.8	**50.8**	56.4	**47.2**	53.2	50.8	47.8	44.0
Gross public debt (including restitution) 6/	52.8	57.8	57.1	**58.6**	56.9	**53.7**	56.5	**49.7**	53.2	50.9	47.9	44.1
Nominal GDP (billions of dinars)	5,422	5,504	6,270	**6,931**	7,088	**7,711**	8,026	**8,437**	8,821	9,631	10,422	11,209

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

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

2/ Includes employer contributions.

3/ Including severance payments. Includes employer contributions.

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

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

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

Table 7. Serbia: Decomposition of Public Debt and Debt Service by Creditor, 2019–2023 1/

Central Government Debt

	Debt Stock (end of period)				Expected debt Service		
	2019	**2020**	**2021**	**2022 (as of 31 August 2022)**	2021	2022	2023
	(In Euro bln)	*(In Euro bln)*	*(In Euro bln)*	*(In Euro bln)*	*(In Euro bln)*		
Total	23.9	26.7	30.1	32.2	3.7	3.4	4.1
External	14.0	15.2	18.5	20.7	2.3	1.0	1.2
Multilateral creditors[2]	5.7	5.4	5.6	6.5	0.5	0.5	0.6
IMF	0.5	0.5	0.5	1.2			
World Bank	0.0	0.0	0.0	0.0			
ADB/AfDB/IADB	0.0	0.0	0.0	0.0			
Other Multilaterals	5.2	5.0	5.2	5.3			
o/w: IBRD	2.2	2.2	2.2	2.2			
EIB	1.8	1.8	1.8	1.8			
Others (IDA, EU, CEB, EBRD, EUROFIMA,	1.2	1.0	1.1	1.2			
Bilateral Creditors	5.1	4.5	5.1	5.7	1.2	0.4	0.6
Paris Club	1.0	0.9	0.7	0.7	0.1	0.2	0.2
o/w: PC Germany KfW	0.0	0.0	0.0	0.0			
PC United Kingdom	0.0	0.0	0.0	0.0			
Non-Paris Club	4.1	3.6	4.3	5.0	1.1	0.3	0.4
o/w: UAE	1.8	1.6	1.7	1.7			
China	1.1	1.1	1.6	2.1			
Russia	0.6	0.7	0.7	0.9			
Others	0.5	0.3	0.3	0.3			
Bonds	3.2	5.1	7.3	7.3	0.6	0.0	0.0
Commercial creditors	0.0	0.1	0.4	1.0	0.0	0.0	0.0
o/w: T.C. ZİRAAT BANKASI A.Ş. and DENİZBANK A. Ş.	0.0	0.0	0.1	0.1			
Kuwait Fund Belgrade Center Railway Station Project 1	0.0	0.0	0.0	0.0			
Other international creditors	0.1	0.1	0.1	0.2			
o/w: JICA	0.1	0.1	0.1	0.2			
Domestic	10.0	11.4	11.6	11.6	1.4	2.4	3.0
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	0.0	0.0	0.0	0.0	0.3	0.0	0.3
Bonds	9.4	10.7	11.2	10.3	1.0	2.3	2.5
Loans and other domestic debt	0.6	0.7	0.4	1.3	0.1	0.1	0.2
Memo items:	0.0	0.0		0.0			
Collateralized debt[3]	0.0	0.0	0.0	0.0			
o/w: Related	0.0	0.0	0.0	0.0			
o/w: Unrelated	0.0	0.0	0.0	0.0			
Contingent liabilities	1.5	1.4	1.4	1.7			
o/w: Public guarantees	1.5	1.4	1.4	1.7			
o/w: Other explicit contingent liabilities[4]	0.0	0.0	0.0	0.0			
Nominal GDP	51.9	57.0	56.5	53.4			

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

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

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

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

Table 8. Serbia: Monetary Survey, 2019–2027

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/											
Net foreign assets 2/	1287	1347	1744	1561	1738	1716	1823	1798	1942	2188	2415	2540
in billions of euro	11.0	11.5	14.8	13.3	14.8	14.6	15.3	15.3	16.3	18.3	20.2	21.1
Foreign assets	1831	1924	2378	2204	2390	2363	2496	2455	2629	2888	3126	3260
NBS	1585	1598	1947	1741	1928	1852	1989	1927	2102	2332	2545	2663
Commercial banks	247	326	431	463	463	511	507	527	527	556	582	597
Foreign liabilities (-)	-544	-577	-633	-643	-652	-647	-673	-657	-687	-700	-711	-720
NBS	-2	-1	0	-3	-3	-3	-3	-3	-3	-3	-3	0
Commercial banks	-542	-576	-633	-640	-649	-644	-670	-654	-684	-697	-708	-720
Net domestic assets	1,486	1,938	1,968	2,590	2,098	2,737	2,314	2,925	2,647	2,981	3,341	3,861
Domestic credit	2,643	3,090	3,270	3,835	3,600	4,054	3,745	4,329	4,169	4,645	5,129	5,767
Government, net	225	379	308	467	330	434	194	472	241	201	189	301
NBS	-360	-273	-387	-336	-356	-361	-471	-363	-434	-516	-539	-440
Claims on government	1	93	84	95	101	65	80	50	56	59	62	65
Liabilities (deposits)	361	366	472	431	456	426	551	413	490	575	601	505
Banks	586	652	695	802	685	795	664	834	675	717	728	742
Claims on government	676	747	787	895	778	888	757	929	770	809	820	834
Liabilities (deposits)	91	95	92	92	92	92	93	95	95	92	92	93
Non-government sector	2,437	2,731	3,002	3,409	3,310	3,659	3,591	3,897	3,968	4,484	4,980	5,506
Households	1,112	1,244	1,375	1,560	1,512	1,672	1,637	1,778	1,807	2,039	2,262	2,497
Enterprises	1,291	1,453	1,594	1,812	1,762	1,948	1,915	2,078	2,119	2,397	2,665	2,950
Other assets, net	-1,156	-1,152	-1,302	-1,245	-1,503	-1,316	-1,430	-1,405	-1,522	-1,664	-1,789	-1,906
Capital accounts (-)	-1,046	-1,018	-1,067	-962	-1,252	-1,012	-1,162	-1,078	-1,227	-1,347	-1,455	-1,555
Broad money (M2)	2774	3285	3713	4152	3836	4453	4138	4722	4589	5169	5756	6401
Currency in circulation	210	267	295	328	319	365	340	396	382	447	515	592
Demand deposits	657	915	1057	1175	1002	1308	1069	1419	1200	1403	1617	1860
Time and saving deposits	273	325	353	392	295	437	315	474	354	413	477	548
Foreign currency deposits	1634	1779	2007	2255	2220	2344	2414	2433	2653	2907	3148	3401
in billions of euro	13.9	15.1	17.1	19.2	18.9	20.0	20.3	20.8	22.3	24.3	26.3	28.3
Memorandum items:	(year-on-year change unless indicated otherwise)											
M2	8.8	18.4	13.0	11.8	3.3	7.3	7.9	6.0	10.9	12.6	11.4	11.2
Velocity (M2)	2.0	1.7	1.7	1.7	1.8	1.7	1.9	1.8	1.9	1.9	1.8	1.8
Deposits at constant exchange rate	8.7	17.6	13.2	11.8	2.9	7.1	7.2	5.9	10.8	11.9	10.9	10.6
Credit to non-gov. (current exchange rate)	8.7	11.3	10.8	8.2	7.6	5.4	7.0	5.0	8.0	9.8	9.2	8.9
Credit to non-gov. (constant exchange rates) 3/	9.2	11.3	10.8	8.1	7.6	5.6	6.1	5.1	7.9	9.4	9.2	8.6
Domestic	9.5	12.0	9.9	13.5	10.3	7.5	7.7	6.6	10.5	12.6	11.0	10.3
Households	9.5	11.8	10.6	13.4	9.9	7.3	7.7	6.4	10.3	12.6	10.9	10.2
Enterprises and other sectors	9.4	12.1	9.4	13.6	10.5	7.7	7.7	6.7	10.6	12.7	11.2	10.4
External	8.6	9.9	2.2	-2.7	2.2	1.2	2.5	1.4	2.2	1.4	4.0	3.5
Credit to non-gov. (real terms) 4/	6.7	10.0	2.8	0.2	-7.1	1.1	-1.1	1.3	3.8	6.1	5.8	5.7
Domestic credit to non-gov. (real terms)	7.1	10.7	1.9	5.1	-4.8	2.9	0.3	2.7	6.3	9.2	7.6	7.3
Households	7.3	10.4	2.5	5.0	-5.0	2.7	0.1	2.6	6.1	9.0	7.5	7.2
Enterprises and other sectors	6.9	10.9	1.4	5.2	-4.6	3.1	0.4	2.8	6.4	9.3	7.8	7.5
External	6.0	8.5	4.5	-9.8	-11.7	-3.2	-4.2	-2.4	-1.7	-1.5	0.8	0.9
Deposit euroization (percent of total) 5/	63.7	58.9	58.7	59.0	63.1	57.3	63.6	56.2	63.1	61.5	60.1	58.6
Credit euroization (percent of total) 5/	66.7	62.0	60.9	60.1	62.9	59.1	63.5	56.1	62.5	61.0	60.0	59.5

Sources: National Bank of Serbia; and IMF staff estimates and projections.
1/ Foreign exchange denominated items are converted at current exchange rates.
2/ Excluding undivided assets and liabilities of the FSRY and liabilities to banks in liquidation.
3/ Using constant program dinar/euro and dinar/swiss franc exchange rates for converting FX and FX-indexed loans to dinars
4/ Calculated as nominal credit at current exchange rates deflated by the change in the 12-month CPI index.
5/ Using current exchange rates.

Table 9. Serbia: NBS Balance Sheet, 2019–2027

	2019	2020	2021	2022		2023		2024		2025	2026	2027
				CR 22/201	Proj.	CR 22/201	Proj.	CR 22/201	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/											
Net foreign assets	1583	1598	1947	**1738**	1924	**1849**	1986	**1924**	2099	2329	2542	2660
(In billions of euro)	13.5	13.6	16.6	**14.8**	16.4	**15.8**	16.7	**16.4**	17.6	19.5	21.2	22.1
Gross foreign reserves	1585	1598	1947	**1741**	1928	**1852**	1989	**1927**	2102	2332	2545	2663
Net domestic assets	-806	-625	-920	**-478**	-896	**-469**	-910	**-480**	-867	-958	-951	-865
Net domestic credit	-453	-285	-530	**-431**	-457	**-464**	-516	**-479**	-492	-621	-647	-577
Net credit to government	-360	-273	-387	**-336**	-356	**-361**	-471	**-363**	-434	-516	-539	-440
Claims on government	1	93	84	**95**	101	**65**	80	**50**	56	59	62	65
Liabilities to government (-)	-361	-366	-472	**-431**	-456	**-426**	-551	**-413**	-490	-575	-601	-505
Reserve money	777	973	1027	**1260**	1029	**1380**	1076	**1445**	1232	1371	1591	1795
Currency in circulation	210	267	295	**328**	319	**365**	340	**396**	382	447	515	592
Commercial bank reserves	341	431	410	**570**	354	**639**	349	**659**	425	458	572	658
Required reserves	192	220	247	**278**	273	**289**	297	**300**	327	358	388	419
Excess reserves	149	210	163	**293**	81	**351**	52	**359**	98	100	184	239

Sources: National Bank of Serbia; and IMF staff estimates and projections.
1/ Foreign exchange denominated items are converted at current exchange rates.

Table 10. Serbia: Banking Sector Financial Soundness Indicators, 2016–2022

	2016	2017	2018	2019	2020	2021				2022	
						Mar	Jun	Sep	Dec	Mar	Jun
Capital adequacy											
Regulatory capital to risk-weighted assets	21.8	22.6	22.3	23.4	22.4	22.3	22.2	21.7	20.8	20.0	19.4
Regulatory Tier 1 capital to risk-weighted assets	20.0	21.6	21.1	22.4	21.6	21.4	21.1	20.6	19.7	18.9	18.2
Nonperforming loans net of provisions to regulatory capital	27.1	17.7	9.7	6.3	6.7	7.0	6.9	6.7	7.6	7.7	7.5
Regulatory Tier 1 capital to assets	11.6	13.7	13.5	14.4	13.1	13.0	12.6	12.3	11.8	11.6	11.4
Large exposures to capital	86.0	69.3	77.4	66.5	73.8	80.0	82.4	80.1	86.0	98.9	104.7
Regulatory capital to assets	12.7	14.4	14.2	15.1	13.6	13.5	13.3	12.9	12.4	12.2	12.2
Asset quality											
Nonperforming loans to total gross loans	17.0	9.8	5.7	4.1	3.7	3.9	3.6	3.6	3.6	3.4	3.3
Sectoral distribution of loans (percent of total loans)											
Deposit takers	0.5	0.3	0.4	0.4	0.3	0.4	0.4	0.1	0.0	0.2	0.8
Central bank	1.7	2.1	0.7	2.8	1.1	1.1	1.1	1.5	1.5	0.4	0.2
General government	1.5	1.3	1.1	1.5	1.6	1.5	1.4	1.5	1.7	1.7	1.9
Other financial corporations	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.5	0.6	0.6	1.0
Nonfinancial corporations	52.6	50.5	50.0	49.2	49.6	49.1	48.6	49.0	49.3	50.2	49.8
Agriculture	3.6	3.5	3.5	3.5	3.3	3.1	3.0	3.2	3.0	2.8	2.6
Industry	16.5	16.2	16.5	15.0	15.0	14.7	14.5	14.9	15.5	19.5	19.3
Construction	4.1	4.0	4.2	4.8	5.1	5.0	4.9	4.8	4.9	4.9	4.6
Trade	14.3	14.6	14.0	13.7	13.3	13.2	13.1	12.8	12.5	10.9	11.1
Other loans to nonfinancial corporations	14.1	12.2	11.8	12.3	13.0	13.1	13.1	13.2	13.4	12.3	12.1
Households and NPISH	41.5	42.9	44.3	43.8	45.0	45.0	45.6	45.6	45.0	44.7	44.2
Households and NPISH of which: mortgage loans to total loans	17.9	16.9	16.8	15.8	16.4	16.7	17.1	17.4	17.4	17.5	17.3
Foreign sector	1.4	2.0	2.6	1.5	1.6	2.3	2.2	1.8	1.9	2.0	2.1
IFRS provision for NPLs to gross NPLs	67.8	58.1	60.2	61.5	59.0	58.8	58.2	59.3	56.3	56.3	57.0
IFRS provision of total loans to total gross loans	12.4	6.6	4.5	3.4	3.5	3.5	3.3	3.4	3.2	3.1	3.0
Earnings and Profitability											
Return on assets	0.7	2.1	2.2	1.8	1.1	1.2	1.2	1.2	1.2	1.4	1.5
Return on equity	3.3	10.5	11.3	9.8	6.5	7.3	6.9	7.9	7.8	10.0	10.5
Liquidity											
Customer deposits to total (noninterbank) loans	108.1	106.9	110.6	109.2	116.4	117.8	118.1	118.0	119.5	113.1	110.8
Foreign-currency-denominated loans to total loans	69.4	67.5	68.5	67.1	64.7	64.1	63.2	62.8	63.2	64.5	65.7
Average monthly liquidity ratio	2.1	2.0	2.0	2.2	2.2	2.3	2.3	2.3	2.1	2.0	1.9
Average monthly narrow liquidity ratio	1.7	1.7	1.7	1.8	1.9	2.0	1.9	1.9	1.7	1.7	1.6
Sensitivity to Market Risk											
Net open position in foreign exchange to regulatory capital	2.3	2.4	4.3	0.6	0.2	0.5	0.9	1.1	0.4	1.5	1.7
Foreign-currency-denominated liabilities to total liabilities	71.1	69.7	69.3	66.6	62.3	62.8	61.4	60.7	61.4	62.7	64.5
Classified off-balance sheet items to classified balance sheet assets	32.4	36.4	36.8	39.7	36.3	35.2	35.8	37.1	39.1	37.9	37.7

Source: National Bank of Serbia.

Table 11a. Schedule of Reviews Under the PCI (for Cancellation), 2021–2023 1/

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

1/ At the time of approval of the PCI.

