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REPUBLIC OF SERBIA

December 2024

FOURTH REVIEW UNDER THE STAND-BY ARRANGEMENT, CANCELLATION OF THE STAND-BY ARRANGEMENT, AND REQUEST FOR A 36-MONTH POLICY COORDINATION INSTRUMENT—PRESS RELEASE, STAFF REPORT, AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF SERBIA

In the context of the Fourth Review Under the Stand-By Arrangement, Cancellation of the Stand-By Arrangement, and Request for a 36 Month 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 9, 2024, following discussions that ended on October 15, 2024, with the officials of the Republic of Serbia on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement and the program under the Policy Coordination Instrument. Based on information available at the time of these discussions, the staff report was completed on November 26, 2024.
- A **Statement by the Executive Director** for the Republic of Serbia.

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

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IMF Executive Board Concludes the Fourth Review Under the Stand-By Arrangement for the Republic of Serbia, Cancels the Stand-By Arrangement, and Approves a 36-Month Policy Coordination Instrument

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a 36-month Policy Coordination Instrument (PCI) with the Republic of Serbia, following the conclusion of the fourth and final review under the Stand-By Arrangement (SBA) and cancellation of the SBA to facilitate transition to the PCI.
- Under the SBA, Serbia pursued ambitious reforms, helping achieve strong macroeconomic outcomes and a first ever investment grade rating in October 2024. By building on these accomplishments, the PCI will support the authorities in their efforts to demonstrate continued commitment to sound policies, sustain reform momentum, and anchor fiscal discipline.
- Under the PCI, public debt is slated to decline to 45 percent of GDP in 2025 and lower thereafter, balancing continued fiscal prudence with spending needs, including for public investment. Further progress with fiscal-structural and state-owned enterprise reforms will be crucial complements to fiscal discipline.

Washington, DC – **December 9, 2024:** The Executive Board of the International Monetary Fund (IMF) approved a 36-month Policy Coordination Instrument (PCI) with the Republic of Serbia, following the conclusion of the fourth and final review under the SDR 1.89 billion (approximately EUR 2.4 billion) Stand-By Arrangement (SBA) approved by the IMF's Board on December 19, 2022. While completion of the SBA review authorized additional access to SDR 316.47 million (about EUR 400 million), the authorities continued to treat the SBA as precautionary and did not make the available purchases. They cancelled the SBA following the completion of its final review, ahead of its expiration on December 18, 2024, to facilitate the transition to the PCI.

Under the SBA, the fiscal deficit and public debt declined despite challenging circumstances. Inflation fell to the central bank's inflation tolerance band amid strong growth and labor markets. Reserves are at a record high. The financial position of the largely state-owned energy sector was strengthened while public investment management and state-owned enterprise (SOE) governance reforms made welcome progress. The financial system appears sound.

Growth is projected close to 4 percent in 2024 and higher in coming years based on continued real wage and employment gains and rising public investment. Inflation is expected to converge over time to the 3 percent central target of the tolerance band amid robust domestic demand and supply-side constraints. The current account deficit is anticipated to widen on strong private consumption and infrastructure spending, but foreign direct investment inflows will allow for further reserve accumulation.

Under the PCI, the fiscal program is based on a fiscal deficit of no more than 3.0 percent of GDP over 2025-27 and 2.5 percent of GDP over 2028-29, which balances public spending priorities with fiscal discipline, helps ensure project prioritization within an ambitious public investment envelope, and further reduces public debt. Accompanying fiscal-structural and SOE reforms, including in the energy sector, will contribute to alleviating fiscal risks. A restrictive monetary policy stance will help lean against a cyclical economic upswing and prevailing inflationary risks.

At the conclusion of the Board discussion on the Republic of Serbia, Mr. Bo Li, Deputy Managing Director, made the following statement:

"Under the Stand-By Arrangement (SBA), the Serbian authorities pursued ambitious reforms, helping achieve strong economic outcomes, including reducing fiscal deficits, public debt, and inflation, while maintaining strong growth and increasing international reserves to record highs. This strong performance contributed to Serbia's first ever investment grade rating in October 2024.

By building on the SBA, the 36-month Policy Coordination Instrument (PCI) program will support the Serbian authorities in their continued commitment to sound macroeconomic policies, fiscal discipline, and broader structural reforms.

Fiscal deficits of no more than 3.0 percent of GDP during 2025–27 under the PCI will help balance fiscal discipline with priority spending, including for public investment. This, together with full adherence to special wage and pension fiscal rules, should see public debt fall to 45 percent of GDP in 2025 and below this level in later years.

Given ambitious public investment plans, continued improvements to public financial, public investment, and fiscal risk management, as well as fiscal transparency, are critical. These efforts should be accompanied by public workforce planning and state-owned enterprise (SOE) governance reforms, including in the energy sector. Focus on energy security and the green transition will also be important.

A restrictive monetary policy stance will help guard against upside inflation risks. The stabilized exchange rate has served Serbia well, but greater flexibility could be considered over time. While the financial sector remains sound, continued vigilance is warranted and ongoing efforts to improve regulatory, supervisory, and AML/CFT frameworks, are welcome."

Serbia: Selected Economic Indicators

Population: 6.6 million (2023)

Quota: 654.8 million SDR / 0.14 percent of total.

Main products and exports: manufactured goods, food, machinery and transport equipment.
Key export markets: the EU (Germany, Italy) and ex-Yugoslavian states.

	2023	2024		2025		2026
	Act.	**SBA 3rd Review**	Proj.	**SBA 3rd Review**	Proj.	Proj.
Output						
Real GDP growth (%)	3.8	**3.8**	3.8	**4.2**	4.2	4.2
Employment						
Unemployment rate (labor force survey) (%)	9.4	**9.4**	8.6	**9.3**	8.5	8.4
Prices						
Inflation (%), end of period	7.6	**3.6**	4.0	**3.0**	3.4	3.3
General Government Finances						
Revenue (% GDP)	39.4	**43.3**	40.9	**43.4**	41.2	40.9
Expenditure (% GDP)	41.4	**45.5**	43.6	**45.9**	44.2	43.9
Fiscal balance (% GDP)	-2.0	**-2.2**	-2.7	**-2.5**	-3.0	-3.0
Public debt (% GDP)	48.4	**52.0**	48.0	**50.4**	47.7	46.9
Money and Credit						
Broad money, eop (% change)	13.1	**6.3**	9.7	**4.7**	8.0	7.8
Credit to the private sector, eop (% change) 1/	1.2	**4.9**	8.6	**6.5**	7.9	5.7
Balance of Payments						
Current account (% GDP)	-2.3	**-4.1**	-4.4	**-4.7**	-5.1	-5.2
FDI (% GDP)	5.6	**5.6**	5.3	**5.3**	5.1	4.8
Reserves (months of prospective imports)	6.7	**6.8**	6.8	**6.7**	6.6	6.3
External debt (% GDP)	62.1	**64.5**	61.8	**62.9**	60.3	58.7
Exchange Rate						
REER (% change)	6.2	**...**	...	**...**	...	...