Table 11b. Serbia: Proposed Schedule of Reviews and Purchases Under the 2-year SBA Arrangement, 2022–2024

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

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

Annex I. Risk Assessment Matrix

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
		Global conjunctural risks		
Intensifying spillovers from Russia's war in Ukraine.	**High** Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	Short to medium term	**High** Adverse spillovers and commodity price shocks will reduce trade, lower investor confidence and stall FDI, while giving rise to further inflationary pressures and demands for fiscal support programs and a weaker fiscal position. Supply of contracted gas volumes to Serbia may be curtailed in transit.	• Seek to secure alternative energy sources and allocate supplies in accordance with a national rationing plan. • Targeted support for businesses and employees (e.g., short work schemes) facing shut-downs due to energy rationing. • Targeted support to vulnerable households. • Accelerate monetary tightening if there are signs of second-round effects.
Abrupt global slowdown or recession.	**High** Europe: The fallout from the war in Ukraine is exacerbated by a gas shutoff by Russia, resulting in acute	Short to medium term	**High** Sharp growth slowdown, and weaker fiscal and external position.	• Allow automatic stabilizers to operate, if fiscal space is

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	gas shortages and further supply disruptions, which triggers an EU recession **High** EMDEs: Sharp tightening of global financial conditions combined with volatile commodity prices leads to spiking risk premia, widening of external imbalances and fiscal pressures, capital outflows, sudden stops, and debt and financial crises across EMDEs		Serbia may face challenges in accessing the Eurobond market, but with fairly closed capital markets and a high share of FDI, capital outflows from non-residents are limited in the near term.	sufficient, in particular to provide targeted support. • Accelerate monetary tightening if there are signs of second-round effects. • Purchase under the precautionary tranches of the SBA.
Commodity price shocks	**High** A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility	Short to medium term	**High** Cost push inflation continues, leading to decline in real income. Sharp increases in energy prices could make some businesses unviable. Fiscal costs of subsidies or tax reductions to limit price increases could be prohibitively high and weaken the fiscal position. Inflation expectations could become de-anchored and create a price-wage spiral	• Adjust energy tariffs further to help offset changes in costs. • Provide targeted support to the most vulnerable households. • Accelerate monetary tightening if there are further signs of de-anchoring of inflation expectations. • Accelerate transition to green energy sources for

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
				enhanced energy independence.
Local Covid-19 outbreaks	**Medium** Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce.	Short to medium term	**Medium** Renewed setbacks to economic growth and risks of reaching the limits of fiscal space for supporting the economy	• Targeted limited fiscal support measures, to companies and individuals most in need. • Prioritize health-related spending, including vaccination.
		Global Structural Risks		
Deepening geo-economic fragmentation and geopolitical tensions.	**High** Broadening of conflicts and reduced international cooperation accelerate deglobalization.	Medium term	**High** Serbia's current preferential economic relations with the EU (Serbia is a candidate country) and/or Russia (e.g., in the energy sector and refinery) could be downgraded.	• Maintain a globally diversified economic structure for imports, exports and financing. • Prioritize reforms that support a reputation for evenhandedness in a market and rules-based economy.
		Domestic Risks		
Domestic policy errors or loss of fiscal discipline	**Medium** Hesitation to deliver on specific structural reforms.	Short- to medium term	**High** Loss of fiscal discipline would undermine market confidence	• Take prompt corrective action to ensure fiscal discipline and focus on a

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
			and the restoration of fiscal buffers. Unfinished structural reform agenda would reduce growth prospects, and preserve over-reliance on the public sector.	smaller set of structural reform policies that can be kick-started.
The domestic energy crisis is prolonged beyond the upcoming winter 2022/23.	**Medium** Electricity generation capacity is not restored to required levels, production levels remain unreliable, and coal and electricity imports remain elevated.	Short- to medium term	**High** Failure to address the production shortfalls or to adjust energy tariffs would undermine the financial viability of the energy companies and create fiscal costs and risks. It would also jeopardize energy security and environmental sustainability over the medium term	• Adjust energy tariffs further to help offset changes in costs. • Strengthen management of key energy SOEs. • Implement a short-term action plan to restore electricity generation capacity

Annex II. Performance Under Previous Fund Arrangements

1. Serbia has had seven Fund arrangements since 2000, including two consecutive PCIs since 2018, and has demonstrated a strong track record of implementing a wide range of reforms. The authorities have used IMF-supported programs to maintain macroeconomic stability, safeguard fiscal sustainability, enhance the resilience of the financial sector, and implement a wide range of structural reforms to foster stronger and more inclusive growth. The most notable example of Serbia's engagement with the Fund was the precautionary Stand-By arrangement in 2015–17 which supported a reform agenda that underpinned a highly successful fiscal consolidation and subsequently higher growth. It helped strengthen external buffers and sent positive signals to financial markets. Importantly, it anchored Serbia's reform agenda to reinforce expenditure controls, strengthen revenue collection, enhance financial supervision, and reform the state-owned enterprises. More recently, Serbia successfully completed a PCI approved in July 2018 and two reviews under a PCI approved in June 2021.

Recent Fund Arrangements, 2015–2022

Arrangement	Access/Duration	Reform Program
Policy Coordination Instrument (Jun 2021)	30 months	- Strengthen fiscal rules framework - Adopt fiscal risks monitoring framework - Adopt capital market development strategy - Establish an SOE registry - Adopt a new legal framework for SOEs - Operationalize the centralized general government payroll system
Policy Coordination Instrument (Jul 2018)	30 months	- Strengthen capital expenditures framework - Reform Tax Administration (consolidation of non-core activities) - Rationalize parafiscal charges - Upgrade the dinarization strategy - Strengthen deposit insurance framework - Privatize the largest state-owned bank
Stand-By Arrangement (Feb 2015) (Precautionary, no disbursements)	3 years, SDR 935 million (200 percent of quota)	- Implement pension reform (later retirement for women, early retirement penalties) - Amend Labor Law - Initiate electricity sector reforms (financial restructuring plan for EPS, tariff increase, electricity excise) - Initiate tax administration transformation program - Adopt and implement an NPL resolutions strategy

Annex III. Fiscal Rules

1. The new fiscal rules framework is designed to provide clear and credible signals about the government's fiscal commitments and fiscal sustainability. It was adopted by the government in November 2022 (revised end-October 2022 RT, MEFP ¶17), and is to be incorporated into the Budget System Law with the 2023 budget legislation. Other laws, including the public debt law and the pension law, will be harmonized.

2. The fiscal rule covers the general government and includes the following features.

- The overall balance is the key target variable for the fiscal rule, with a medium-term deficit objective of at most 0.5 percent of GDP.

- Ceilings on the fiscal deficit are linked to public debt levels which will support control of fiscal risks and fiscal sustainability. The deficit ceiling for the overall balance will be at zero if debt is above 60 percent of GDP, at ½ percent of GDP for debt between 55 and 60 percent of GDP, and at 1½ percent of GDP for debt between 45 and 55 percent of GDP. As an EU candidate country, Serbia is also committed to respecting a 3 percent ceiling on its fiscal deficit, irrespective of debt levels.

- Two expenditure rules—a ceiling on the overall wage bill, and rules for pension adjustments—intend to control the evolution of these large expenditure categories, continuing the positive experience with such rules in the past.

  - The ceiling on the overall wage bill will be set at 10 percent of GDP, with current coverage and definitions.

  - The pension adjustment formula will vary to contain pension expenditures in the range of 10–11 percent of GDP. Pensions will be indexed to wages if the pension bill is below 10 percent of GDP, indexed to 50 percent wages and 50 percent CPI (Swiss formula) if the pension bill is between 10–10.5 percent of GDP, and indexed to CPI only if the pension bill is above 10.5 percent of GDP.

- A well-defined escape clause permits the government to temporarily suspend the fiscal rules in response to natural disasters and external shocks that endanger people's health, national security or cause a large decline in economic activity; and would be expected to lead to a significant breach of the fiscal rules. A report to parliament is required within 30 days that explains the reason for the activation of the escape clause and deviation from the fiscal rules, indicates the timeline for return to the fiscal rule, the revised deficit and debt path (even if this may be tentative), and presents corrective measures to be taken to return to compliance with the fiscal rules.

- Correction mechanism prescribe plans of measures both in the case of large deviations when the escape clause is activated as well as when smaller deviations occur in normal times. In the latter case, the minister will explain the reasons for the overshoot, as well as the measures taken to avoid repeated overshooting in order to reduce the deficit below the previously planned path and reach the previously planned debt levels.

- Accountability for observance and breaches of the fiscal rules will take place in the context of presenting the Fiscal Strategy and its updates, in a "comply or explain" format. Alongside the fiscal strategy the opinion of the well-regarded Fiscal Council should be submitted regarding the strength of the correction mechanism in case of deviations and the path back toward adherence to the rules. The fiscal strategy is submitted to the Parliament for information according to the Budget System Law.

- The public debt definition extends to the general government and comprises debt and guaranteed debt.

3. **Transition arrangements for the fiscal deficit are included in the fiscal rules legislation as - due to the external environment - the deficit ceilings would likely be exceeded in 2023 and 2024**. This avoids invoking the escape clause at the very start of the rule. The transition rule references the fiscal path agreed under the SBA during 2023 and 2024.

4. **Technical definitions for the fiscal rule will be guided by government finance statistics (GFS).** The current presentation of Serbia's fiscal data in the TMU and for regular national monitoring contains some deviations from international standards (e.g., public wages net of deductions), and accommodates some limitations on timely data compilation (e.g., exclusion of indirect budget users like schools and universities). While current definitions will be used for the initial specification of numerical parameters and monitoring, over time, fiscal rules data should be presented largely consistent with international statistical standards, specifically ESA 2010. A few persistent differences are expected, including: (i) for the definition of public debt, which will be public and publicly guaranteed debt including restitution bonds, and (ii) in respect of coverage of inactive and very small general government entities where the cost of within-year data compilation outweigh the benefits for fiscal management and fiscal risk monitoring.

5. **Upcoming upgrades to fiscal data and GFS will require a review of the numerical fiscal parameters in 2024 (end-November 2024 structural benchmark, MEFP ¶17).** Work is ongoing with Fund technical assistance to automate the preparation of monthly GFSM 2014 compliant fiscal data, expand the coverage of indirect budget users and extrabudgetary units, and develop data for the compilation of financial accounts. Moreover, comprehensive improvements to GFS are expected with the next 5-yearly revision of national account statistics in 2024. Fiscal rules definitions and parameters will be updated in the Budget System Law at that time to align with statistical definitions.

6. **Additional structural reforms aim at setting a fiscal path and fiscal programs in a medium-term context to strengthen adherence to the fiscal rule and support the rebuilding of buffers in good times.** Developing an action plan on medium-term budgeting is a structural benchmark (end-July 2023, MEFP ¶18), and FAD has started TA to support this process. Robust

medium-term budgeting provides the framework for multi-year planning and deliberate adjustment following deviations, as the authorities aim to shift away from an exclusive focus on annual budgets and create a medium-term perspective that forms the starting point for next year's budgeting exercise. While the authorities at this stage are not considering the adoption of medium-term expenditure ceilings[1], the expenditure rules on wages and pensions provide some control over these large spending items.

[1] Medium-term expenditures ceilings have been shown to be one of the most effective practices to achieve reliably fiscal deficit and debt objectives. See *Reforming the EU Fiscal Framework: Strengthening the Fiscal Rules and Institutions*, IMF Departmental Paper No 2022/014, September 2022.

Annex IV. Adverse Scenario

1. The adverse scenario represents an intensification and, in particular, an extension of the ongoing shocks arising from the war in Ukraine that have already significantly worsened the baseline compared to the 2nd review of the PCI: even higher energy prices that remain high for longer, and even lower growth in advanced economy trading partners, that continues beyond 2025 (in contrast with the recovery assumed in the October 2022 World Economic Outlook). In addition, it includes higher financing needs for the energy companies.

2. In judging multiple off-setting forces amidst very high uncertainty on the duration and intensity of the external shocks faced by Serbia, this adverse scenario aims to balance the risks of additional adverse developments with Serbia's proven track record of strong growth, solid macroeconomic policies and meaningful adjustment under IMF programs. It provides a rationale for additional access under the proposed SBA on a precautionary basis in 2024. Semi-annual reviews and the consultation clause for high energy prices provide the means for regular and timely engagement with the authorities on adjustments to the policy settings, as well as on access under the SBA.

Annex IV. Table 1. Serbia: Assumptions Underlying the Illustrative Adverse Scenarios

	2020-22	2022	2023			2024			2025		
	Average Baseline	Baseline	Baseline	Adverse	Adverse over baseline	Baseline	Adverse	Adverse over baseline	Baseline	Adverse	Adverse over baseline
Oil price											
APSP price (USD/bbl)	69.8	98.2	85.5	102.6	20.0 %	80.2	92.2	15.0 %	76.2	82.3	8.0 %
Growth rate (percent, yoy)	25.2	41.4	-12.9	4.5		-6.2	-10.1		-4.9	-10.7	
Trading partner developments											
AE trading partners real GDP (growth rate, percent) 1/	0.7	2.9	0.5	-0.3	-0.8 ppt	1.9	0.9	-1.0 ppt	2.0	1.5	-0.5 ppt
Serbia growth differential (ppt)	2.3	-0.4	1.8	1.4	-0.4 ppt	1.1	1.1	0.0 ppt	2.5	1.5	-1.0 ppt
Advanced economy inflation (growth rate, percent)	3.7	7.2	4.4	5.4	1.0 ppt	2.4	2.9	0.5 ppt	2.0	2.5	0.5 ppt
Serbia developments											
Real GDP (growth rate, percent)	3.0	2.5	2.3	1.1	-1.2 ppt	3.0	2.0	-1.0 ppt	4.5	3.0	-1.5 ppt
CPI inflation (growth rate, percent)	5.9	12.1	12.2	15.2	2.9 ppt	5.3	6.8	1.5 ppt	3.5	4.0	0.5 ppt
Trade balance, goods (Euro bn)	-6.7	-8.9	-8.9	-10.1	-14.1 %	-7.6	-8.6	-12.8 %	-7.6	-7.8	-2.8 %
Exports, goods (Euro bn)	20.9	25.8	29.3	29.5	0.7 %	31.5	31.6	0.1 %	33.8	33.8	0.0 %
Exports, goods, real (growth rate, percent)	5.6	5.1	4.1	3.6	-0.5 ppt	4.6	3.6	-1.0 ppt	4.6	4.6	0.0 ppt
Imports, goods (Euro bn)	27.6	34.7	38.2	39.6	3.8 %	39.2	40.2	2.6 %	41.4	41.6	0.5 %
Imports, goods, real (growth rate, percent)	6.6	5.5	2.9	2.9	0.0 ppt	1.4	0.8	-0.6 ppt	3.8	2.8	-1.0 ppt
Current transfers private, incl. remittances (Euro bn)	4.0	4.6	4.5	4.3	-5.5 %	4.9	4.7	-5.2 %	5.3	5.1	-2.6 %
FDI (net) (Euro bn)	3.4	3.7	3.5	3.4	-3.4 %	4.1	3.9	-4.7 %	4.6	4.5	-2.3 %
Fiscal balance (RSD bn)	-324	-272	-264	-307		-190	-322		-141	-211	
Fiscal balance (percent of GDP)	-5.2	-3.8	-3.3	-3.8	-0.5 ppt	-2.2	-3.6	-1.5 ppt	-1.5	-2.2	-0.7 ppt
Structural primary fiscal balance (percent of GDP) 2/	-2.4	-0.6	0.4	1.0	0.7 ppt	0.7	0.6	-0.1 ppt	0.3	1.1	0.8 ppt
GDP (Euro bn)	53.5	60.3	67.9	65.7	-3.2 %	74.1	70.9	-4.4 %	80.7	76.1	-5.8 %

Sources: Authorities' data; and IMF staff estimates
1/ WEO GEE and staff assumptions
2/ Excludes one-offs, notably Covid-related programs, and net lending to Srbijagas and EPS during the present energy crisis. Potential growth baseline 4.0 percent, adverse 3.5 percent.

3. The adverse scenario can be assessed against developments in 2020–2022, while it is important to note that this reference period already includes two severe global shock years (2020—with the outbreak of the Covid-19 pandemic, and 2022—with the start of the war in Ukraine) as well as a forecast year (2022). Moreover, the recent sharp increase in global inflation and trade prices distorts nominal (including euro-based) historical comparisons.

4. **Oil prices and energy supply**. Compared to the baseline, oil prices would be higher by 20.0 percent and 15.0 percent, respectively in 2023 and 2024. A key risk in regard of energy import costs are price spikes in the natural gas and electricity spot markets. The recent expansion of gas storage capacity and forward contracting of energy imports have increased the authorities' ability to smooth these risks, and additional buffer capacities are expected to be put in place in 2023. Moreover, it is assumed that the authorities would respond with volume reductions or even temporary rationing to extreme price spikes, mitigating their impact on imports while contributing to lower growth. Currently, the risk of severe gas supply disruptions seems to have abated, and no such disruptions are assumed.

5. **Export growth**. Real GDP in Serbia's advanced economy trading partners (mostly EU countries, which account for about 60 percent of trade and FDI) is assumed to be lower by 1.8 percentage points in 2023–24, and to remain lower through 2025, weakening partner country demand. This contributes to lower real export growth by 1.5 percentage points in 2023–24, with the relative resilience reflecting Serbia's history of robust export performance and its diversified export base.

6. **Remittances**. While remittances (and other current private transfers) have been quite resilient in the past, they are assumed to grow more slowly due to weaker growth in the source economies. The assumed total loss is EUR ¼ bn per year, or 5¼ percent (0.3 ppt of GDP) in 2023–24 relative to the baseline.

7. **Foreign direct investment**. While FDI (net) has been between 6–7¾ percent of GDP every year since 2017 and has remained resilient in 2022, the baseline already assumes a sharp decline to only 5.1 percent of GDP in 2023. The adverse scenario assumes a further weakening (loss of 4 percent of FDI during 2023–24 relative to the baseline). In terms of GDP, FDI in 2023–25 would be 0.5–1.2 percentage point of GDP lower each year than in the reference period 2020–22. These assumptions are conservative as the ongoing near-shoring and Serbia's open access to EU markets should support continued robust FDI.

8. **External market financing**. During 2020–22 Serbia placed, on average, Eurobonds of EUR 1,920 million, while for 2022 no Eurobond issuance was planned, and the financing plan for 2023 does not rely on Eurobond issuance. In light of recent Eurobond activity by peer countries, e.g., Bulgaria and Romania, it is assumed that both in the baseline and the adverse scenario, a modest Eurobond issuance of EUR 700 million in 2024 will be possible.