Sources: Serbian authorities and IMF staff estimates.

1/ Calculated at a constant exchange rate to exclude the valuation effect.

REPUBLIC OF SERBIA

November 26, 2024

FOURTH REVIEW UNDER THE STAND-BY ARRANGEMENT, CANCELLATION OF THE STAND-BY ARRANGEMENT, AND REQUEST FOR A 36-MONTH POLICY COORDINATION INSTRUMENT

EXECUTIVE SUMMARY

SBA. Serbia requests completion of the fourth, and final, review under its Stand-By Arrangement (SBA), which was approved in December 2022 in the wake of the recent energy crisis. All relevant quantitative and standard continuous performance criteria have been met, as have most indicative targets and structural benchmarks. Serbia intends to continue to treat the SBA, set to expire in December 2024, as precautionary.

Under the SBA, the authorities pursued ambitious reforms, helping deliver strong macroeconomic outcomes. The fiscal deficit and public debt were both lowered under challenging circumstances, the financial position of energy state-owned enterprises (SOEs) was strengthened, including in the energy sector, and reforms to improve public investment management and SOE governance made good progress. With the central bank having pursued prudent monetary policy, inflation fell to the central bank's inflation tolerance band amid strong growth and robust labor markets. Reserves are at a record high, and the financial system appears sound. Serbia received its first ever investment grade rating in October 2024.

The authorities have now shifted their attention to ambitious public investment plans under the umbrella of the *Leap into the Future—Serbia Expo 2027* program. They aim to preserve macroeconomic and financial stability; support the balancing of public investment and social expenditure commitments with continued fiscal discipline and ongoing declines in public debt; further strengthen energy resilience and create space to realize energy investment needs; and foster inclusive and sustainable medium-term growth through structural reforms.

PCI. To demonstrate continued commitment to sound policies, help sustain reform momentum, and anchor fiscal discipline, the authorities will cancel the SBA upon completion of the fourth and final review under the SBA and are requesting immediately thereafter the approval of a 36-month Policy Coordination Instrument (PCI).

Key policies include:

- Keeping fiscal deficits at no more than 3.0 percent of GDP over the program to balance necessary public investment and other priority spending with the fiscal discipline needed to ensure that public debt declines to 45 percent of GDP in 2025 and remains on a downward trajectory thereafter.

- Fully adhering to the special wage and pension fiscal rules.

- Continuing to pursue prudent monetary and financial sector policies.

- Improving public financial management, public investment management, fiscal risk management, and fiscal transparency, to help provide value for money from the authorities' ambitious public investment plans. Advancing reforms of public workforce planning, including in the tax administration.

- Building on past energy sector reform to further bolster the financial position of energy utilities, reduce fiscal risks, and strengthen energy security, and seeing through the implementation of complex SOE governance reforms.

Approved By
Kristina Kostial (EUR) and Anna Ivanova (SPR)

Discussions were held in Belgrade, Republic of Serbia during October 3–15, 2024. The staff team comprised Donal McGettigan (head), Andre Geis, Christiane Roehler, Anh Nguyen (all EUR), Mariano Moszoro (FAD), Laurent Kemoe (SPR), Lev Ratnovski (resident representative), Desanka Obradović and Marko Paunović (local economists). HQ support was provided by Yuntian Lu, Zeju Zhu, Brigitte Plein, Monique Odoño, and Sharon Smith-Tohu (all EUR).

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CONTEXT

1. **Under its Stand-by Arrangement (SBA), Serbia has recovered well from the recent energy crisis** (Box 1). Growth has rebounded, the labor market is strong, and inflation has fallen. Energy state-owned enterprise (SOE) finances have improved. Foreign exchange reserves have reached a record high, and the public debt burden continues to decline. In October 2024, Serbia was awarded an investment grade rating for the first time. The SBA is now nearing its conclusion and the Serbian authorities are requesting completion of the fourth, and final, review under the program.

Box 1. Key Achievements Under the 2022 SBA

Serbia requested a 2-year SBA in December 2022 in the wake of the recent energy crisis. Following a series of successful PCI programs, the SBA focused on maintaining macroeconomic and financial stability, and continuing to strengthen economic performance and resilience through structural reforms, particularly in the energy sector, while addressing external and fiscal financing needs.

The authorities demonstrated strong program ownership and commitment to sound polices. They:

- Undertook large fiscal adjustment under challenging economic conditions;
- Put in place important energy sector reforms, notably on gas and electricity tariffs, and on strengthening the financial position of energy SOEs;
- Advanced important fiscal-structural reforms, providing a good basis for needed improvements in public investment and public employment management;
- Adopted a landmark SOE governance law, modelled on OECD principles, aiming to change the way in which SOEs do business; and
- Continued apace with prudent monetary and financial sector policies.

2. **The new government, in place since May 2024, is implementing an ambitious "Leap into the Future—Serbia EXPO 2027" development plan, which involves higher fiscal spending.** Public investment is increasing from already elevated levels in the lead up to EXPO 2027.[1] Selected public sector wages, social benefits, and subsidies are also increasing, as is defense spending.

3. **To show ongoing commitment to strong policies, the authorities will cancel the SBA upon completion of the fourth and final review under the SBA and are requesting immediately thereafter the approval of a 36-month Policy Coordination Instrument (PCI).** The PCI will help to credibly balance higher spending against the need for fiscal discipline. It will also support ongoing progress with the authorities' ambitious structural reform agenda, which is focused on fiscal-structural, SOE, and energy sector reforms. Policy continuity is expected as the latest elections resulted in comfortable majorities for the government and President Vucic's term runs until 2027.

4. **Regional and geopolitical developments continue to present challenges and opportunities.** Limited alignment with EU foreign policy and tense Kosovo relations remain

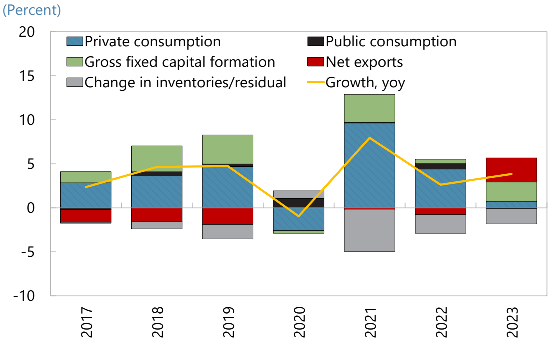
[1] See IMF Country Report 24/202, Box 1.

obstacles to EU accession. The EU's New Growth Plan for the Western Balkans could, however, provide fresh momentum for accession negotiations and related reforms. Serbia has seen increased FDI flows from Asia, benefitting from its close integration with EU markets.

RECENT ECONOMIC DEVELOPMENTS

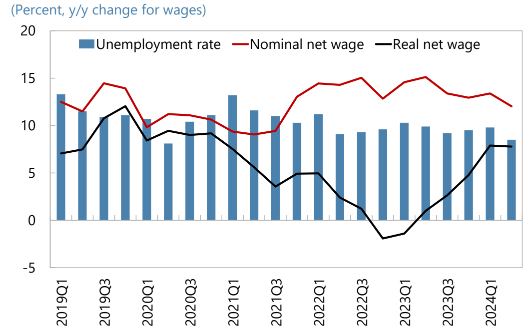
5. The economy has continued to gather strength. Growth has risen above most peers. High frequency indicators show real wage and employment gains supporting consumption (Figures 2 and 3). Investment is also picking up, driven by rising public investment and continued inflows of FDI (Figures 5 and 6). Net exports have weighed on growth, however, as robust domestic demand is lifting imports while export growth remains sluggish given weak trade partner growth. The quinquennial benchmark revision of national accounts data resulted in an increased size of the economy based on methodological updates (Box 2).

Serbia: Real GDP and Contributions
(Percent)



Sources: Haver Analytics and IMF staff calculations.

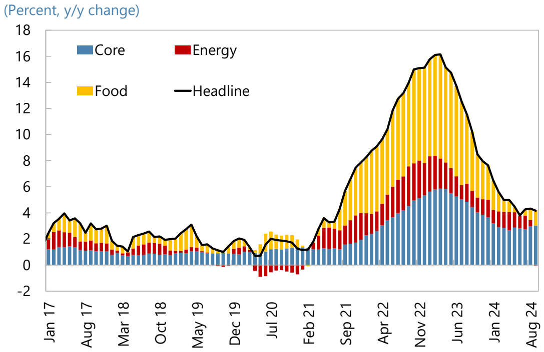
Serbia: Net Wages and Unemployment Rate
(Percent, y/y change for wages)



Sources: Haver Analytics and IMF staff calculations.

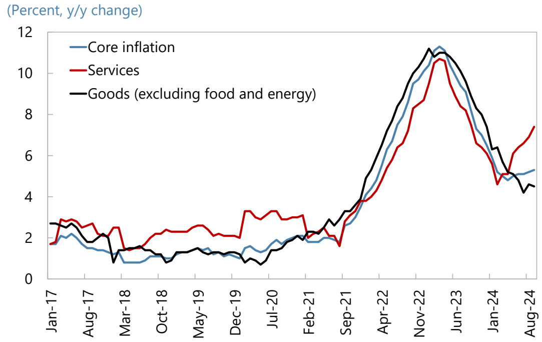
6. Headline inflation has stabilized, while core inflation remains elevated. Headline inflation (4.2 percent y/y in September) has stabilized in the upper half of the National Bank of Serbia's (NBS) band (3 percent +/- 1.5 percent). Past NBS and ECB monetary policy tightening and softer energy prices have recently been counterbalanced by a pickup in domestic food prices and sticky core inflation (5.3 percent y/y) from higher services inflation.

Serbia: Contributions to Annual Inflation
(Percent, y/y change)



Source: SORS.

Serbia: Core Inflation Dynamics
(Percent, y/y change)



Sources: NBS and IMF staff calculations.

Box 2. Quinquennial Benchmark Revision of National Accounts Data

Serbia's quinquennial benchmark revision has aligned national accounts data more closely with EU standards. The Statistical Office of the Republic of Serbia adjusted national accounts over 1995–2023 by (i) expanding the universe of unincorporated enterprises and transitioning to Local Kind of Activity Units for incorporated firms, (ii) implementing the Perpetual Inventory Method to estimate fixed capital consumption, (iii) changing from cash to accrual government expenditure valuation, (iv) incorporating data from the 2022 Population Census and the 2023 Agricultural Census, and (v) revising housing and employment data.

Nominal GDP has, as a result, been revised upwards. 2023 nominal GDP was revised from RSD 8,150 billion to RSD 8,817 billion or 8.2 percent higher, also reflecting new information obtained from Serbia's annual investment survey. As a result, key macroeconomic variables improved, with the overall 2023 fiscal balance at -2.0 percent of GDP (+0.2 ppt), public debt at 48.4 percent of GDP (-4.0 ppt), and the current account balance at -2.3 percent of GDP (+0.2 ppt). Revisions of national accounts data over 1995–2022 are smaller, with nominal GDP revised upward by around 4–5 percent.

Serbia: Comparison of Key Macroeconomic Variables After Quinquennial Benchmark Revision of National Account Data

		2016	2017	2018	2019	2020	2021	2022	2023
							Data		
Nominal GDP (RSD, billion)	*Before revision*	4,528	4,761	5,073	5,422	5,504	6,272	7,098	8,150
	After revision	4,699	4,954	5,288	5,669	5,764	6,576	7,459	8,818
	Difference (percent change)	*3.8*	*4.1*	*4.2*	*4.6*	*4.7*	*4.8*	*5.1*	*8.2*
Real GDP growth (percent)	*Before revision*	3.3	2.1	4.5	4.3	-0.9	7.7	2.5	2.5
	After revision	3.0	2.4	4.6	4.8	-1.0	7.9	2.6	3.8
	Difference (percentage points)	*-0.4*	*0.3*	*0.2*	*0.4*	*0.0*	*0.2*	*0.1*	*1.3*
GDP deflator (percent change)	*Before revision*	1.5	3.0	2.0	2.4	2.4	5.8	10.4	12.0
	After revision	1.5	3.0	2.0	2.4	2.6	5.7	10.5	13.8
	Difference (percentage points)	*0.0*	*0.0*	*0.0*	*-0.1*	*0.2*	*-0.1*	*0.2*	*1.8*
Current account	*Percent of old GDP*	-2.9	-5.2	-4.8	-6.9	-4.1	-4.3	-6.9	-2.6
	Percent of new GDP	-2.8	-5.0	-4.6	-6.6	-3.9	-4.1	-6.5	-2.4
	Difference (percentage points)	*0.1*	*0.2*	*0.2*	*0.3*	*0.2*	*0.2*	*0.3*	*0.2*
Fiscal balance	*Percent of old GDP*	-1.2	1.1	0.6	-0.2	-8.0	-4.1	-3.0	-2.2
	Percent of new GDP	-1.1	1.1	0.6	-0.2	-7.7	-3.9	-2.9	-2.0
	Difference (percentage points)	*52.9*	*-51.0*	*0.0*	*0.0*	*0.4*	*0.2*	*0.1*	*0.2*
Gross public debt 1/	*Percent of old GDP*	68.8	58.6	54.4	52.8	57.9	57.1	55.6	52.3
	Percent of new GDP	66.3	56.4	52.2	50.4	55.3	54.5	52.9	48.4
	Difference (percentage points)	*-2.5*	*-2.3*	*-2.2*	*-2.3*	*-2.6*	*-2.6*	*-2.7*	*-4.0*

Sources: SORS, NBS.