9. **Fiscal deficit impact of energy sector requirements**. The adverse scenario assumes that higher energy import costs, and/or higher costs of restoring domestic electricity generation and/ or securing energy supplies will require additional support for the energy SOEs in 2023 and 2024 of 0.8 and 0.5 percent of GDP, respectively. The fiscal impact will be contained, inter alia through larger tariff increases. At the same time, the authorities have already contracted the 2022 non-energy deficit by more than one percentage point of GDP below the understandings at the PCI, and the deficit remains on a declining path. This trajectory would support a modest relaxation of the non-energy deficit through 2025 in the adverse scenario, while keeping the overall deficit on a downward path.

10. **Outlook.** For Serbia, as a result of these additional shocks compared with the baseline, the economic outlook would be weakened, and external financing needs increased.

11. **Growth.** Real GDP would be lower by 2.2 percentage points by 2024, reflecting weaker consumption due to lower real disposable income of households (including due to higher energy tariffs), weaker investment due to lower FDI, and lower export growth due to weaker external demand. As the shocks to the global economy dissipate, Serbia is expected to return to stronger growth while some scarring is assumed. Potential growth has been revised down to 3.5 percent of GDP (from 4.0 percent of GDP) and the growth differential to trading partners could narrow from 2.3 percentage points in the reference period to around 1.5 percentage points for most of the forecast period.

12. **Current account**. The current account is affected by several opposing forces. Beyond the larger than previously expected deficit in the baseline, in the adverse scenario the deficit is expected to be higher by about 2½ percentage points of GDP per year in 2023–24, compared to the baseline. Real export growth in 2023–24 is assumed to decline relative to the baseline (-1.5 ppt cumulatively) and performance in the reference period (by 2 ppt in both years). Higher energy prices raise imports in nominal terms. While these effects would be partly offset by lower demand for imports, the current account deficit would widen to 11.3 percent of GDP (8.4 percent of GDP in the baseline) in 2023 and 8.2 percent of GDP (6.0 percent of GDP in the baseline) in 2024.

13. **Policy response**. Despite the adverse shock to growth, the scenario assumes a moderately contractionary policy response. Domestic energy tariff adjustments and automatic fiscal stabilizers are assumed to operate partly, as the IMF arrangement and other credible options for additional fiscal financing provide some external and fiscal financing space. Monetary policy is assumed to be tightened, with a rise in the policy rate in line with the higher inflation. This policy response would help to dampen the adverse impact on the balance of payments and forestall capital outflows. Given

that the shocks included in the adverse scenario are mostly Europe-wide, the euro-exchange rate, against which the dinar is stabilized, would be expected to depreciate further in real terms. In case the shocks were strongly asymmetric—hitting Serbia more—and more prolonged, there would be a case for depreciation against the euro to support the necessary external adjustment. However, this response would still need to be considered with care given the impact on inflation and the risk of sparking euroization, which would involve reserve losses.

Annex IV. Table 2. Serbia: External Financing Requirements

(Billions of euros, unless specified otherwise)

	2021	2022	2023		2024		2025		2026	2027
	Actual	Baseline	Baseline	Adverse	Baseline	Adverse	Baseline	Adverse	Baseline	Baseline
Gross financing needs	7.5	9.7	9.5	11.1	8.9	10.0	7.4	7.6	8.3	10.6
Current account deficit	2.3	5.4	5.7	7.4	4.4	5.8	4.2	4.6	4.6	5.0
(As a percent of GDP)	*4.3*	*9.0*	*8.4*	*11.3*	*6.0*	*8.2*	*5.3*	*6.0*	*5.3*	*5.3*
Debt amortization (excl. FDI)	5.2	4.3	3.8	3.7	4.4	4.2	3.1	3.0	3.7	5.6
Public	2.5	1.6	1.6	1.5	2.3	2.1	1.3	1.2	1.8	4.0
Private	2.7	2.7	2.3	2.3	2.1	2.1	1.8	1.8	1.9	1.7
Financing sources	10.2	8.6	8.8	8.6	9.4	9.2	9.2	9.1	10.6	12.3
FDI (net)	3.7	3.7	3.5	3.4	4.1	3.9	4.6	4.5	4.9	5.4
Debt disbursements (excl. FDI)	7.7	6.3	6.1	6.1	5.2	5.2	4.9	4.9	5.3	6.3
Eurobond	2.7	0.0	0.0	0.0	0.7	0.7	1.0	1.0	1.0	2.0
Public MLT	1.8	3.2	3.6	3.6	2.1	2.1	1.9	1.8	2.1	2.3
Private	3.1	3.1	2.5	2.5	2.4	2.4	2.0	2.0	2.2	2.0
Other 1/	-1.2	-1.4	-0.9	-0.9	0.1	0.1	-0.3	-0.2	0.4	0.6
Net change in reserves (+: increase)	2.6	-0.2	0.3	-1.3	0.9	0.5	1.8	1.5	1.8	0.9
Remaining financing need	0.0	1.0	1.1	1.2	0.4	1.4	0.0	0.0	-0.6	-0.8
SBA	0.0	1.0	0.6	0.6	0.0	0.8	0.0	0.0	-0.6	-0.8
Other	0.0	0.0	0.5	0.6	0.4	0.6	0.0	0.0	0.0	0.0
Memorandum items										
Gross international reserves (GIR)	16.5	16.3	16.6	15.0	17.6	15.6	19.4	17.1	21.2	22.1
GIR as percent of ARA metric	131.5	118.9	111.8	100.9	110.4	97.6	112.0	99.7	113.2	110.0

Sources: NBS; and IMF staff estimates

1/ Including the capital account balance, trade credits and advances, currency and deposits, other portfolio investments, and net errors and omissions.

14. **Financing sources**. Reserves would be expected to remain below 100 percent of the ARA metric in 2025 under the adverse scenario if the authorities did not draw on the precautionary part of the SBA, in addition to the drawings under the baseline in 2022 and 2023. Fully drawing on the SBA (SDR 1,898.92 bn, about EUR 2.4 bn), reserves would increase by EUR 0.6 bn (97.6 percent of the ARA metric) in 2024 compared to the 2023 low of EUR 15.0 bn (100.9 percent of the ARA metric) before recovering to 99.7 percent of the ARA metric in 2025 and further strengthening subsequently. As the energy sector continues to contribute to the balance of payments challenges, additional access to loans from other official creditors including the World Bank and the EBRD for liquidity support and/ or more rapid transformation would be expected, also given that such contingent augmentations are already under discussion. Nonetheless, out of caution, only modest additional financing from other official creditors is assumed under the adverse scenario (EUR 0.3 bn).

Annex IV. Table 3. Serbia: Indicators of Capacity to Repay the Fund (Adverse Scenario), 2020–2027 1/

	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Fund repurchases and charges 2/								
In millions of SDRs	1	0	7	56	83	108	537	789
In millions of euro	2	0	9	73	108	141	698	1,026
In percent of exports of goods and NFS	0.0	0.0	0.0	0.2	0.3	0.3	1.4	1.9
In percent of GDP	0.0	0.0	0.0	0.1	0.2	0.2	0.9	1.2
In percent of quota	0.2	0.0	1.0	8.6	12.6	16.5	82.0	120.5
In percent of total external debt service	0.0	0.0	0.2	1.6	2.2	3.7	16.1	16.4
In percent of gross international reserves	0.0	0.0	0.1	0.5	0.7	0.8	3.6	4.9
Fund credit outstanding (end-period)								
In millions of SDRs	0	0	786	1266	1899	1899	1465	753
In millions of euro	0	0	1018	1645	2471	2470	1905	978
In percent of exports of goods and NFS	0.0	0.0	2.9	4.1	5.7	5.3	3.8	1.8
In percent of GDP	0.0	0.0	1.7	2.5	3.5	3.2	2.3	1.1
In percent of quota	0	0	120	193	290	290	224	115
In percent of total external debt	0.0	0.0	2.5	3.7	5.3	5.1	3.8	1.9
In percent of gross international reserves	0.0	0.0	6.2	10.9	15.9	14.5	9.8	4.6
Memorandum items:								
Exports of goods and NFS	22,271	28,583	35,561	40,243	43,042	46,173	49,627	53,344
Quota (in millions of SDRs)	654.8	654.8	654.8	654.8	654.8	654.8	654.8	654.8
GDP	46,815	53,329	59,626	65,684	70,864	76,059	81,760	87,948
Total external debt service	5,531	5,978	5,115	4,588	4,924	3,804	4,347	6,260
Public sector external debt	17,096	20,648	23,261	26,313	28,087	29,652	30,883	31,279
Total external debt	32,905	38,042	40,988	44,577	46,959	48,789	50,327	51,079
Total external debt stock excluding IMF	32,905	38,042	39,969	42,934	44,494	46,324	48,426	50,000
Gross international reserves	13,492	16,455	16,334	15,033	15,577	17,068	19,346	21,045

Source: Fund staff estimates.

1/ Assumes purchase of the full authorized access under the SBA arrangement including precautionary tranches.
2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.

Annex V. Serbia: Sovereign Risk and Debt Sustainability Analysis

Annex V. Table 1. Serbia: Summary of the Sovereign Risk and Debt Sustainability Assessment

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate. While debt increases mainly due to external shocks, there are moderate levels of vulnerability in the medium-, and long-term horizons, which can be mitigated by strong implementation of policy actions broadly in line with what was achieved in the recent history.
Near term 1/	n.a.	n.a.	Not applicable.
Medium term	Low	Moderate	Medium-term risks are assessed as moderate. Gross financing needs are increasing driven by exceptional shocks but remain at a moderate level during the program period, while debt is projected to remain on a declining path. Despite showing a relatively narrow band of risks, Fan chart analysis still indicates a moderate level of risks that require continued improvement of macroeconomic management, particularly medium-term fiscal consolidation. Also, the large share of official and institutional creditors to whom external debt is owed, the long average maturity of outstanding debt, and the high share of fixed interest rate debt represent important factors that mitigate the risks.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress test	…	…	
Long term	…	Moderate	Long-term risks are moderate as the continued implementation of recent reforms, including the new indexation formula that helps stabilize pension costs, is expected to contain the effects of aging-related expenditures on health and social security on the debt dynamics.
Sustainability assessment 2/		Sustainable	Debt is assessed as sustainable. The projected debt path is expected to stabilize and GFNs will remain at manageable levels, conditional on the implementation of fiscal adjustment measures that are assessed as feasible
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: This DSA finds that Serbia's debt is sustainable in the medium term under the shocks considered. The current global and regional environment is increasing Serbia's external financing needs despite solid macroeconomic policies. While the recent exceptional shocks are expected to increase the debt level moderately in the near term, the strong policy measures to be implemented in the program should help smooth the adjustment while strengthening policies and confidence. Thanks to the expected medium-term fiscal consolidation and growth recovery, the public debt to GDP ratio would remain on a downward path in the medium term.

Source: Fund staff estimates.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement.

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

Annex V. Figure 1. Serbia: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

Sector		Subsectors captured in the baseline	Inclusion
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	Yes
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes
CPS / NFPS / GG: expected	4	State governments	n.a.
CPS / NFPS / GG: expected	5	Local governments	Yes
CPS / NFPS	6	Public nonfinancial corporations	No
CPS	7	Central bank	No
CPS	8	Other public financial corporations	No

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage   Missing from recommended coverage   Not applicable

Reporting on intra-government debt holdings

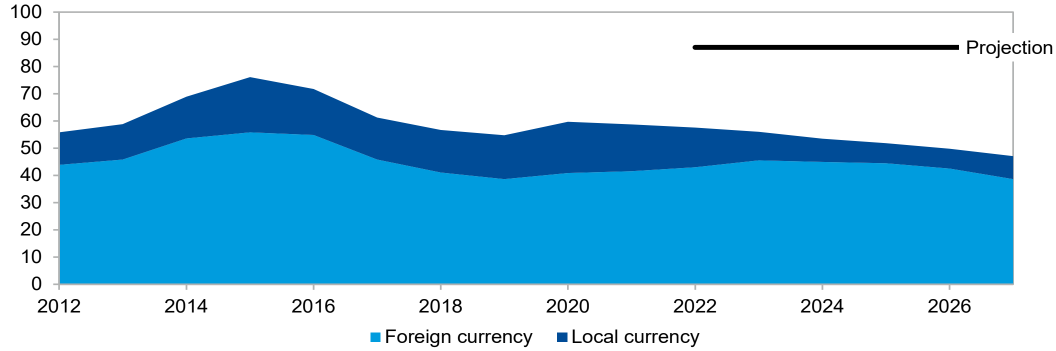
Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector. Serbia's GG debt includes public and publicly guaranteed debt.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Serbia's debt coverage and disclosure are consistent with the standard recommendations and compare favorably to peer countries. In particular, both public and publicly guaranteed debt are included in the total.

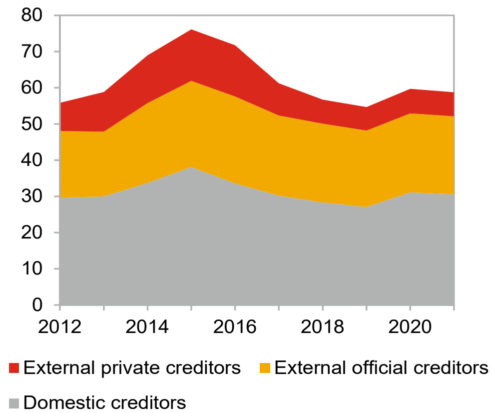
Annex V. Figure 2. Serbia: Public Debt Structure Indicators

Debt by currency (percent of GDP)

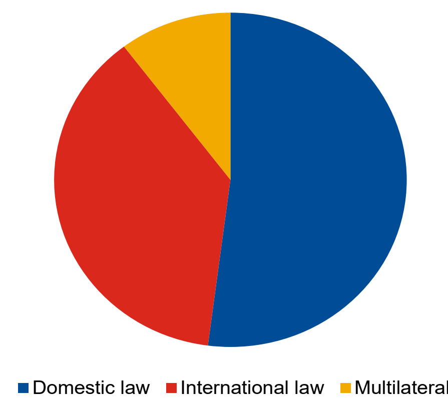


Note: The perimeter shown is general government.

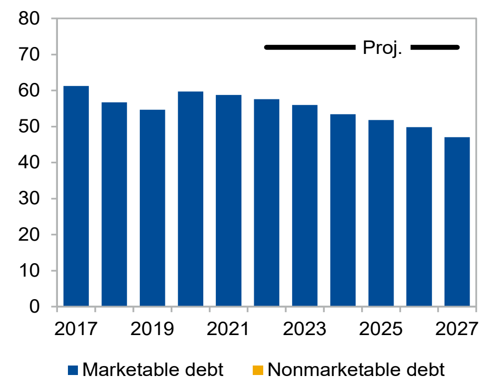
Public debt by holder (percent of GDP)



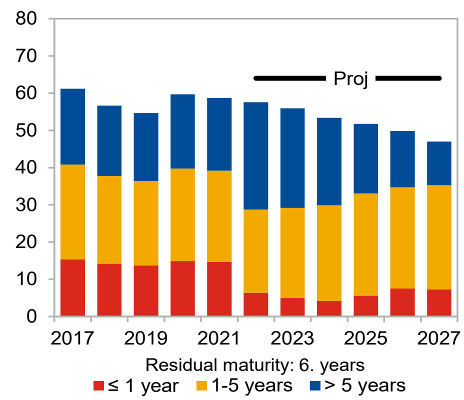
Public debt by governing law, 2021 (percent)



Debt by instruments (percent of GDP)



Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: Domestic and multilateral debt accounts for a large share of the debt stock and provides a relatively stable investor base. Increased debt financing in the near term is mainly expected from official creditors or with medium to long maturity. The high share of foreign currency debt represents a major risk. However, the large share of official and institutional creditors to whom external debt is owed, the long average maturity of outstanding debt, and the high share of the fixed interest rate debt (about 85%) represent important factors that mitigate the sustainability risks.

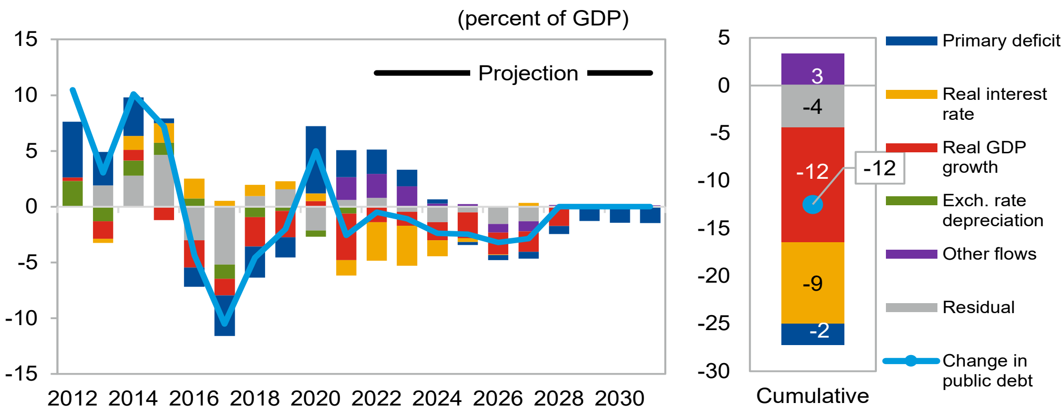
Source: Fund staff estimates.

Annex V. Figure 3. Serbia: Baseline Scenario

(percent of GDP unless indicated otherwise)

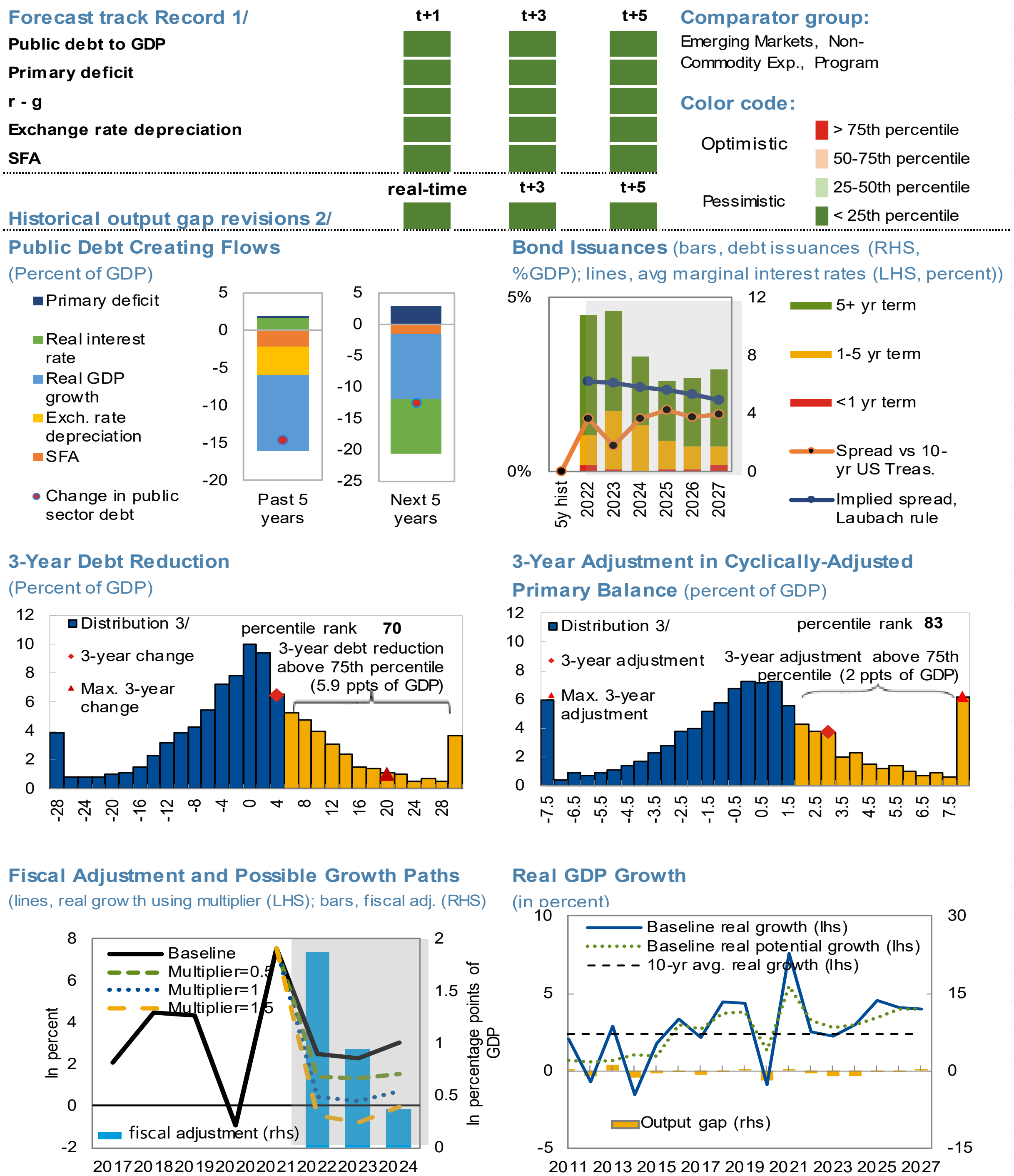
	Actual	Medium-term projection					
	2021	2022	2023	2024	2025	2026	2027
Public debt	57.1	56.6	55.6	53.2	50.7	47.5	44.7
Change in public debt	-2.6	-0.5	-1.1	-2.4	-2.5	-3.2	-2.8
Contribution of identified flows	-3.2	-2.6	-3.2	-2.4	-2.8	-2.3	-2.0
Primary deficit	2.4	2.2	1.5	0.4	-0.3	-0.4	-0.6
Noninterest revenues	43.3	43.0	41.6	41.6	41.8	42.0	42.3
Noninterest expenditures	45.7	45.2	43.1	42.0	41.5	41.6	41.7
Automatic debt dynamics	-5.6	-4.8	-4.6	-2.8	-2.5	-1.9	-1.4
Int. rate-growth differentia	-5.6	-4.9	-4.8	-3.1	-2.6	-2.0	-1.5
Real interest rate	-1.4	-3.5	-3.6	-1.4	-0.3	-0.1	0.3
Real growth rate	-4.2	-1.4	-1.3	-1.6	-2.3	-2.0	-1.8
Real exchange rate	-0.6	…	…	…	…	…	…
Relative inflation	0.6	1.3	2.7	1.7	1.0	0.8	0.5
Other identified flows	2.1	2.1	1.8	0.3	0.2	-0.8	-0.9
Contingent liabilities	0.2	0.3	0.3	0.3	0.2	0.2	0.2
Other transactions	1.9	1.8	1.5	0.0	0.0	-1.0	-1.1
Contribution of residual	0.6	0.8	-0.4	-1.4	-0.5	-1.5	-1.3
Gross financing needs	9.3	9.0	9.6	8.0	6.2	7.4	8.1
of which: debt service	6.7	6.5	7.7	7.3	6.3	7.7	8.5
Local currency	n.a.	3.2	4.8	2.2	2.1	2.4	0.6
Foreign currency	n.a.	3.3	2.9	5.1	4.2	5.2	7.9
Memo:							
Real GDP growth (percent)	7.5	2.5	2.3	3.0	4.5	4.0	4.0
Inflation (GDP deflator; percen	5.9	10.3	10.7	6.7	4.5	4.0	3.4

Contribution to change in public debt



Commentary: Public and publicly guaranteed debt will rise in the near term but then stabilize, reflecting the effects from fiscal consolidation that results in primary balance and from stabling domestic and global economic conditions that support Serbia's continued growth convergence.

Annex V. Figure 4. Serbia: Realism of Baseline Assumptions



Commentary: Serbia is a converging economy with demonstrated strong growth and sound policy performance in recent years. While the recovery from COVID-19 and the recent exceptional shocks have complicated effects on the growth path, realism analysis suggests projections are broadly in line with historical performance and other countries. Past forecast errors do not reveal any systematic biases, and the projected fiscal adjustment and debt reduction are lower that what was achieved in the past. The relatively strong growth projection at t+5 reflects the expected continuation of growth convergence and some base effects as the economy recovers after the exceptional shocks, still in line with the pre-COVID growth path.

Annex V. Figure 5. Serbia: Medium-Term Risk Analysis

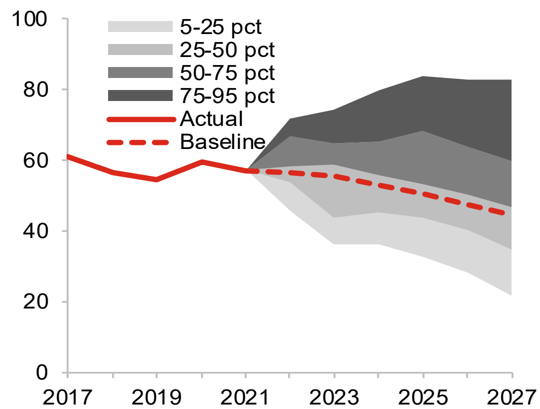
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

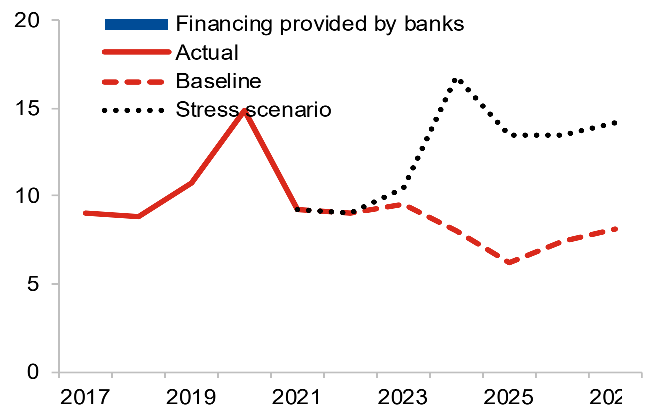
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 – 25 – 50 – 75 – 100)
Debt fanchart module	Fanchart width	60.7	0.9	…	
	Probability of debt not stabilizing (pct)	3.8	0.0	…	
	Terminal debt level x institutions index	26.9	0.6	…	
	Debt fanchart index	**…**	**1.5**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	8.0	2.7	…	
	Bank claims on government (pct bank assets)	15.5	5.0	…	
	Chg. in claims on govt. in stress (pct bank assets)	0.0	0.0	…	
	GFN financeability index	**…**	**7.8**	**Moderate**	

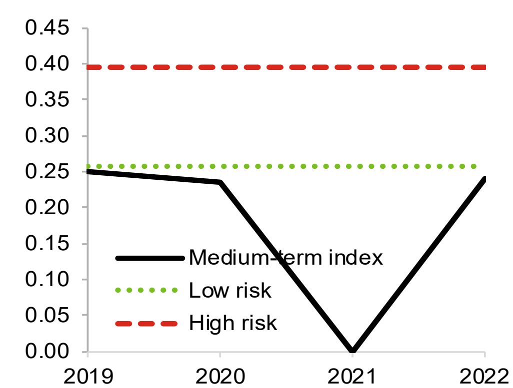
Legend: Interquartile range; Serbia

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)





Commodity prices Exchange rate Contingent liab. Natural disaster

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.3
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	…	0.2, Low

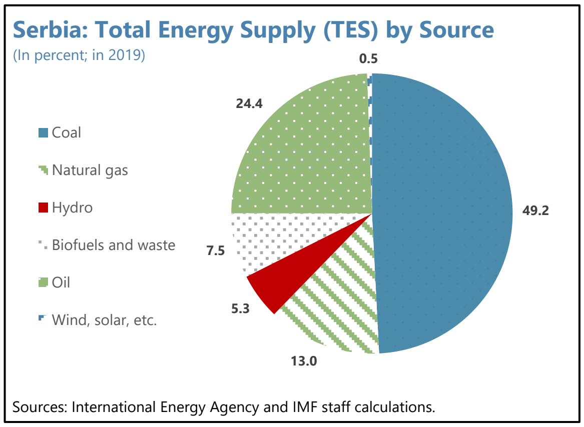
Prob. of missed crisis, 2022-2027 (if stress not predicted): 9.1 pct.

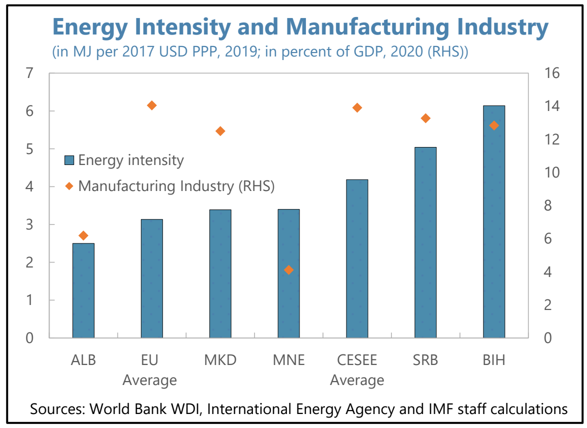
Prob. of false alarm, 2022-2027 (if stress predicted): 43.2 pct.

Commentary: Both medium-term tools, the Debt Fanchart Module and the GFN Financeability Module, suggest moderate levels of risk, while the medium-term index shows a low level. The relatively large banking sector and relatively low government debt mitigate domestic financing risks. In addition, the width of the fanchart is relatively narrow, reflecting a low level of shocks in the recent history, and would remain comparable to the COVID-shock scenario in a stress scenario. The GFN is at a relatively moderate level, and most financing needs are expected to be filled by official creditors in the near to medium term, further anchoring stability.

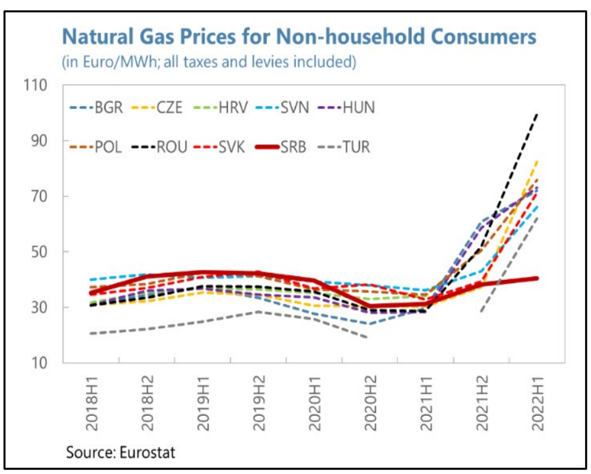
Annex VI. Serbia's Energy Sector Challenges

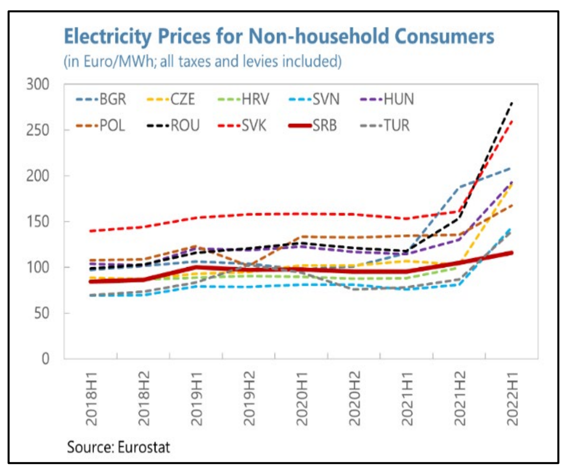
1. **Serbia's economy has benefitted from comparatively low-cost energy.** Serbia has been broadly self-sufficient with low-cost electricity generation from domestically sourced coal (70 percent) and hydropower (27 percent) until mid-2021. Also, a long-term gas contract with Russia's Gazprom that covered more than 2/3 of Serbia's consumption has guaranteed gas supply at predictable and often favorable prices.





2. **The low-cost energy has allowed Serbia to maintain energy tariffs below competitors and support an energy-intensive growth model**. Energy prices have been consistently below comparators. While Serbia's energy intensity declined over the last 15 years, it is still significantly above the regional average.[9] Key energy prices have stayed below those of European peers, which have raised their prices more in response to higher international energy prices.





3. **However, since late 2021, the significant increase of European prices of gas and electricity along with domestic electricity generation problems have posed severe challenges**

[9] World Bank, Energy Intensity Level of Primary Energy

to Serbia's energy sector. Energy import costs increased sharply and widened the current account deficit. The state-owned energy enterprises have incurred losses, as the adjustments in domestic energy prices have been modest compared to import costs.

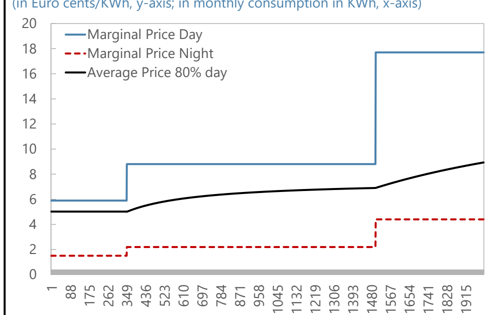
Electricity

4. **Serbia's electricity sector is dominated by three state-owned companies.** They include producer and supplier Elektroprivreda Srbije (EPS), distribution system operator Elektrodistribucija Srbije (EDS) and the transmission operator Elektromreza Srbije (EMS). EMS and EDS were established by unbundling an integrated public enterprise. Currently EPS is established as a public enterprise, while EDS and EMS are joint stock companies with 100 percent state ownership. EPS is the largest electricity producer, selling more than 98 percent of electricity. The rest is supplied by small independent producers.

5. **Serbia's final electricity consumption is almost equally distributed between households and the corporate sector, with different price setting mechanisms.**

- The tariffs for households (and other small buyers) are regulated, based on the block tariff model with separate prices for daily and nightly consumption. An average Serbian household consumes about 450 KWh per month. About a quarter of all household electricity consumption is delivered at the lowest price, 68 percent is charged at the medium price, with the rest being delivered at the highest price. Tariff increases, if requested by EPS, need to be approved by the independent energy regulator.
- The corporate sector is in the nonregulated market, where buyers choose their electricity supplier freely and agree on a contract price. However, given the energy crisis, the authorities have capped the maximum price under the contracts (¶8).
- All electricity consumers in Serbia also pay a renewables fee. This fee covers the difference between the administrative tariffs benefitting the producers of renewable energy and the lower domestic sales price. It was recently raised after years of weighing on EPS' profits.