1/ Public and publicly guaranteed debt.

7. **FDI inflows have continued to more than cover the current account deficit** (Figure 5). The NBS has continued to act as a net buyer of foreign currency under its de facto stabilized exchange rate regime, as the widening trade deficit has been more than offset by strong FDI and remittance inflows, and portfolio inflows from a successful Eurobond issuance. As a result, gross international reserves reached a record high in September (€28.3 billion or about 162 percent of the ARA metric). Serbia's 2023 external position is assessed as being stronger than implied by fundamentals and desirable policies.[2]

[2] See IMF Country Report CR 24/202, Annex III.

8. Fiscal revenues have overperformed but spending pressures have increased. Revenues have overperformed earlier estimates by more than ½ ppt of GDP in 2024 because of higher corporate income and value-added taxes. Expenditure increases include the settlement of maternity leave benefits following a Constitutional Court decision and additional birth grants, farmer's support following another year of drought, and defense projects. As the supplementary budget plans for additional spending of about 1¼ percent of GDP,[3] the fiscal deficit this year will be 0.7 percent of GDP higher than projected at the 3rd SBA Review (text table).

Serbia: Main Changes to the Fiscal Program 2024

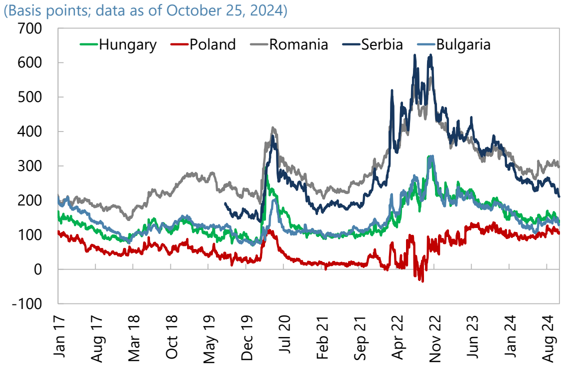
Revenue overperformance	0.6
Additional expenditure	1.3
of which:	
Maternity and birth grants	0.2
Subsidies to farmers	0.2
Transfer to Health Fund	0.2
Military jets	0.5
Increase in fiscal deficit	0.7

Sources: Serbian authorities; and IMF staff estimates.

9. Deficit financing remains strong. The authorities issued a 10-year ESG bond of US$1.5 billion in June at a 4.75 percent yield after hedging into euros, and an 8-year domestic benchmark bond of RSD 41.5 billion in February at a 6.1 percent yield and an additional RSD 2.9 billion in March at a 6.0 percent yield. Since obtaining an investment grade rating in early October, sovereign spreads have continued to narrow relative to peers.

Sovereign Risk - Euro EMBIG Spreads

(Basis points; data as of October 25, 2024)

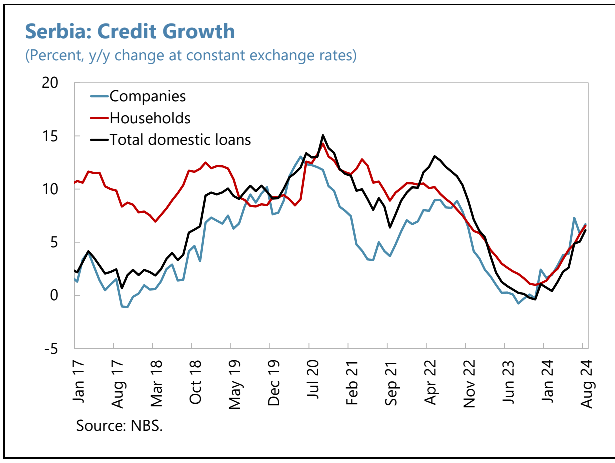


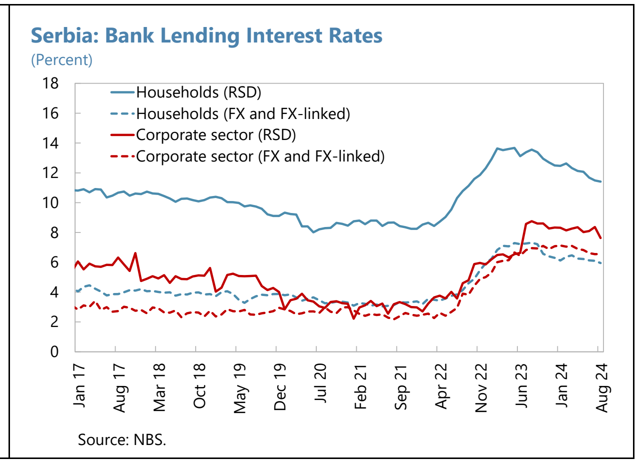
Source: Bloomberg.

10. While energy SOE finances improved under the SBA, they remain under strain. The profitability of electricity producer Elektroprivreda Srbije (EPS) deteriorated in 2024 because of costly electricity imports under drought conditions that took place alongside planned facility maintenance and unusually high summer electricity consumption. The financial position of the electricity distribution company Elektrodistribucija Srbije (EDS) is weak as no grid fee increases have been implemented since 2021 while investment needs are high.

11. The banking system appears strong and credit growth has increased. Banks continue to have ample capital and liquidity buffers (Table 10). Profitability has remained robust on ongoing healthy interest margins (Figure 7) and low asset impairment in the early stage of the credit cycle. Demand for credit has picked up as growth has rebounded, helped by falling interest rates and increased bank willingness to lend.

[3] No liquidity support for energy SOEs is expected.





OUTLOOK AND RISKS

12. Baseline growth is projected to increase on higher public spending (and a strong labor market) at the expense of somewhat higher inflation and a wider current account deficit.