Block Tariff: Marginal and Average Electricity Prices
(in Euro cents/KWh, y-axis; in monthly consumption in KWh, x-axis)

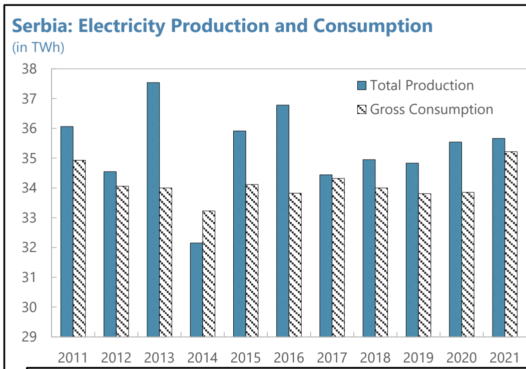


Sources: EPS and IMF staff calculations

6. **Until recently, Serbia was a net exporter of electricity, with production from domestically mined coal and hydropower exceeding domestic consumption.**[10] However, in

[10] The contribution of combined heat and power systems that burn fuel (natural gas, oil, etc.) to electricity production in Serbia in 2021 was below 2 percent.

December 2021 to January 2022 the thermal power plant broke down from the use of low-quality coal, a fire, and equipment malfunctions. To avoid blackouts, EPS imported about a quarter of daily electricity consumption at record-high prices over the 2021/22 winter months with smaller volumes thereafter. While plant capacity was mostly restored by February 2022, domestic coal mining remains a bottleneck due to underinvestment and poor planning, which can be addressed only over the medium term. As a short-term solution, EPS started importing coal to maintain electricity production. However, low water levels in the Danube due to a historic drought delayed coal delivery and reduced hydro power generation in 2022.[11] Over the next few years, the production of electricity will still have to rely partly on imported coal.



Source: Energy Agency of the Republic of Serbia

7. In a context of surging global and regional electricity prices, the authorities introduced measures to cushion their impact on households and firms. The authorities kept electricity prices for households unchanged until September 2022, when they increased them and the fee for the renewables by about 9 percent. For the corporate sector, they raised the cap for electricity prices from EUR 75/MWh to EUR 95/MWh for new contracts. Even so, the domestic tariffs remain significantly below the cost of imported electricity, which in 2022:Q3, averaged about EUR 400/MWh, and below its peers (¶2). Given the expected return to self-sufficiency in power production, the modest and gradual tariff adjustments envisaged under the program are projected to achieve medium-term cost recovery of EPS, while it works on restoring domestic mining capacity and contains near-term electricity supply costs by importing coal rather than electricity.

Natural Gas

8. The consumption of natural gas in Serbia has been steadily increasing over the past years. In 2021 it reached 2853 million m3, about 15 percent higher than in 2020 and 28 percent higher than five years ago. Two thirds of the increase was driven by industry, and around a quarter by district heating companies, which create high seasonality in consumption.[12] Only about 13 percent of natural gas is used directly by households. Corporate sector and district heating companies use the open market, while the tariffs for households and small commercial customers are regulated.

Category	2020 million m³	2021 million m³
Households	303	367
District heating companies	581	648
Industry and other	1599	1838
Total	2483	2853

Source: 2021 Annual Report, AERS

[11] The impact is reflected in GDP, where the production volume of electricity, gas, steam, and air conditioning supply declined by 9.4 percent in 2021:Q4 yoy, and by 18.7 percent in January 2022 yoy.

[12] District heating companies are established as municipal public enterprises. The largest heating companies (Belgrade, Novi Sad) use natural gas, while many smaller ones use coal or oil.

9. An increasingly large share of natural gas has been imported (92 percent of total consumption in 2021) with domestic gas production on a decline.

- Most of natural gas is imported from Russia (91 percent in 2021) through the Serbia-Bulgaria interconnection with the Balkan Stream pipeline, which is an extension of the TurkStream pipeline that circumvents Ukraine. Serbia also has access to a pipeline from Hungary connected with the European gas market. Until 2020, gas was mainly imported through Hungary.

- Serbia benefits from a long-term contract with Russia's Gazprom that was re-negotiated for three years in May 2022. The contract envisages supply of about 6 million m3/day (about 80 percent of average daily final consumption) and a yearly supply of 2 bn m3 at favorable prices indexed to crude oil prices (currently about US$400/1000 m3). However, peak consumption in winter reaches double or more of the daily limits under the Gazprom contract, exposing Srbijagas to costly spot market pricing. In 2020–21 about 20 percent was imported outside the long-term contract with Gazprom at average prices of about US$1500/1000 m3.

	2020 million m^3	2021 million m^3
Local production	265	226
Import from Russian Federation - via long-term contract	1384	2294
Import from other sources - via other contracts	750	150
Total Import	2144	2444
Quantities withdrawn from the underground storage	299	435
Total available quantities	2708	3105
Injected into storage	203	220
Gross consumption	2505	2885
Losses	22	30
Export	2	2
For final consumption	2483	2853

Source: 2021 Annual Report, AERS

10. The dominant player in Serbia's natural gas market is the state-owned company Srbijagas. Srbijagas is the main gas supplier which operates a pipeline network of almost 2,500 km. Gas is provided to consumers by 31 distribution operators among which Srbijagas is the largest.

11. Serbia has one natural gas storage facility and has recently leased gas storage in Hungary. The only gas storage in Serbia, Banatski Dvor, is majority-owned by Gazprom (51 percent), while the remaining 49 percent is owned by Srbijagas. Its capacity has recently been extended to 550 million m3 while the maximum withdrawal capacity is 5 million m3/day. There are plans to further expand the storage capacity of Banatski Dvor and double the withdrawal capacity. The storage is usually filled in summer and emptied in winter when gas consumption peaks. Ahead of the 2022–23 winter season the Srbijagas-controlled share of Banatski Dvor storage (262 million m^3, or about 33 days of annual average of daily consumption) has been fully filled. To mitigate risks of supply disruptions, the authorities have also leased 500 million m3 of storage from Hungary and stored 380 million m3 by October 2022. The gas in both storages at the beginning of the heating season was sufficient to cover about 80 days of annual average daily consumption[13].

[13] The average daily consumption during the heating season is significantly higher than the annual average daily consumption.

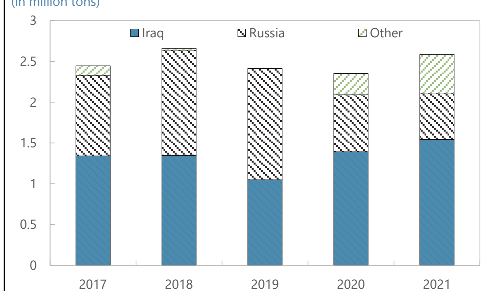
12. Higher gas tariffs and broader structural measures are needed to ensure the financial sustainability of Srbijagas. With surging market prices on natural gas, the authorities have shielded households and kept domestic regulated gas prices unchanged through most of 2022. The household gas tariff was increased by 9 percent in August 2022, while the average tariffs for the corporate sector have seen a marginally larger increase. As of October 2022, the average domestic gas price at about USD 353/km3 was below the price under the long-term contract with Gazprom (about USD 400/km3), while the average price for the other gas import in 2022 is estimated at about USD 1500/km3.

13. Improving energy security requires urgent measures to diversify gas supply sources. In early 2022, Serbia started building a new gas interconnector that will connect the existing gas networks of Serbia and Bulgaria. This will boost the diversification of energy sources in Serbia and the Western Balkan region, allowing Serbia more secure and stable supply from different gas network systems, notably from Azerbaijan and to the future LNG Alexandroupoli terminal in Greece that can receive gas from the world. Construction is planned to be completed by 2023.

Oil

14. Over recent years, Serbia met three quarters of its crude oil needs from imports, which amounted to about 2.5 million tons/year. A quarter came from domestic production, which however has been declining since 2013 when it covered almost half of crude oil needs. Over the past years, about 60 percent of Serbia's oil imports came from Iraq, nearly one-quarter from Russia, and the rest from Kazakhstan and Norway. Serbia receives sea-borne crude oil through the Adriatic pipeline that transports tanker shipments to Croatia. Currently, Serbia has no alternative oil pipeline.

Serbia: Crude Oil Import by Country
(in million tons)



Source: SORS

15. Serbia's oil and oil derivatives industry is open and has multiple participants dominated by Nafta Industrija Srbije (NIS). The Russian companies Gazprom Neft and Gazprom own 56 percent of NIS, while almost 30 percent is owned by the Republic of Serbia. NIS operates an oil refinery which produces all main categories of oil derivatives, manages the largest retail network (about 20 percent of gas stations[14]), and owns the largest storage facility for oil and derivatives. Following the EU ban on seaborne shipments of Russian oil from December 2022, Serbia's NIS will no longer be able to receive Russian oil and is replacing it with oil from other countries.

16. Given the sharp increase in market oil prices, the authorities applied measures to contain the passthrough to domestic oil prices. These include capping diesel and gasoline price margins, suspending import taxes on oil and oil derivatives, and reducing fuel excises by 10 percent.

[14] Annual Report 2021, Energy Agency of the Republic of Serbia

Appendix I. Letter of Intent

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

Belgrade, December 1, 2022

Dear Ms. Georgieva:

After a strong recovery from the pandemic, Serbia is now facing headwinds from the adverse global and regional environment, including the Ukraine conflict. While economic growth has been robust, at more than 4 percent in the first half of 2022, we expect it to slow through the second half of the year mostly because of weaker external demand from EU trading partners. Sharply higher energy import costs along with record-high prices in regional markets and shortfalls in domestic electricity production put a heavy burden on the current account and the budget. Driven mainly by rising food and global energy prices, annual headline inflation reached 15 percent in October 2022, even though core inflation remained lower at 9.5 percent.

Faced with these shocks, we have acted swiftly to preserve macroeconomic and financial stability and alleviate pressures on the economy and vulnerable households. We have provided financing for critical energy imports, worked on securing energy supplies, cushioned the impact of surging food and global energy prices on Serbia's households and firms, and helped corporations manage supply chain disruptions. Monetary policy has been tightened to contain inflation. Our policy response has been supported by a Policy Coordination Instrument (PCI) with the Second Review completed in June 2022. Since then, we have continued maintaining macro-financial stability notwithstanding the challenging environment, and implemented all-but-one reform targets, albeit with some delays (Tables 1a and 2a). We therefore request completion of the Third Review under the PCI.

Despite strong macroeconomic policies, many factors weight on Serbia's economic outlook including the adverse global environment, spillovers from the conflict in Ukraine, and shortfalls in domestic electricity production, all in an environment of high uncertainty. Elevated energy import costs through the coming winter and weaker global financial market conditions look set to increase balance of payments and fiscal financing needs. In this context, we are seeking to replace the PCI with a financing arrangement with the IMF that would help address emerging external and fiscal gaps given the challenging global economic environment and support our macroeconomic policies and structural reform efforts.

Hence, we request a 24-month Stand-By Arrangement (SBA) with access amounting to SDR 1,898.92 million (equivalent to 290 percent of quota) in line with balance of payments and budgetary financing needs. We request an initial drawing of SDR 785.76 million (120 percent of quota) upon approval, and two further drawings of SDR 163.7 million (25 percent of quota) and SDR 316.53 million (48.34 percent of quota) in 2023 to cover projected actual balance of payments needs. We intend to treat the rest of the SBA as precautionary. Purchases may take the form of direct budget financing since the balance of payments needs arising from the energy crisis also drive fiscal financing needs that cannot be met through the domestic banking system. We wish to cancel the existing PCI once the SBA is approved. The enclosed Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU) provide a comprehensive overview of our reform agenda that we intend to implement under the SBA.

Our program will be monitored through quantitative performance criteria, standard continuous conditionality, structural benchmarks, and an inflation consultation clause, as described in the MEFP and the TMU. Reviews by the IMF will be conducted on a semi-annual basis to assess program implementation and reach understandings on any further reforms needed. While we believe that the policies set forth in the MEFP are adequate to achieve the economic objectives under the program, we will promptly take any additional measures that may become necessary for this purpose. We will consult with the IMF in advance of any revisions to the policies contained in our MEFP or any new policies that may affect program objectives, in accordance with the IMF's policies on such consultations; and will provide IMF staff with all the data and information necessary for the purpose of monitoring the program.

In line with our commitment to transparency, we intend to make this letter available to the public, along with the MEFP, TMU, and the IMF staff report for the 3rd Review of the PCI and our Request for an 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/
Ana Brnabić
Prime Minister

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

/s/
Siniša Mali
Deputy Prime Minister

Minister of Finance

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

Attachment I. Memorandum of Economic and Financial Policies

1. This memorandum sets out our economic program for 2023–24 that will address short- and medium-term economic challenges facing Serbia. The program aims to (i) preserve macroeconomic and financial stability by tailoring the policy response to ongoing economic shocks; (ii) boost the economy's resilience to energy shocks by pursuing approriate energy policies and reforms to tackle the domestic energy sector challenges, while protecting the most vulnerable; (iii) foster higher, greener, and inclusive sustainable growth over the medium term by implementing comprehensive structural reforms. The goals of the program are compatible with our aspirations to join the EU.

Recent Economic Developments and Outlook

2. After a strong recovery from the pandemic, Serbia is now facing headwinds from the adverse global and regional environment, including spillovers from the Ukraine conflict.

- **Growth.** Economic growth has been robust at more than 4 percent in the first half of 2022. Yet, we expect it to slow through the second half of the year mostly because of weaker external demand from EU trading partners along with higher commodity prices, particularly energy, supply chain disruptions, and a severe summer drought. For both 2022 and 2023, we project real GDP growth to slow down to 2.0-3.0 percent due to adverse international environment and the ongoing multi-dimensional crisis, while beyond 2023 we expect growth to accelerate to precrisis levels, as the effects of the Ukraine conflict on external demand fade and as planned investment infrastructure projects are implemented.

- **Inflation.** Headline inflation rose to 15 percent y/y in October 2022 driven by higher imported inflation, including higher energy and food prices, further fueled by the drought, while core inflation remained significantly lower, at 9.5 percent. The National Bank of Serbia (NBS) has tightened domestic monetary conditions to respond to inflationary pressures, while the relative stability of the dinar exchange rate against the euro, supported by active NBS policy, has limited the spillover of rising import prices onto domestic prices. Also, the government's economic measures capping the rise in food and energy prices in the domestic market have contained inflation. We expect inflation to stay elevated until late 2022 and early 2023, and to decline sharply in 2H2023 and retreat within the bounds of the target tolerance band in 2024. Such dynamics can be explained by base effects, effects of monetary policy tightening, maintaining exchange rate relative stability and by lower external demand. Yet, the inflation outlook remains highly uncertain.

- **Balance of payments.** Sharply higher energy import costs along with record-high prices in regional markets, shortfalls in domestic electricity production, as well as weakening external demand look set to widen the current account deficit. The deficit is expected to move around the level of 9 percent of GDP in both 2022 and 2023, leading to higher balance of payments needs in a context of high market financing costs due to global developments. While foreign exchange reserves are adequate and stand well above 100 percent of IMF Assessing Reserve Adequacy

(ARA) metric, access to IMF financing will provide an important additional buffer to help us address these needs. The current account deficit is projected to start declining in 2024 as domestic electricity production normalizes, external demand starts recovering, regional energy prices fall, and as we implement policies to boost energy security.

- **Fiscal outcome.** Fiscal deficit in 2022 is expected to widen significantly due to the higher energy costs. The losses of the energy SOEs have resulted in sharply higher fiscal costs that are expected to reach 2.6 percent of GDP for the whole 2022. We have also implemented additional expenditure measures of about 1 percent of GDP to soften the impact of cost-of-living shocks on the population, including a one-off adjustment in the pension base by 9 percent starting from November 2022. Increased agriculture subsidies amounted to about RSD 15 billion (0.2 percent of GDP). Revenue performance has been supported by the new fiscalization model that came into force from May 2022 and by rising inflation. As a result, the fiscal deficit is now projected at 3.8 percent of GDP in 2022, as reflected in our supplementary budget. Excluding energy support, the projected deficit would remain below the consolidation path envisaged by the PCI, despite lower growth. Public debt is projected to slightly decline to 56.9 percent of GDP in 2022 for the general government.

3. **Exceptional uncertainty dominates the near-team outlook with risks mostly to the downside.** The main risks arise from a prolonged and escalating conflict in Ukraine with spillovers into even higher energy prices and higher global inflation, energy supply disruptions, lower global growth and external demand, and tighter financial conditions.

4. **Yet, the Serbian economy has considerable buffers to withstand these risks.** These include adequate foreign exchange reserves, relatively low public debt and sustainable external debt dynamics, a well-capitalized and liquid banking system, and a strong track record of agile policy responses to various shocks. The Stand-By Arrangement would provide an additional buffer, while we adjust policies and implement reforms to tackle the crisis and strengthen the economy's performance and resilience. In this regard, Serbia's medium-term outlook remains favorable, supported by our commitment to structural reform agenda.

Economic Policies

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

5. **In a context of surging food and global energy prices, we swiftly introduced a set of measures to cushion their impact on Serbia's households and firms.** The goal of these measures is to temporarily moderate the social and economic strain while we develop a comprehensive set of policy measures and reforms to reduce Serbia's vulnerability to external shocks and the shortfalls in the energy sector (¶6).

- ***Food.*** We imposed a cap on prices of basic foods and temporary partial restrictions on exports of selected food commodities.

- ***Natural gas.*** We kept domestic regulated gas prices unchanged until August 2022, when we increased the household tariff by 9 percent. Higher import costs, however, have put financial strain on the state-owned natural gas trade and distribution company Srbijagas, requiring budgetary liquidity support totaling EUR 1,061 million for 2022, as well as sovereign guarantees for EUR 200 million in loans to ensure continued gas supply.

- ***Electricity.*** Disruptions in domestic electricity production, exacerbated by declining hydro output due to the drought, required us to import electricity at elevated prices. To minimize the shock on the economy, we kept electricity prices for households unchanged until September 2022, when we increased the tariff and the fee for the renewables by about 9 percent in total. For the corporate sector, we raised the cap for electricity prices from EUR 75 per MWh to EUR 95 per MWh for new contracts starting from September 2022. Even so, due to the remaining large gap between the cost of imported electricity and the domestic tariffs, the state-owned power utility company EPS had to rely on budgetary liquidity support and loans totaling EUR 630 million in 2022.

- ***Fuel.*** We have imposed a temporary cap on diesel and gasoline price margins. Moreover, we suspended import taxes on selected energy commodities, and reduced fuel excises by initially 20 percent and then by 10 percent, with an estimated fiscal cost of about EUR 140 million for 2022. We are committed to reverse these measures once the global energy situation stabilizes no later than end-March 2024.

B. Energy Sector Policies

6. **We are cognizant that addressing the exposed weaknesses in Serbia's energy sector requires a comprehensive set of reforms.** Our policy decisions today are critical both for ensuring energy security and maintaining fiscal and external sustainability. In this regard, we are committed to implementing the following:

Tariff Adjustments

7. **Higher gas and electricity tariffs are needed to achieve medium-term cost recovery of the energy companies and promote energy conservation.** We consider that a gradual increase in energy tariffs will facilitate the adjustment to higher costs in the context of incomes that are, on average, still well below European averages, past investments that were conditioned on relatively low energy costs, and a history of energy price stability. In calibrating the needed adjustments, we will also account for higher investments needs for bolstering energy security and the greening of energy supply.

8. **We are committed to deliver the necessary gas tariff adjustments during the program period to ensure full cost recovery for Srbijagas over the medium term.**

- As a first step and a **prior action** under the SBA, we will raise the average gas tariff by 11 percent effective from January 1, 2023.

- Subsequently, we will implement a series of increases in the average gas tariff by 10 percent effective from May 1, 2023 (**end-April 2023 SB**), November 1, 2023, and May 1, 2024. In the context of the First Review under the SBA, the adequacy of the subsequent programmed tariff increases will be re-assessed.

- The SBA includes a consultation clause in case market prices for gas exceed EUR 250/MWh, on average, during a two-week period, to initiate a discussion on an appropriate policy response, if relevant, and help contain risks to the budget.

9. We are committed to deliver the necessary electricity tariff adjustments during the program period to ensure full cost recovery for the EPS.

- As a first step and a **prior action** under the SBA, we will raise electricity tariffs for households by 8 percent and the cap for the electricity prices for the corporate sector by 8 percent effective from January 1, 2023.

- Subsequently, we will implement a set of increases in average electricity tariff by 8 percent effective from May 1, 2023 (**end-April 2023 SB**), November 1, 2023, and May 1, 2024. In the context of the First Review under the SBA, the adequacy of the subsequent programmed tariff increases will be re-assessed.

Social Protection

10. We will soften the impact of tariffs adjustments on the vulnerable. We will maintain the existing system of block tariffs, with a lower electricity price for households up to a certain electricity consumption threshold. Furthermore, we will adopt secondary legislation for the Law on Amendments and Supplements to the Energy Law of 2021 to expand the energy-vulnerable consumer protection program by increasing eligibility criteria while targeting the poor and energy-vulnerable households. We expect that in 2023 about 10 percent of total households will benefit from the reduced energy bills. We will examine the possibility to streamline the application process so that the program reaches more of those who are eligible. This revised system will come into force as of January 2023.

Structural Reforms

11. We are committed to implement urgent reforms to resolve the structural weaknesses in the energy sector.

- We have prioritized restructuring the large public utilities companies to enhance efficiency and contain fiscal costs and risks. For the EPS, we will change its legal status to a joint stock company, aiming to ensure its professional management and improve the viability of the company (**end-February 2023 SB**). For Srbijagas, we will ensure completion of the unbundling by 2024.

- We will adopt a well-specified strategic restructuring plan for EPS **(end-December 2023 SB)**. While current investments in the coal and power sectors are expected to restore domestic electricity generation before the winter of 2023/24, a well specified and costed strategic reform plan for EPS is urgently needed to strengthen its financial and operational management and internal reporting, and as a basis for sound production and investment planning.

- In line with our commitment to transparency, we will publish all strategic and financial plans for EPS and Srbijagas. We will also continue the publication of monthly reporting of overdue receivables to Srbijagas and EPS of their top-20 debtors including the change in their respective overdue receivables since January 2022 on the companies' websites to monitor and manage arrears to public enterprises.

- An urgent priority is the adoption of the National Energy and Climate Plan (NECP)**.** It will define the goals and strategies of the Republic of Serbia in for reducing greenhouse gas emissions, increasing the share of renewable energy sources in gross final energy consumption, and setting goals for greater energy efficiency.

- Furthermore, we will develop a prioritized investment plan for the energy sector with projects that can be implemented during the next 2–5 years, that will enhance energy security (e.g., by building new gas interconnectors or new oil pipelines), stabilize electricity generation, and conserve energy. The plan will identify which entity will bear the costs of these investments and how they are to be financed. This plan will be adopted by the government (**end-May 2023 SB**). We will also adopt new Energy Development Strategy of the Republic of Serbia by end-2023 which will be aligned with this investment plan. The strategy will include projections through 2050, that will be harmonized with the NECP and with the strategic development and business plans for the energy SOEs. Investment expenditure allocated to the Republican budget will be included in the capital budget.

- We recognize that governance improvements remain critical. We will appoint regular rather than interim management in both EPS and Srbijagas by June 2023.

C. Fiscal Policies

12. We commit to narrow the 2023 fiscal deficit to 3.3 percent of GDP. This level of deficit is consistent with non-energy deficit below two percent of GDP. As a **prior action** under the SBA, the National Assembly has approved the 2023 budget in line with the program consolidation path and consistent with the following commitments:

- We will keep our revenue projections for 2023 conservative.

- We will increase the public sector wage bill by about 12.5 percent, which ensures that the wage bill as a share of GDP remains broadly unchanged, while allowing an adequate adjustment in wages to help attract and retain employees.

- We will increase pensions consistent with the revised indexation mechanism, linking pension growth in 2023 to the average nominal wage growth. For this purpose, average nominal wage growth is defined as average annual growth of wages in the economy as of June 2022 as published by SORS. We will refrain from ad-hoc increases in the pension base and or pension bonuses going forward.

- We will further reduce the tax wedge on labor through a reduction in employer pension contributions by 1 percentage points.
- We will also increase the nontaxable PIT threshold by 12.5 percent from 19,300 RSD to 21,712 RSD.
- We will create adequate room for social protection schemes, including for energy vulnerable households.
- We will budget capital spending at about 6.7 percent of GDP to address Serbia's sizeable infrastructure needs and boost growth potential.
- We will budget about RSD 112 billion of liquidity support (above the line) to the state-owned enterprises (SOEs) in the energy sector.

13. Our fiscal financing strategy for 2023 relies on domestic and external sources. It envisages borrowing domestically, drawing on the government's cash deposits, borrowing from our international and bilateral partners, exploring possibilities for private placements, and relying on budget financing under the SBA. If the situation permits, we will tap the global financial markets.

14. We will contain fiscal risks and prepare contingency measures as needed. We will continue to closely monitor revenue and expenditure risks related to the external and domestic challenges and their economic impact. We will maintain adequate liquidity buffers and will not accumulate public sector external debt payment arrears (continuous target). We will also refrain from accumulating domestic payment arrears (indicative target). Our efforts to contain public spending will continue to be monitored through a ceiling on current primary spending of the Republican budget, excluding capital spending and interest payments (quantitative performance target). Any financial support to public enterprises will be delivered in a transparent and timely manner and channeled through the government budget. In the meantime, the additional expenditure to the state-owned enterprises (SOEs) in the energy sector beyond currently budgeted for 2023 will be accommodated by reprioritizing the budgeted current and capital spending.

15. We are committed to strictly limiting the issuance of state guarantees. In 2022, we had to issue new state guarantees for Srbijagas' commercial loans (EUR 200 million) to ensure uninterrupted gas imports in light of high global gas prices. We will also need to issue new state guarantees for the EPS loans from the development partners, EBRD and KFW, (potentially up to about EUR 600 million in total) in 2023. We will not issue any new state guarantees for liquidity support to the SOEs other than Srbijagas and EPS or state guarantees for any company in the portfolio of the former Privatization Agency. The Government will also refrain from issuing any implicit state guarantees.

16. We are committed to maintaining fiscal discipline over the medium term. Beyond 2023, we plan to narrow the fiscal deficit further and reduce public debt to below 50 percent of GDP over the medium term, thereby building up fiscal buffers. For 2024, we target a further reduction in the fiscal deficit to no more than 2.2 percent of GDP. We expect that the combination of tariff increases (¶8 and 9) and lower gas import prices will significantly reduce the need for fiscal support for the energy sector in the medium term. We will maintain high levels of capital spending, while containing current spending.

D. Structural Fiscal Policies

17. A new set of fiscal rules will be anchoring fiscal discipline in the medium term.

- In consultation with Fund staff, we adopted a new deficit-based fiscal rule anchored on public debt that includes such key elements as debt thresholds, escape clauses, correction mechanisms, and the accountability framework. While we have already incorporated all the elements of the new rule in the budget system law, we plan to make the new deficit ceiling effective with the 2025 budget. As the regular deficit ceilings envisaged by the law are projected to be exceeded in 2023 and 2024 due to the energy crisis and external environment, our fiscal discipline during these years will be underpinned by the fiscal path agreed under the SBA. The ceiling on pension and wage bill are effective starting with the 2023 budget.

- Upcoming upgrades to fiscal data and government finance statistics (GFS) will require a review of the numerical fiscal parameters in 2024/25. With the Fund TA support, we are working on automating the preparation of monthly GFSM 2014 compliant fiscal data, expand the coverage of indirect budget users and extrabudgetary units, and develop data for the compilation of financial accounts. Moreover, comprehensive improvements to GFS are expected with the next 5-yearly revision of national account statistics in 2024. We will update fiscal rules definitions and parameters in the Budget System Law accordingly to align them with statistical definitions, revisions to the national accounts and other improvements to the fiscal data (**end-November 2024 SB**).

18. We will continue enhancing public financial management (PFM) which will help strengthen adherence to the fiscal rule. Our priority is to strengthen the medium-term budgetary framework, with Fund TA support. We will work on shifting budgeting processes away from an exclusive focus on annual budgets towards a medium-term perspective that forms the starting point for next year's budgeting exercise and will develop an action plan (**end-July 2023 SB**) to make medium-term budgeting more effective and binding beginning from 2025. To facilitate this process, a new IT system that consolidates budget preparation, execution and reporting will become functional in 2023. In the meantime, we will continue to ensure a strict adherence to the budget calendar and transparency of the budget process.

19. Strengthening the role and capacity of the Fiscal Risks Monitoring Department (FRMD) at the MOF is of utmost importance.

- Following the adoption of the Unified Methodology for Fiscal Risks Monitoring, we will sign the remaining Protocols with the relevant institutions to establish formal basis for the MOF to collect the data that is needed for monitoring fiscal risks by end-May 2023.

- We are developing models and tools to operationalize the use of the new methodology to monitor fiscal risks stemming from SOEs, local governments, litigation, and natural disasters with the World Bank support. They are expected to be finalized by end-April 2023.

- We will provide expanded reporting on fiscal risks in the November update of Fiscal Strategy for 2024. We will also continue using the methodology that was developed with IMF TA support for managing fiscal risks associated with the state-guarantee schemes.

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

- We will continue including all project loans of the general government in the budget. We will strive to establish a single project pipeline to cover all ongoing and future investment projects.

- We continue to develop working practices in the Ministry of Finance's (MOF) PIM Unit, including processes and information flows. We will ensure full implementation of the strategic relevance assessments of projects in line with the Decree on Capital Projects. The MOF will work with the Ministry of European Integration to redesign the pre-implementation stage regarding the strategic relevance evaluation to ensure its sustainability by end-2023.

- We are developing a Public Investment Management System (PIMIS)—including an integrated database of public investment projects. We plan to have the new system fully operational by early-2023 for the projects in the implementation phase, streamline the legal framework by September 2023, and incorporate the pre-implementation stage and expand its usage to the national level by end-March 2024 (e.g. line ministries and relevant special organizations), and have local information systems compatible with PIMIS by early 2025.

- In the meantime, we will continue informing the Government on the projects monitored and appraised by the local and provincial governments to the extent possible until the legal framework and the IT systems are in place. We will continue to monitor the projects of special importance in the implementation stage and inform the government on the PPP projects.

21. We remain committed to modernize tax administration in line with our 2021-25 Transformation Program. This program provides strategic guidance to create a modern tax administration utilizing electronic business processes, improved taxpayer services, and a risk-based approach to compliance. Our reform efforts will reflect the updated Tax Administration Diagnostic Assessment Tool review and continue being supported by IMF technical assistance (TA) and the World Bank Tax Administration Modernization Project. Our near-term initiatives are the following:

- Following the successful introduction in May 2022 of a new e-fiscalization model, we will introduce an electronic invoice exchange system which will be fully operational by the beginning of 2023.

- We will adopt the new reengineered business model and will strive to finalize the recently launched tender for procuring a new commercial-off-the shelf-system (COTS) system by mid-2023. This system, which is expected to become operational gradually will facilitate the effective implementation of key reform activities, including the modernization of business processes.

- We will conduct a VAT gap analysis.
- Our recently formed dedicated unit to analyze the level of noncompliance of high-net-worth individuals has been collecting the data that would allow the launch of the first audits by end-2022.

22. The transition to the new general government employment framework based on personnel planning for all public sector entities is being planned. The new system should ensure medium-term workforce planning by all public sector institutions as well as alignment with budgetary constraints. The work on a methodology to harmonize personnel and financial planning in state administration bodies continues. Currently, the Employment Commission allows public sector entities to replace up to 70 percent of the staff leaving the institution or retiring, within the institutions' budget limits, without approval of the Commission. At the same time, we maintain a limit on overall hiring approvals, such that the total number of permanent staff in the public sector cannot exceed the end-December 2020 level by more than 1 percent.

23. We are committed to the phased establishment of a central electronic public wage and employment registry that will improve control and allow implementing the public wage system reform. The central registry *Iskra* is expected to be completed by end-2023 and cover all public sector (except Ministry of Defense, Ministry of Internal Affairs, Security Information Agency BIA and higher education institutions) with more than 450 thousand public sector employees. This system would allow for better planning, executing, and controlling wage spending. The system already covers (1) direct budget users; (2) judiciary sector; (3) culture sector; (4) labor employment and social affairs sector. The next step is to further expand the system and make it fully operational for the education sector except higher education institutions (**end-March 2023 SB).**

24. We will continue enhancing the public procurement system to improve competition and transparency. The current Law on Public Procurement, prepared with support from the EU, is aligned with the EU acquis and is set to enhance competition and transparency. We will ensure regular public reporting through the Public Procurement Office on all procurements that were exempted from the regular procurement regime under this law, as well as the basis for those exemptions. We will also ensure that all procurement transactions in the public sector are conducted using the e-procurement portal and strive to create conditions to increase the number of bids per procedure. Going forward, we will ensure alignment of the entire procurement framework with the EU acquis.

E. Monetary and Exchange Rate Policies

25. The primary objective of the NBS is to achieve and maintain price stability, thereby contributing to financial system stability and sustainable economic growth. An important pillar of this objective is relative exchange rate stability of domestic currency vis-à-vis the euro. The National Bank of Serbia (NBS) stands ready to use all available policy instruments to deliver on its objectives. The inflation consultation clause under the PCI was triggered in June and September 2022 when headline inflation increased to 11.9 and 14 percent, respectively, exceeding the applicable upper band limits. As envisaged by the TMU, we discussed with the IMF staff the reasons for the deviation and the proposed policy response. As indicated above, we project this deviation to be temporary, given our policy response.

- Our current policies are consistent with the objective of putting inflation on a declining path in 2023 and bringing it within the tolerance band (3 percent ±1½ percentage points) in 2024. We have been tightening monetary conditions since 4Q2021 in a gradual and continuous fashion at first by tightening liquidity conditions and afterwards including by raising key policy rates by 350 bp cumulatively since April to 4.5 percent in November 2022. We have also raised the interest rates on deposit and lending facilities to 3.5 and 5.5 percent, respectively.

- We stand ready to tighten monetary conditions further as needed, including by raising the key policy rate rates; and we aim to reach a positive real rate (using projected inflation) in a timely manner. This said, our monetary policy decisions will depend on the global geopolitical situation and movement in key monetary and macroeconomic factors from the domestic and international environment.

- In the context of the SBA, inflation developments will be monitored via a consultation clause with consultation bands set around the central projection (Table 1b). As envisaged by the TMU (¶21), in case of deviations we will discuss with the IMF staff the reasons for the deviation and the appropriate policy response.

26. We are committed to sustaining the relative exchange rate stability through the period of heightened uncertainty to abate confidence risks.

- With this in mind, we have rebuilt the reserve buffer over the past months which should help accommodate the expected FX demand for heightened energy imports during the 2022/23 winter amid high global energy prices. At end-October 2022, gross and net FX reserves stand at EUR 16.9 billion and EUR 13.9 billion, respectively. We assess the current level of gross FX reserves as adequate.

- In the context of the SBA, we are committed to maintaining the international reserves above the NIR floor envisaged by the program (TMU, ¶11-15). We are cognizant that uncertainty is unusually high, and in a context of a relative exchange rate stability reserves take the first hit in case of shocks. Accordingly, and consistent with our existing policies, we aim at preserving a substantial and prudent reserves buffer well above this floor, aligned with the IMF reserves adequacy metric. To protect reserves, we will adjust monetary and fiscal policies as needed.