- **Growth** is expected to approach 4 percent in 2024 and to move higher over 2025–27, before returning to potential of around 4 percent by 2029. Continued real wage and employment gains will support private consumption while investment will benefit from rising public spending on infrastructure projects in the transport, energy, and utility sectors. Yet supply-side constraints from a tight labor market and higher domestic demand raising imports are anticipated to weigh on growth.

- **Inflation** is projected to remain within the NBS tolerance band over the medium term and to slowly converge to the central target of 3 percent. Ongoing moderation of global price pressures will help keep inflation in check, but robust private consumption and investment alongside domestic supply-side constraints are expected to slow the pace of disinflation.

- The **external** current account deficit is projected to rise to about 4.4 percent of GDP in 2024 before widening further over the medium term as strong private consumption and infrastructure spending stimulate imports. FDI and portfolio investment financing will, however, continue to support reserve accumulation. Reserves are projected to remain in the upper half of the recommended reserve adequacy band over the projection horizon.

Serbia: Key Macroeconomic Variables, 2022–29

		2022	2023	2024	2025	2026	2027	2028	2029
Real GDP growth	*Current*	2.6	3.8	3.8	4.2	4.2	4.5	3.5	4.0
(percent)	*SBA Program request*	2.5	2.3	3.0	4.5	4.0	4.0		
CPI, average	*Current*	12.0	12.4	4.6	3.7	3.3	3.3	3.0	3.0
(percent)	*SBA Program request*	12.1	12.2	5.3	3.5	3.2	3.0		
CPI, eop	*Current*	15.1	7.6	4.0	3.4	3.3	3.2	3.0	3.0
(percent)	*SBA Program request*	15.8	8.2	4.0	3.5	3.2	3.0		
Current account	*Current*	-6.5	-2.3	-4.4	-5.1	-5.2	-5.5	-5.5	-5.2
(percent of GDP)	*SBA Program request*	-9.0	-8.4	-6.0	-5.3	-5.3	-5.3		
Reserves	*Current*	130.4	153.0	163.6	161.5	149.1	143.0	139.9	138.4
(percent of ARA metric)	*SBA Program request*	118.9	111.8	110.4	112.0	113.2	110.0		
Fiscal balance	*Current*	-2.9	-2.0	-2.7	-3.0	-3.0	-3.0	-2.5	-2.5
(percent of GDP)	*SBA Program request*	-3.8	-3.3	-2.2	-1.5	-1.4	-1.3		
Gross public debt 1/	*Current*	52.9	48.4	48.0	47.7	46.9	46.4	46.1	45.7
(percent of GDP)	*SBA Program request*	56.9	56.5	53.2	50.9	47.9	44.1		

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

1/ Public and publicly guaranteed debt.

13. **Risks to the outlook are broadly balanced** (Annex I). Downside risks that may adversely affect Serbia's exports, FDI, or access to financing include escalating regional or global geopolitical tensions, an abrupt global or EU economic slowdown, and renewed global financial market instability. Public spending pressures and remaining energy sector vulnerabilities pose fiscal risks. Climate change and extreme weather events may weigh on agricultural output and economic activity. On the upside, as a small open economy Serbia could benefit from higher global growth or additional nearshoring. Progress with EU accession negotiations, catalyzed by the EU's New Growth Plan for the Western Balkans, may bolster business and investor confidence. Serbia's high external and fiscal buffers, and the recent rating upgrade should help to mitigate economic shocks.

PROGRAM PERFORMANCE UNDER THE SBA

14. **All quantitative and continuous performance criteria were met.** End-June 2024 quantitative performance criteria (QPCs) on the fiscal deficit, current primary expenditure, and net international reserves were met. The headline inflation rate in June 2024 was well below the midpoint of the Inflation Consultation Clause (ICC) band. The general government, the development fund, and AOFI accumulated no external debt payment arrears (continuous performance criterion). All standard continuous performance criteria were met.

15. **Most indicative targets for end-June and end-September 2024 were met, while three fiscal indicators were not observed.** The end-June and end-September indicative ceilings on the accumulation of domestic payment arrears by the general government were exceeded by a small amount when the government temporarily stopped subsidy payments to the Road Fund Putevi Srbije to investigate its spending. The arrears have already been reduced, and Putevi Srbije is receiving additional transfers from the Republican budget in 2024 to help settle its obligations. The

end-September indicative ceiling on primary current expenditure of the Republican budget was exceeded, reflecting spending increases in the 2024 supplementary budget (see ¶8).

16. Most structural benchmarks (SBs) were met, while one was completed with a minor delay, and one is delayed because of its complexity.

- Pension spending is following the annual indexation mechanisms prescribed by the pension law (**continuous SB**) without ad hoc pension increases and cash payments to pensioners.
- The Revised Fiscal Strategy for 2025 with Projections for 2026 and 2026 incorporated past and projected financial information for budgeted public investment projects above EUR 20 million (**end-November 2024 SB**) outside of security and defense.
- The new electricity pricing methodology for the non-regulated sector (**end-August 2024 SB**) will become effective on November 1, 2024. With a short delay, Srbijagas will incorporate the analysis of its margin adequacy into the calculation of natural gas prices for the non-regulated sector (**end-July 2024 SB**) from October 15, 2024.
- The draft bylaw on SOE public service obligations was prepared in August 2024 by an interministerial working group, and subsequently revised with FAD technical assistance (TA) and sent to relevant ministries and stakeholders (**end-September 2024 SB**).
- Broadening the coverage of general government data and associated fiscal rule parameter changes (**end-November 2024 SB**) will be delayed due to the complexities involved. A revised action plan was developed with the help of STA TA and incorporated into the PCI (see ¶21).

THE PCI

The PCI aims to preserve macroeconomic and financial stability. It will support the credible balancing of public investment and social expenditure commitments with continued fiscal discipline and ongoing declines in public debt. It will also further strengthen energy resilience and create space to realize energy investment needs. Finally, it will foster inclusive and sustainable medium-term growth through structural reforms.

A. Fiscal Policies

17. The authorities' development plans will entail higher deficits. The revised deficit targets, described below, make sustained room for infrastructure projects under the *Leap into the Future—Serbia EXPO 2027* as well as real pension and wage increases, agricultural payments, and defense spending. Staff noted that the planned deficit path provides sufficient room for planned spending increases, while highlighting the importance of adhering to it to maintain fiscal credibility.

18. The authorities' 2024–29 fiscal program allows for a further increase in public investment while ensuring project prioritization and public debt declining to 45 percent of GDP in 2025 and remaining on a downward trajectory thereafter.