27. Promoting dinarization remains an important medium-term objective, even though recent adverse global and regional spillovers have weighed on the consistent progress made in earlier years. Our dinarization strategy has three pillars: (i) maintaining overall macroeconomic stability; (ii) creating favorable conditions for developing the dinar bond market; and (iii) promoting hedging instruments.

- Deposit and credit dinarization reached an all-time high at end-2021 but dropped to 37.4 percent and 35.8 percent, respectively, by September 2022 amid elevated risk. Similarly, dinar savings posted declines in the first half of the year but have been recovering since June 2022.

- Several measures to foster dinarization are in place, such as higher reserve requirements on FX deposits, mandatory down-payment ratios for FX loans, and systemic risk buffers. Once the uncertainty associated with adverse global and regional developments dissipates, we will consider additional measures to (i) further develop local and foreign currency derivative markets, and (ii) encourage prudent pricing of credit risks of unhedged foreign currency borrowing. It is also planned to start applying higher capital requirements on banks' FX-indexed lending to corporates from July-2023 and renew our efforts to establish a primary dealer system.

- In the meantime, we will establish cooperation with Euroclear both on IT and legal level by 1Q2023 to be able to auction dinar-denominated securities through Euroclear's system a soon as market conditions allow.

28. During the Fund-supported program period, we will not, without IMF approval, impose or intensify restrictions on the making of payments and transfers for current international transactions, nor introduce or modify any multiple currency practices or conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement. Moreover, we will not impose or intensify import restrictions for balance of payments reasons (Table 1c).

F. Financial Sector Policies

29. Maintaining financial stability is among our key priorities and we will continue monitoring risks in the banking sector while promoting financial inclusion. The banking system remains stable owing to adequate capitalization, high liquidity, and profitability. The capital adequacy ratio stood at 19.5 percent in September 2022 which is significantly above the regulatory prescribed threshold (8.0). The average monthly liquidity ratio amounted to 2.0 in August 2022 which is the double the regulatory prescribed threshold (1.0). In August 2022, the ROA and ROE amounted to 1.6 and 11.2 percent, respectively.

30. We phased out most of the financial sector measures that we adopted in 2020-21 to preserve the stability of the financial system and support the economy and citizens in pandemic conditions. However, we decided to extend the temporary measures to support housing loans, as well as measures to facilitate households' access to short-term dinar loans until end-2022, in view of the continued need to offer additional support to the economy and citizens. Going forward, we will review these measures depending on circumstances.

31. At the same time, we have introduced the possibility to reschedule agricultural loans, as the agricultural sector was hit by a severe drought. In September 2022, we allowed registered agricultural producers to postpone the settlement of their liabilities under the loans by six to twelve months, depending on their preferred grace period. During the grace period the bank does not collect receivables on account of the loan principal, though it collects the contracted interest rate. Such a rescheduling does not trigger automatic reclassification of the loans.

32. We will continue to strengthen financial sector regulatory and supervisory frameworks, to fully align them with international standards. We continue to enhance the prudential framework for banks and insurance companies to ensure full compliance with international standards and EU requirements. We will further harmonize our financial legal framework with the EU acquis, considering the specificities of the Serbian financial market. With this in mind, regarding the prudential regulation for banks we are conducting a framework gap analysis that would be concluded in 2023.

33. We continue enhancing financial safety nets. Specifically, the work on harmonization of the deposit insurance scheme with the EU acquis remains a priority for the Deposit Insurance Agency (DIA). Regarding the DIA's transition to a risk-based premium model, we aim to introduce risk-based premiums following the adoption of a methodology for implementation of a risk-based premium assessment model in October 2020. We will determine a timeline for its implementation taking into account the relevant effects on the industry and its participants in the current situation and having in mind the key policy goal of a deposit guarantee scheme of contributing to the stability of the banking system.

34. NPL ratios have remained at low levels, but we continue monitoring them closely. Despite the unfavorable global developments, the NPL ratio remained at a low level of 3.2 percent as of end-August 2022. Yet, the current context of changing interest rates and rising inflationary pressures warrants continued close monitoring of their dynamics. Our efforts to contain NPLs are underpinned by the NPL resolution strategy that focuses on measures to prevent accumulation of new NPLs and further improve bankruptcy frameworks, while broadening the scope to include the export credit agency (AOFI), the Development Fund (DF), and the bad assets managed by the DIA on behalf of the State and the bankruptcy estates of banks in liquidation. In order to resolve the residual assets of the DIA portfolio of bad assets, we will launch the third and final tendering process with a nominal value of at least EUR 300 million in November 2022 with a goal to complete it in the first half of 2023.

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

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

- We will adopt a plan for the future of Srpska Banka before end-2023, the preparation of which was delayed due to the COVID-19 pandemic, 2022 elections and the current policy focus on the energy-crisis.

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

36. We are working on improving the development finance framework. We have prepared the Proposal of the Policy Concept of Development Finance in the Field of Entrepreneurship in the Republic of Serbia which will be adopted by the government by early 2023.

37. We continue working on enhancing Serbia's capital markets and diversifying sources of long-term financing. Following the adoption of the Capital Market Development Strategy and as envisaged by the related action plan, we adopted a new Law on Capital Markets which aligns the Serbian regulatory framework with the EU acquis and the MiFID II requirements. By end-2022, in coordination with relevant institutions of the capital market (Securities Commission, Central Register, Belgrade Stock Exchange, NBS, etc.) we will adopt all the relevant bylaws in alignment with the new Law on Capital Markets and MiFID II requirements. We expect that the new Law on Capital Markets will be fully applied from January 2023. By end-2022, we will develop and initiate a review process of a set of measures to create a conducive tax environment for capital market development and we will prepare draft changes to primary and secondary legislation that will be necessary to implement those measures in the context of the 2024 budget. By end-2022, we will also complete the technical assessment and prepare a project plan, system architecture and implementation timeline for the so-called One Stop Shop that will insure complete transparency and real-time information about capital markets in the Republic of Serbia. A new unit in the Ministry of Finance to support capital market participants will be functional by the start of 2023. Initially, we will focus on developing market segments for plain vanilla financial instruments (e.g., corporate bonds), and afterwards we will develop a framework for more complex instruments, including covered bonds.

G. Structural and Governance Policies

38. We are committed to enhancing the existing social protection programs to protect vulnerable groups, reduce inequality, and fight poverty. In April 2022, we launched a new Social Cards Register that envisages a single, centralized, and electronic record with up-to-date data on the socio-economic status of individuals and persons related to them to improve the consistency and efficiency of social protection programs. The system has become effective for all users as defined in the Law on Social Cards. The initial user experience has been positive, and we will prepare a detailed impact analysis of the registry use by March 2023 that will help us develop plans to enhance the coverage of the social protection system to protect households against poverty and decrease poverty, using the new database. We will also launch a public information campaign on eligibility and registration procedures for our targeted social protection programs.

39. We will continue developing a comprehensive agenda for green growth, to support the economic recovery and ensure a more sustainable and environmental-friendly development. We will prepare the Low-Carbon Development Strategy which will be harmonized with the National Energy and Climate Plan and the Energy Development Strategy of the Republic of Serbia (¶11). In the meantime, we have been prioritizing green investments, including in renewable energy and energy efficiency, making progress on green budgeting, and we will consider carbon pricing mechanisms once the overarching goals and principles have been designed.

40. We will continue to implement structural reforms to improve the business environment and support higher private sector-led growth. Our focus is on policies to further improve the investment climate, strengthen rule of law, fight corruption, in line with GRECO recommendations, enhance corporate governance of public and state-owned enterprises, and fight grey economy.

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

- We will close the agreement for the privatization of Petrohemija before end-2022.
- We will not reopen MSK.
- We will continue exploring options for potential strategic investments or partnerships for Lasta.
- We remain committed to a time-bound action plan for Resavica mines, developed with the assistance of the World Bank, that foresees the closure of several unviable mines, while developing a voluntary social program and labor optimization plan. We will ensure sufficient resources in the budget to transparently support Resavica through subsidies and to prevent further accumulation of arrears to EPS.

42. We are committed to implementing the action plan that operationalizes the ownership and governance strategy for SOEs. The action plan includes the following key actions: (i) developing the KPI framework for SOEs, including general, sectoral and tailored KPIs; (ii) establishing a process for monitoring the implementation of SOEs' strategy and business programs by the Ministry of Economy; and (iii) establishing composition and tenure guidelines for SOEs' supervisory boards/board of directors.

- In line with our commitments, we prepared a draft law on ownership management for state-owned enterprises that will be adopted by the government before end-2022 (**end-December 2022 reform target under the PCI and end-December 2022 SB**). Price setting by SOEs for specified public goods or cases of monopolistic markets may require consent by the Government, or may be covered by a regulatory body, but will in all other cases be determined by company management. We will ensure its full implementation once the law is adopted by the parliament by end-February 2023.
- In 2023, we will make further efforts to resolve the excessive reliance on acting directors in state-owned companies.

43. We will continue strengthening the AML/CFT framework. We will press ahead with various initiatives that support Serbia's strategic objectives and help sustain the reform momentum generated at the high political level in 2018. We will continue our regular reporting under the EU agenda, both as part of negotiating chapters (e.g., Chapters 24 and 4) and sub-committees of monitoring the implementation of the Stabilization and Association Agreement. The competent AML/CFT authorities, including the Administration for Prevention of Money Laundering and LEA (Law Enforcement Authorities), will continue with all its regulatory, supervisory and other activities, as well as continuous strengthening of its capacities through adequate external and internal trainings, especially concerning the emerging AML/CFT trends and risks.

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

Program Monitoring

45. Progress in the implementation of the policies under this program will be monitored through quantitative performance criteria (QPCs), indicative targets (ITs), including an inflation consultation clause and natural gas prices consultation clause, continuous performance criteria (CPCs) and structural benchmarks (SBs). These are detailed in Tables 1b, 1c, and 2b, with definitions provided in the attached Technical Memorandum of Understanding (TMU). Reviews by the IMF will be conducted on a semi-annual basis to assess program implementation and reach understandings on any further reforms needed. The first review is scheduled to be completed soon after June 1, 2023, the second review is scheduled to be completed soon after December 19, 2023.

46. The NBS will continue maintaining a strong safeguards framework and internal controls environment. We are committed to undergo an update Safeguards Assessment that would need to be completed by the time of the First Review. As required by the IMF's safeguards policy, we will continue to engage independent external audit firms to conduct the audit of the NBS in accordance with international standards. We will also provide Fund staff with the necessary NBS's audit reports and authorize representatives of the external audit firm of the central bank to hold discussions related to their reports with Fund staff.

47. As needed, we will sign a memorandum of understanding between the Ministry of Finance and the NBS on responsibilities related to the financial obligations associated with IMF resources for direct budget support.

Table 1a. Serbia: Quantitative Program Targets Under the PCI (for Cancellation)

	2022									2023 8/	
	end-Jun.				end-Sep.				end-Dec. 8/	end-Mar.	end-Jun.
	Rev. Prog. QT	Adj. Prog.	Act.		IT 7/	Adj. Prog.	Act.		Prog. QT	IT 7/	Prog. QT
	CR 22/201				CR 22/201				CR 22/201	CR 22/201	CR 22/201
I. Quantitative Targets (QT)											
1 Ceiling on the general government fiscal deficit 2/ 3/ (in billions of dinars)	98.1	106.5	15.6	Met	142.1	149.6	-48.3	Met	206.7	48.0	63.2
2 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 2/	549.4	550.5	630.7	Not met	937.8	937.0	907.5	Met	1244.0	288.1	590.9
3 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 4/	1.0		0.5	Met	1.0		0.2	Met	1.0	1.0	1.0
II. Continuous Targets											
4 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros)	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0
III. Inflation consultation band (quarterly) 5/											
Upper band limit (1.5 percent above center point)	11.5				10.5				9.5	8.5	7.5
End of period inflation, center point 6/	*10.0*		*11.9*	Not met	*9.0*		*14.0*	Not met	*8.0*	*7.0*	*6.0*
Lower band limit (1.5 percent below center point)	8.5				7.5				6.5	5.5	4.5

1/ As defined in the Program Statement and the Technical Memorandum of Understanding.
2/ Cumulative since the beginning of a calendar year.
3/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees.
4/ Cumulative change since the start of the year.
5/ Staff level consultation is required upon breach of the band limits.
6/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Serbian Statistics Office.
7/ Indicative targets: March and September targets, excluding those on inflation, are not monitored as part of program conditionality.
8/ Forward-looking targets were set at the 2nd Review of the PCI. As the authorities cancel the PCI on approval of the SBA, they are presented purely for completeness.

Table 1b. Serbia: Quantitative Performance Criteria and Indicative Targets Under the SBA 2022–24 1/

	2022	2023			
	end-Dec.	end-Mar.	end-Jun.	end-Sep.	end-Dec
	QPC	IT 5/	QPC	IT 5/	QPC
I. Quantitative Performance Criteria (QPCs, semi-annually)					
1 Ceiling on the general government fiscal deficit (in billions of dinars) 2/ 3/	272.0	70.9	86.9	121.7	264.0
2 Ceiling on current primary expenditure of the Serbian Republican Budget including net lending, excluding capital expenditure and interest payments (in billions of dinars) 2/	1,415.0	375.3	736.6	1,079.9	1,497.5
3 Floor on Net International Reserves (in billions of euros) 4/	6.5	5.5	5.4	5.6	5.9
II. Indicative Target (IT) 5/					
4 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 6/	1.0	1.0	1.0	1.0	1.0
III. Continuous Performance Criterion					
5 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros)	0.0	0.0	0.0	0.0	0.0
IV. Inflation consultation band (quarterly) 7/					
Upper band limit (1.5 percent above center point)	17.3	17.0	15.5	11.5	9.7
End of period inflation, center point 8/	*15.8*	*15.5*	*14.0*	*10.0*	*8.2*
Lower band limit (1.5 percent below center point)	14.3	14.0	12.5	8.5	6.7

1/ As defined in the Memorandum of Economic and Financial Polices, and the Technical Memorandum of Understanding.
2/ Cumulative since the beginning of a calendar year.
3/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees.
4/ Calculated consistent with Gross International Reserves at 80 percent of the ARA metric (see TMU).
5/ Indicative targets include (i) the items under I. Quantitative Performance Criteria at end-March and end-September, and (ii) the targets under II Indicative Target (IT). ITs are not monitored as part of program conditionality.
6/ Net cumulative change since the start of the year, measured as the change in the stock at the test date and at the start of that year.
7/ Staff level consultation is required upon breach of the band limits at the specific test date.
8/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Serbian Statistics Office.

Table 1c. Serbia: Standard Continuous Targets Under the PCI (for Cancellation), and Standard Continuous Performance Criteria Under the SBA

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

Table 2a. Serbia: Reform Targets Under the PCI (for Cancellation) 1/

	Reform Targets	Target Date	Status	Objective
	Fiscal			
1	Launch a tender for procuring a new commercial-off-the shelf-system (COTS) system.	End-June 2022	Not met. Implemented in October 2022 due to need to finalize tender documentation.	This IT system upgrade would help advance reforms of the State Tax Administration (STA).
2	In consultation with Fund staff, adopt the new deficit-based fiscal rule anchored on public debt.	End-October 2022	Not met. The new fiscal rule has been developed and will be adopted together with the 2023 Budget in December 2022.	A new, credible fiscal rule will be critical to rebuild fiscal space, maintain fiscal discipline, and anchor fiscal sustainability.
3	Expand and fully operationalize the central electronic public wage and employment registry for the education sector.	End-February 2023	The target date was reset to end-March 2023 in the SBA.	This reform would help rationalize, pay and improve incentives across public sector.
	Other			
4	Change the legal status of Elektroprivreda Srbije (EPS) to a joint stock company.	End-November 2022	The target date was reset to end-Feburary 2023 in the SBA.	This target is line with the ongoing corporate restructuring process and financial consolidation of EPS, aiming to improve the viability of the company and ensure its professional management.
5	Adopt a new law on ownership management for SOEs.	End-December 2022	On track. Public consultation has been initiated.	Adopting this law is critical to advance reforms aimed at strengthening SOE governance and management.
6	Apply the primary dealer system at least for one benchmark issuance of dinar-denominated government securities.	End-March 2023	The introduction of this target is no longer feasible given banks' lack of interest in the context of the extended crisis.	Establishing a primary dealer system will help foster financial market development.

1/ Forward-looking reform targets were previously established. The PCI is cancelled on approval of the SBA.