- **The 2024 revised budget targets a deficit of no more than 2.7 percent of GDP.** A 2024 supplementary budget consistent with this objective—somewhat higher than earlier deficit plans—was passed on September 30, 2024 (**prior action 1**).

- **The fiscal deficit will be limited to no more than 3.0 percent of GDP over 2025–27, and 2.5 percent of GDP over 2028–29.** Revenues are expected to be broadly constant as a share of GDP, except for a one-off boost of 0.4 percent of GDP in 2025 from the sale of 10-year 5G licenses. Current spending as a share of GDP is projected to rise in 2024–25, chiefly reflecting spending increases in the 2024 supplementary budget (see ¶8), before declining moderately over the remainder of the projection horizon. It will allow for the planned reinstatement of military conscription and keep agricultural spending in line with its 2025 nominal level over 2026–27 after accommodating an increase in subsidies to farmers legislated in 2024. Wage and pension increases will continue to be limited by the special fiscal rules.[4] Public investment spending is projected to exceed 7 percent of GDP each year.

- **Public investments incorporate a prioritized list of large infrastructure projects, EXPO 2027 projects,[5] and the purchase of military jets.** In 2025–26 the fiscal space for public investments is mostly committed, with identified large projects comprising about 4 percent of GDP; smaller projects of the Republican budget about 1¾ percent of GDP; and investments by local governments, the health fund, and other general government entities about 1½ percent of GDP. Expiring projects create about 2 percent of GDP fiscal space in 2027. The EU Western Balkans Growth Facility 2024–27 (€1.6 bn, 1/3 grants, 2/3 loans) is not yet fully incorporated in the projections; it is expected that implementation of the yet-to-be-agreed partly grant-financed investment projects (€0.8 bn, 0.9 percent of GDP) will start from 2027.

- **Deficit financing would remain well diversified.** The authorities' planned financing sources include regular Eurobond issuances, development partner loans including a World Bank DPO, project loans including from commercial sources, and increased issuance of domestic RSD-denominated bonds. Some drawdown of government deposits is also expected.

- **Public debt is sustainable and the authorities remain committed to activating the fiscal deficit component of the fiscal rule in due course.** Public debt is expected to continue falling, from nearly 46 percent of GDP in 2023 to slightly above 42 percent in 2029 (Annex II). The accumulation of new contingent liabilities is projected to be limited and mostly related to development partner projects with SOEs. But government guarantees to EPS of about EUR 1.9 billion for the construction of a solar power plant and battery storage result in a

[4] See IMF Country Report 22/384, Annex III.

[5] See IMF Country Report 24/202, Box 1.

shallower decline of public and publicly guaranteed debt from close to 48 percent of GDP in 2023 to below 46 percent in 2029, less than 1 percentage point above the 45 percent level at which the planned fiscal deficits would be rules compliant.[6]

19. A conservative approach to budgeting and contingency measures provides assurances in the event of adverse shocks, while the authorities will need to carefully manage spending pressures. Revenues typically overperform and interest expenses typically turn out lower than projected. The authorities are also committed to further prioritize investment projects, if needed, and have identified contingent revenue measures (PS ¶9). Yet, ad-hoc spending has been a recurrent feature of budget execution in recent years. Staff urged the authorities to carefully estimate spending requirements where structural pressures seem to have emerged, including the road maintenance fund Putevi Serbije from new roads, and the Health Fund, where spending has jumped by about 1 percent of GDP per year since 2020 (PS ¶8)

20. The revision to GDP has eased the special wage and pension fiscal rules, but control of these two expenditure areas remains critical. With 2023 nominal GDP over 8 percent higher following its revision, both spending rules have become less binding as both are set as a percent of GDP.

- **Public wages.** The authorities are committed to increasing education sector salaries by 11 percent, and all other public salaries by 8 percent in the 2025 draft budget, with the overall wage bill set to increase by 0.2 percentage points to 9.7 percent of GDP. A broader public wage reform may also be needed to contain the wage bill while addressing staffing levels and wage compression.[7] As a first step, drawing on comprehensive data on most public employees now available in the ISKRA public wage records system, the authorities will publish an initial report on the structure of public wages and employment (**proposed end-March 2025 RT**).

- **Pensions.** Pensions are set to increase by 10.9 percent in 2025 following the agreed pension indexation formula,[8] with the indexation advanced by one month to be effective from January for an expected 2025 pension bill of 10.1 percent of GDP. The authorities are renewing their SBA commitment made to adhere to the annual indexation mechanism and refrain from ad hoc pension increases and cash payments to pensioners (**proposed RT, continuous**). While the fiscal rule controls pension expenditure from a macroeconomic perspective, the medium-term challenges including demographic pressures and pension adequacy are poorly understood. A comprehensive actuarial analysis of the pension system (**proposed end-March 2026 RT**) aims to provide insights.

[6] See IMF Country Report 22/384, Annex III. The Fiscal Council's Evaluation of the Revised Fiscal Strategy for the Year 2025 with Projections for 2026 and 2027 of November 4, 2024 regrets that the "opportunity was missed to lower Serbia's public debt below 45 percent of GDP earlier with a more frugal plan" but considers that "the planned increase in the fiscal deficit will not threaten the macroeconomic stability of the country."

[7] See IMF Country Report 23/433, Annex III.

[8] See IMF Country Report 22/384, Annex III.

B. Fiscal-Structural Policies

21. The authorities are pursuing ambitious structural fiscal reforms, which will underpin fiscal sustainability, spending efficiency, and fiscal risk management.

- **The authorities have requested a Fiscal Transparency Evaluation (FTE).** The FTE—tentatively planned for early 2025—will provide a comprehensive diagnostic of Serbia's fiscal transparency to identify institutional strengths and weaknesses, take stock of past reforms, and update earlier diagnostics. The FTE will help ensure that the government has an accurate picture of its finances, help prioritize public financial and investment management reforms as well as fiscal expenditure and help contain fiscal risks.

- **Public investment reforms will focus on spending efficiency and transparency.** Publishing key financial information on all large public investment projects in the fiscal strategy (**end-November 2024 SB** under the SBA) is being made a permanent requirement in the Budget System Law. The former Fiscal Risk and Public Investment Management Department has been reformed and will now focus exclusively on public investment management, including implementing the 2023 Decree on Capital Projects. And the Public Investment Management System (PIMIS) is being extended to additional users, and the links between PIMIS and the budget system are being strengthened. The authorities will continue to upgrade project monitoring and planning, leveraging the recently strengthened forward-looking budget processes, including with a view to intervening early during project implementation if needed.

- **Budget reforms aim to strengthen medium-term budgeting (MTB), green budgeting, IT systems, fiscal risk management, and fiscal data coverage.** For the first time, MTB projections were used as the starting point for the 2025 budget discussions. A new green tagging methodology was also applied for the first time in the 2025 budget and will be refined as needed. Also from 2025, all direct and indirect budget users and local governments will undertake budget execution in the central SPIRI system, improving budget status information for users. The Fiscal Risk Management unit has been integrated into the Budget department. Finally, extending fiscal data coverage to all materially relevant general government and the associated needed review of fiscal rule parameters (**end-November SB** under the SBA) is being put back. This allows time to incorporate in early 2025 modifications to data collection systems that were identified during a recent STA TA mission, more robustly compile the data for government agencies and reclassified public enterprises and assess the implications for the consolidated general government fiscal indicators. The extended data coverage will be implemented in 2026 for fiscal planning of the 2027 budget cycle, and data published from January 2027.

- **The authorities are on track to adopt an urgent action plan to address staffing shortages in the tax administration (STA).** A task force between the Ministry of Finance, STA and relevant public sector recruitment agencies was set up to accelerate hiring procedures. In addition, an analysis of hiring bottlenecks will be prepared with assistance from external consultants, and the authorities will adopt a Human Resources Plan (**proposed end-July 2025 RT**).

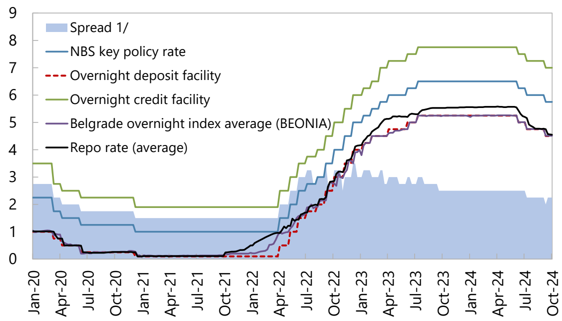
C. Monetary Policy

22. Staff and the authorities agreed on the need for a restrictive monetary policy stance in view of prevailing core price pressures and remaining upside risks to inflation. Staff argued that, beyond the three 25 bps cuts undertaken since June, further rate cuts should be deferred until price stability is firmly secured. They emphasized that risks to inflation are on the upside, with flagging headline disinflation and inflation expectations momentum, still elevated core inflation, rising public investment and domestic demand, and a tight labor market. Staff also noted that the de facto policy rate (the repo rate at which liquidity is sterilized) lies below the policy rate and the rate suggested by forward-looking Taylor rules. The authorities acknowledged elevated core price pressures and remaining upside risks to inflation. They also agreed on the need for a restrictive monetary policy stance and stressed their commitment to carefully assess domestic and external factors driving inflation and to pursue an appropriately cautious monetary policy stance until price stability is safely secured.

Monetary Policy and Inflation Indicators

The NBS has recently paused its rate cutting cycle …

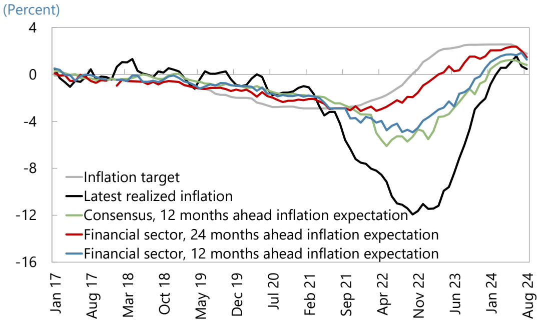
Serbia: Policy Rate
(Percent; as of October 2024)



Sources: Haver Analytics and IMF staff calculations.
1/ Differences of key policy rate between Serbia and Euro Area (ECB).

… as de-facto real policy rates have declined, …

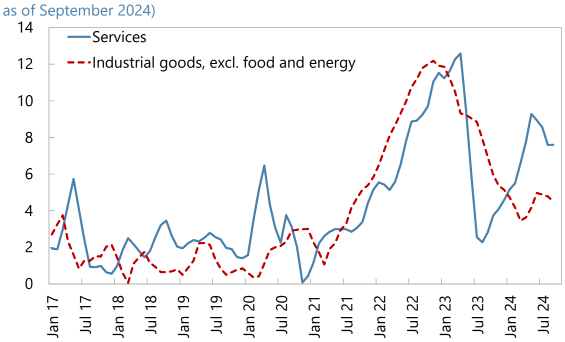
Serbia: De-Facto Real Policy Rate Based on Different Inflation Measures
(Percent)



Sources: Haver Analytics, Consensus Forecast, and IMF staff calculations.

… momentum in services and core goods inflation has remained elevated, …

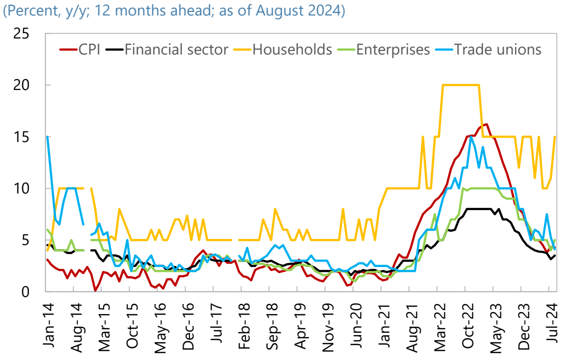
Serbia: Inflation Momentum, Core Components
(Percent; 3-month over 3-month inflation, seasonally adjusted and annualized; as of September 2024)



Sources: NBS and IMF staff calculations.

… and inflation expectations have stayed comparatively high, suggesting continued risks to price stability.

Serbia: Inflation Expectations
(Percent, y/y; 12 months ahead; as of August 2024)



Sources: Haver Analytics, Consensus Forecast, and IMF staff calculations.

23. The de-facto stabilized exchange rate remains a key anchor, although staff indicated that greater exchange rate stability could be considered over time. A gradual return to a more flexible exchange rate over the medium term would be more consistent with the inflation targeting regime and would provide an important shock absorber. The authorities emphasized the importance of a stable exchange rate for macroeconomic stability and for private sector confidence. They also indicated that they remain committed to further progress with dinarization.

D. Financial Sector Policies

24. Regulatory measures adopted in response to the pandemic and the energy crisis are being phased out. The exclusion of some unrealized losses on government bond valuations from CET 1 capital calculations is expected to be phased out by end-2024. The 4.08 percent interest rate cap on some mortgage loans will be temporarily increased to 5 percent in 2025 before being withdrawn from 2026.