Table 2b. Serbia: Prior Actions and Structural Benchmarks Under the SBA

	Description	Note 1/	Target Date	Status	Objective
	Prior Actions				
1	Adoption of the 2023 budget by the National Assembly consistent with key fiscal parameters, including the overall deficit.				Fiscal transparency and fiscal discipline.
2	A decision to increase average natural gas tariff by at least 11 percent, effective January 1, 2023.				Move energy tariffs toward cost recovery, and control fiscal risks.
3	A decision to increase electricity tariffs for households by 8 percent and the cap for the electricity prices for the corporate sector by 8 percent, effective January 1, 2023.				Move energy tariffs toward cost recovery, and control fiscal risks.
	Fiscal				
4	Expand and fully operationalize the central electronic public wage and employment registry for the education sector.	PCI	End-March 2023		This reform would help rationalize, pay and improve incentives across public sector.
5	Adopt an action plan to make medium-term budgeting more effective and binding.		End-July 2023		Continued strengthening of public financial management practices in support of achieving fiscal objectives.
6	Finalize a review of the quantitative indicators of the fiscal rule to reflect, as needed, revisions to the national account/ GFS methodology and other improvements to fiscal data.		End-November 2024		Continued strengthening of public financial management practices in support of achieving fiscal objectives, and improved fiscal data.
	Energy				
7	Change the legal status of Elektroprivreda Srbije (EPS) to a joint stock company.	PCI	End-February 2023		This target is line with the ongoing corporate restructuring process and financial consolidation of EPS, aiming to improve the viability of the company and ensure its professional management.
8	A decision to increase average electricity tariffs by at least 8 percent, effective May 1, 2023.		End-April 2023		Move energy tariffs towards cost recovery, and control fiscal risks.
9	A decision to increase average natural gas tariffs by at least 10 percent, effective May 1, 2023.		End-April 2023		Move energy tariffs towards cost recovery, and control fiscal risks.
10	Adopt by government a prioritized and costed investment plan for the energy sector for projects to be implemented over 2 - 5 years.		End-May 2023		Address near-term challenges in the energy sector to enhance energy security, stabilize energy production, and conserve energy.
11	Adopt by the government a restructuring plan for EPS.		End-December 2023		Address the medium- to long-term viability of the company and the security of electricity production.
	Other				
12	Adopt a new law on ownership management for SOEs.	PCI	End-December 2022		Adopting this law is critical to advance reforms aimed at strengthening SOE governance and management.

1/ PCI indicates this structural benchmark was a reform target under the previous PCI.

Attachment II. Technical Memorandum of Understanding

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

2. **For program purposes, the consolidated general government** comprises the Serbian Republican government (without indirect budget beneficiaries that are not included in the budgetary execution system), local governments (including the Province of Vojvodina), the Pension Fund, the Health Fund, the Military Health Fund, the National Agency for Employment, the Roads of Serbia Company (JP Putevi Srbije) and any of its subsidiaries, and the company Corridors of Serbia. Any new extra budgetary fund or subsidiary established over the duration of the program would be consolidated into the general government.

A. Fiscal Conditionality

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

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

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

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

Adjustors

- The quarterly ceilings on the general government fiscal deficit and on primary current expenditure of the Republican budget will be adjusted upward (downward) by 90 percent of the excess (shortfall) in actual net lending from the Republican budget to Srbijagas relative to the amount indicated in the table below provided that the average of market prices at the TTF Dutch market (closing prices) since the beginning of the year exceeded (fell short of) Euro 130 per MWh by no less than 10 percent.

Cumulative Programmed Net Lending from the Republican Budget to Srbijagas 1/
(In billions of dinars)

	End-Dec. 2022	End-Mar. 2023	End-Jun. 2023	End-Sept. 2023	End-Dec. 2023
Programmed Net Lending	130	40	60	72	80

1/ Cumulative from the beginning of each calendar year.

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

Cumulative Programmed Revenues of the General Government from Dividends, Debt Recovery Receipts, and Debt Issuance at a Premium 1/
(In billions of dinars)

	End-Dec. 2022	End-Mar. 2023	End-Jun. 2023	End-Sept. 2023	End-Dec. 2023
Programmed cumulative dividends	18.5	13.5	13.5	13.5	13.5
Programmed cumulative debt recovery receipts	4	4	4	4	4
Programmed cumulative debt issuance at a premium	4	0	0	0	0
Programmed concession and PPP receipts recorded above the line	0	0	0	0	0

1/ Cumulative from the beginning of each calendar year.

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

Cumulative Receipts from Earmarked Grants and Small-scale Asset Disposal 1/
(In billions of dinars)

	End-Dec. 2022	End-Mar. 2023	End-Jun. 2023	End-Sept. 2023	End-Dec. 2023
Programmed cumulative ear-marked grants receipts	19.2	19.2	23.2	31.2	50.5
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0

1/ Cumulative from the beginning of each calendar year.

7. **Domestic arrears.** For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include an indicative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶2 above, except local governments; (ii) the Development Fund, and (iii) AOFI.

Arrears to be covered include outstanding payments on wages and pensions; social security contributions; obligations to banks and other private companies and suppliers; as well as arrears to other government bodies. This indicative target will be measured as the change in the stock of domestic arrears at the test date relative to the stock at the end of the previous calendar year. Within 45 days of the end of the calendar year, the authorities will report the stock of domestic arrears on December 31, 2022

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

B. Public Debt

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

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

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

11. Guaranteed public debt is debt guaranteed by the general government, i.e., a contingent liability.

C. Floor on Net International Reserves

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

Cross Exchange Rates and Gold Price for Program Purposes, October 31, 2022

Valued In:

Currency:	**RSD**	**Euro**	**USD**	**SDR**	**GBP**	**Yuan**
RSD	1.0000	0.0085	0.0085	0.0066	0.0073	0.0617
Euro	117.3088	1.0000	0.9953	0.7756	0.8581	7.2379
USD	117.8628	1.0047	1.0000	0.7792	0.8622	7.272
SDR	151.2522	1.2894	1.2833	1.0000	1.1064	9.3322
GBP	136.7076	1.1654	1.1599	0.9038	1.0000	8.4348
Yuan	16.2076	0.1382	0.1375	0.1072	0.1186	1.0000
Gold	193,177.13	1,646.74	1,639.00	1,277.19	1,413.07	11,918.92

Source: International Monetary Fund and NBS.

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

14. **Reserve assets** are readily available claims on nonresidents denominated in convertible foreign currencies (see Balance of Payment Manual, 6.64). They include the NBS holdings of monetary gold,[1] foreign exchange balances (foreign currency cash, foreign currency securities, deposits abroad), holdings of SDRs, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contracts, guarantees and letters of credit), claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than monetary gold, domestically acquired gold without international certificates, assets in nonconvertible currencies, and illiquid assets.

15. **Reserve-related liabilities** are defined as all foreign exchange denominated liabilities to nonresidents and residents, excluding deposits from the general government, with a maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options, including any portion of the NBS gold that is collateralized), and the stock of all IMF credit outstanding to the Republic of Serbia.

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

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

Adjustors. For program purposes, the NIR target will be adjusted:

- Downward and upward by any shortfall/excess of exceptional financing compared to program amounts outlined in the table below.

Identified Exceptional Financing in 2023 and 2024 (millions of euros)

	2023	2024
General government	300	300
Public enterprises	300	100

D. Gas Price Consultation Mechanism

17. Gas prices are defined as the spot prices for natural gas at the Dutch TTF market (closing price). The 14-day average is the equally weighted average of those prices actually reported during the 14 calendar days ending one day before the reporting day.

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

Reference Values for Natural Gas Price (millions of euros)

	Jan - Mar 2023	April - June 2023	July - Sept 2023	Oct - Dec 2023
Natural gas price upper bound (EUR/ MWh)1/	250	250	250	250

1/ Consultation is required if the 14-day average Dutch TTF spot natural gas price (Eur/ MWh) exceeds the upper bound specified. The upper bound price applies continuously during the entire quarter.

E. Ceiling on External Debt Service Arrears

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

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

F. Inflation Consultation Mechanism

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

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

G. Reporting

23. General government revenue data and the Treasury cash position table will be submitted weekly; and the stock of spending arrears as defined in ¶16 will be reported 45 days after the end of each quarter. General government comprehensive fiscal data (including social security funds) will be submitted within 35 days of the end of each month.

24. The stock of spending arrears (> 60 days past due) as reported in the MOF Invoice central registry system (CRF) and Registry for Settlement of Monetary Obligations (RINO) will be submitted within 14 calendar days after the end of each month.

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

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

27. Borrowing by the Development Fund and AOFI will be submitted within 35 days of the end of each month.

28. New short-term external debt (maturities less than one year) contracted or guaranteed by the general government, the Development Fund, and AOFI will be submitted within 35 days of the end of each month.

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

30. Gross international reserve data will be submitted within one business day after the respective period end as defined in the data reporting table below**.**

31. Production and consumption data, and cash flow data (actuals and revised projections to the end of the year) for EPS and Srbijagas will be submitted at the end of each quarter, within 20 calendar days, in the agreed templates, until end-September 2023. Starting end-October 2023, this data will be provided at the end of each month, within 20 calendar days. In the interim, until end-September 2023, readily available data for EPS and Srbijagas (profit and loss statements) will be provided at the end of each month, within 20 calendar days.

32. Any support provided from the Republican budget or local government budgets to public enterprises in the energy sector will be reported monthly within 35 calendar days after the end of each month in the template agreed. This will also include any guarantees extended.

33. Data on public debt and publicly guaranteed debt will be submitted monthly within 35 calendar days after the end of each month; except that data on suppliers' credit, leases and obligations arising from the receipt of advance payments will be provided to the extent available on a quarterly basis, and data on guaranteed debt will cover guarantees issued by the Republic of Serbia.

Table 1. Serbia: Data Reporting for Quantitative Targets

Reporting Agency	Type of Data	Timing
Statistical Office and NBS	CPI inflation	Within four weeks of the end of the month
Ministry of Finance	Fiscal deficit of the consolidated general government	Within 35 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 35 days of the end of the month
Ministry of Finance	External debt payment arrears by general government, Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Cumulative net lending from the Republican Budget to Srbijagas	Within four weeks of the end of the month
Ministry of Finance	Gross accumulation of domestic payment arrears by the general government (without local government, the Development Fund, and AOFI)	Within 45 days of the end of the quarter
Ministry of Finance	Earmarked grants and receipts from small-scale disposal of assets	Within four weeks of the end of the quarter
NBS	Gross international reserves	Weekly, at the end of the first business day in the following week 1/
	Gross international reserves, composition details	Every two weeks, at the end of the first business day in the following week
	GIR and reserve-related liabilities (FX liabilities with a maturity of 1 year or less). Reserve-related liabilities projections for 4 quarters forward.	End of quarter, within 14 days after the end of the quarter.

1/ If gross reserves decline by more than 5 percent in one day or by more than 10 percent on a cumulative basis for any two-week period, reporting frequency shall be increased to daily, by the end of the subsequent business day, until the NBS and IMF staff mutually agree to return to weekly reporting.

Statement by Mr. Marcel Peter, Executive Director for Republic of Serbia and Mr. Vuk Djokovic, Advisor to the Executive Director December 19, 2022

Like many counties in the region, Serbia has been hit hard by the external energy price shock, which was further exacerbated by shortfalls in domestic electrical energy production since late 2021. The authorities flexibly used available fiscal space to secure energy supply, while cushioning the impact of high energy prices on firms and households. This resulted in a need for large fiscal support to two key state-owned enterprises (SOEs) in the energy sector, EPS and Srbijagas. The value of energy imports doubled compared to 2021, leading to higher fiscal and current account deficits, and increased fiscal and balance of payments (BOP) financing needs. Against this backdrop—and further exacerbated by prevailing uncertainty, tightening global financing conditions, and risk-averse global capital markets—Serbia is requesting a two-year Stand-By Arrangement (SBA) with the Fund to help it bridge transitory BOP needs. Under the baseline, the authorities plan to draw on the SBA in 2022 and 2023 only, while the resources reserved for 2024 will be treated as precautionary and only used if downside risks—well described in staff's adverse scenario—materialize.

The SBA is a continuation of Serbia's uninterrupted and productive engagement with the Fund since 2015, including through a precautionary SBA and two consecutive Policy Coordination Instruments (PCIs). Given the unforeseen external energy shock, constrained access to capital markets, and the related BOP needs, the authorities are requesting a financing arrangement with the Fund while the non-financing PCI will be canceled. The SBA-supported program is geared toward restoring external and internal stability and will focus on preserving macroeconomic and financial stability while addressing vulnerabilities in the energy sector, including by securing financial viability and cost-recovery of EPS and Srbijagas. The structural agenda under the SBA will build on reforms initiated under the PCI.

The authorities attach great value to the engagement with the Fund, as reflected in the continuous engagement and strong performance in implementing key reforms under successive arrangements. Strengthened policy frameworks, enhanced credibility, and ample fiscal and external buffers—a valuable and lasting legacy of the prior arrangements with the Fund—were critical in cushioning the impact of the pandemic, limiting output loss, and paving the way to a robust recovery in 2021.

Outlook

Building on the strong post-COVID recovery and growth momentum in 2021, growth in the first half of 2022 was robust, at about 4.1 percent. However, it slowed abruptly to 1.1 percent in the third quarter. Consequently, the activity outlook for 2022 has been revised downwards to the range of 2-3 percent, mostly as a consequence of a decline in agricultural production, the adverse impact of higher energy prices, and weakening demand from the main trading partners. The decline in agricultural production is related to the drought recorded over the summer and partially to a suboptimal use of fertilizer given the sharp increase in fertilizer prices. Economic growth for 2023 is forecast within the same range, driven by domestic demand, while the contribution of net exports is expected to be negative. The current account deficit will widen to about 9 percent of GDP this year and remain high in 2023, fueled by an increase in volume and prices of energy imports. Over the medium term, the recovery of exports—underpinned by near-shoring and export-oriented FDI—as well as the recovery of external demand and favorable adjustments in the terms of trade will be contributing to a gradual decline in the current account deficit and to restoring external equilibrium. FDI inflows continue to be strong, also in 2022, facilitated by a favorable business environment, and are mainly directed to tradable sectors.

Energy sector developments and fiscal response

Against the background of (i) high global energy prices driven by the war in Ukraine, (ii) the need to import electricity to compensate for the shortfalls in domestic production, and (iii) the need to secure enough gas for the heating season, the republican budget provided assistance to EPS and Srbijagas through subsidies, budgetary lending, and sovereign guarantees. Fiscal support to these energy SOEs was necessary to secure energy imports and avoid supply disruptions. At the same time, the impact of rising energy costs was not immediately passed to final users, in order to cushion the impact of the sharp price increase on households and the economy, given the ongoing cost of living crisis and the need to allow companies to adapt. This led to sizable fiscal outlays and a widening of the fiscal deficit compared to the baseline.

In August and September, the authorities started with the gradual increase of gas and electricity prices. Going forward, the SBA-supported program envisages staggered increases of retail and corporate gas and electricity tariffs, aiming to achieve full cost recovery for the energy sector SOEs. It is assessed that the full cost recovery for EPS can be achieved by mid-2023, while the cost recovery for Srbijagas is expected to be achieved towards the end of the program in 2024, conditional on international gas prices. This approach will imply gradually decreasing fiscal outlays to support energy imports in both 2023 and 2024. In addition, to dampen the oil price shock, the retail margins on oil derivatives were capped, and the excise taxes on oil derivatives were temporarily reduced. These measures had no tangible impact on the key oil company in Serbia, NIS.

Despite the substantial energy-related increase in the fiscal deficit as well as the growth slowdown, public debt will continue to decline in terms of GDP in 2022 and over the course of the arrangement. In 2022, the non-energy deficit is expected to be below 2 percent of GDP, well below the 3 percent target set under the PCI. Under the conservatively projected baseline, the public debt ratio will be on a firm downward path over the course of the program and will decline to about 53 percent by the end of 2024. Over the medium term, the fiscal path will be guided by a revamped deficit-based fiscal rule that is also incorporating a debt anchor.

Serbia's robust track record of implementing difficult reforms provides assurances that the key objectives of the program—stabilization in the energy sector and rebuilding fiscal space—will be met. The authorities continue to be firmly committed to prudent fiscal policy with the aim of restoring hard-won stability. Fiscal prudence is a cornerstone of their economic policy.

The reforms planned to be implemented under the program to improve the financial position of Srbijagas and EPS will ensure their solvency over the medium term while minimizing fiscal risks. At the same time, these efforts will be supported by a series of structural reforms in the energy sector. These reforms include the transformation of EPS to a joint stock company, the completion of the unbundling of Srbijagas, corporate restructuring, and governance reforms. To cushion the impact of rising energy prices, the authorities also expanded the energy-vulnerable consumer protection program—which aims at reducing energy bills to vulnerable households between 20 and 40 percent—to include about 190,000 eligible households. In addition, the authorities will prepare a priority list of key investments in the energy sector, consistent with the National Energy and Climate Plan, aimed at enhancing energy security while fostering climate objectives.

Monetary policy

To contain persistent inflationary pressures, the National Bank of Serbia (NBS) continues with the tightening cycle. On December 8, the monetary council of the NBS increased the key reference rate by 50 basis points to 5 percent. Since April, the reference rate has been cumulatively increased by 400 basis points. These rate hikes are aimed at limiting second round effects of global food and energy price inflation, while preventing inflationary expectations to get entrenched. Driven by imported inflation and the drought in Serbia and the region, CPI inflation reached 15.1 percent year-on-year in November, while core inflation stood at 9.7 percent. The authorities note that the relative stability of the exchange rate is a key factor in curbing core inflation and keeping it well below headline inflation. The NBS expects inflation to remain high in the first half of next year, and to start declining in the second half of 2022, as a consequence of the ongoing tightening of domestic monetary conditions, easing global food and energy price pressures, and softening external demand.

Following a period of increased depreciation pressures in March, the dinar stabilized in April, while since May it has been exposed to mild appreciation pressures fueled by strong foreign exchange inflows. In October, foreign exchange reserves of the NBS were at a historic high of EUR 16.9 billion, EUR 435 million higher compared to the beginning of the year, and well above 100 percent of the Fund's ARA metric. At the same time, prevailing uncertainty and volatile global energy prices call for strengthening buffers, including through support from the SBA.