25. Efforts to enhance financial sector resilience, regulatory and supervisory frameworks, and financial infrastructure continue:

- **The NBS continues its regular stress tests on the banking system.** The latest results for 2023 confirmed the resilience of banks to a variety of macroeconomic shocks.

- **The NBS continues to strengthen prudential regulations.** Net Stable Funding Ratio (NSFR) requirements were introduced in November 2023; all banks maintained NSFRs above the regulatory minimum of 100 percent as of June 2024. Banks are also gradually adjusting to a supplementary NSFR requirement for foreign currency-linked loans. Moreover, the NBS is preparing to introduce a leverage ratio for banks.

- **Serbia is preparing a formal application to accede to the EU's Single Electronic Payment Area (SEPA) payments system.** SEPA would reduce settlement time and cost for euro payments, and facilitate trade, remittances, and other cross-border activity.

- **The new Bank Law establishes a Resolution Fund (RF).** The RF will be bank-financed and NBS-managed. It will complement a Deposit Insurance Fund, also bank-financed, with a target size of 7.5 percent of insured deposits, which staff and the NBS noted as being high by international standards. The authorities in their design of the RF will assess the desirable total size of both funds.

- **The NBS introduced a new Financial Services Consumer Protection Law.** The Law generally follows the approach of EU countries, including in setting anti-usury regulations for consumer credit interest rates.

- **The NBS continues to prepare for a Credit Registry.** The registry will harmonize bank loan information in line with the EU-standard format. The data obtained will also help the NBS to deepen the analysis underpinning its monetary and financial sector policy decisions.

26. Serbia continues to work on its AML/CFT framework, in line with EU standards and FATF recommendations. The NBS is ensuring compliance with AML/CFT regulations through off- and on-site inspections of financial institutions. It is also enforcing the new Law on Central Records of Beneficial Owners that requires banks to cease transactions with companies lacking accurate beneficial ownership information. A working group established by the government is expected to complete the update of the National Risk Assessments (NRA) by November 2024, and the updated National AML/CFT strategy and action plan, which are expected to be finalized by year-end. Preparations for the MONEYVAL mutual evaluation are advancing, with the on-site visit expected in 2025.

27. The NBS is implementing the recommendations of the June 2023 safeguards report. Internal regulations for the NBS Council and its Audit Committee have been updated to provide for external subject matter expertise when needed. Work is also progressing on strengthening the risk management function and updating the Internal Audit Charter, with the adoption of the risk management framework expected by end-2024. The NBS is also working on legal amendments to expand eligibility criteria for Council members.

E. Energy Sector and Structural Policies

28. The authorities continue to make progress on energy sector reforms.

- The new **EPS pricing system** (based on regional market prices) for the unregulated (corporate) sector became effective November 1, 2024 (**end-August 2024 SB** under the SBA).

- **EPS** has started implementing its **restructuring plan**. It aims at improving EPS's operations, including its organization, finances, staffing, and procurement. Still, the implementation of the plan faces challenges due to EPS's complex organization and its limited capacity to attract needed skills under SOE salary constraints. As a welcome sign of progress, the EPS supervisory board has appointed all permanent executive directors, including a CEO, and has set KPIs for about 60 top managers.

- The financial situation at **EDS** needs urgent attention. Inadequate grid fees are weaking EDS finances, implying fiscal risks as development partners' loans to finance large investments to improve the grid rely on sovereign guarantees. The authorities are committed to prepare, by March 2025, a report on the adequacy of EDS grid fees and the fees paid to EPS for electricity losses, and to implement grid fee adjustments in May 2025.

29. The authorities are continuing efforts to strengthen the resilience of Serbia's gas sector. Natural gas SOE Srbijagas has adopted a new pricing methodology to achieve higher margins to secure resources for needed investment. Serbia is strengthening its energy security by diversifying gas import routes (Romania and planned Bulgaria interconnectors), building additional domestic gas storage facilities to supplement facilities rented in Hungary, and instituting a system for the management of strategic gas reserves. The authorities have made progress in unbundling the gas transportation company Transgas from Srbijagas and aim to formally verify completion with the relevant international agency—the Energy Community—in 2025, consistent with Serbia's commitments to the EU.

30. The authorities intend to update their Energy Investment Plan (**end-March 2025 RT**). The updated plan will set out investment needs, project internal rates of return, project contributions to the green transition, and financing sources. It will thereby support better planning and budgeting for energy security and green transition investments by the general government, SOEs, and the private sector, also in anticipation of the introduction of the EU carbon border adjustment mechanism.

31. Serbia has started implementing the landmark SOE governance law. The law, aligned with the OECD Guidelines on Corporate Governance of SOEs, took effect in mid-September 2024. It aims to bolster SOE performance and to increase the effectiveness of the government's ownership function by consolidating it under the Ministry of Economy. The authorities have adopted the first set of bylaws in September 2024, with adoption of the remainder planned for early 2025. The important bylaw on costing of public service obligations has been drafted (**end-September 2024 SB** under the SBA). The Ministry of Economy intends to address staffing needs in its SOE Unit by relocating staff within the ministry and through external hiring.

PROGRAM MODALITIES AND RISKS

Stand-by Arrangement

32. The authorities will not make any remaining purchases under the SBA, and request that the SBA be canceled immediately upon completion of the fourth and final review (Table 11a). Reflecting no current balance of payments need, the authorities will not make another purchase under the SBA. After completion of this fourth SBA review, SDR 316.47 million (about Euro 400 million) will become available, increasing undisbursed balances, including the 2nd and 3rd review tranches, to SDR 949.46 million (about Euro 1.2 billion). To facilitate transition to the PCI, the authorities will cancel the SBA immediately upon completion of the review. Forward-looking policy commitments are outlined in the Program Statement (PS) for a new PCI.

33. The completion of the fourth and final review under the SBA is subject to two proposed prior actions: Adoption of a supplementary 2024 budget (prior action 1) and the 2025 budget by the National Assembly (prior action 2). The revised 2024 budget was adopted on September 30, 2024, in line with understandings with staff of an overall fiscal deficit of no more than 2.7 percent of GDP.

Policy Coordination Instrument

34. The attached PS details the authorities' policy commitments under a 36-month PCI. Serbia meets the criteria stipulated for use of the PCI, and staff's analysis does not indicate any existing, prospective, or potential balance of payments need. Proposed quantitative targets (QTs), to be monitored on a semi-annual and continuous basis for the first 12 months of the program are set out in PS Table 1a. QTs are set on ceilings on the general government fiscal deficit, current primary expenditure of the Serbian Republican Budget, the accumulation of domestic payment arrears by the consolidated general government, and the Net International Reserves of the central bank (see PS and Technical Memorandum of Understanding). Whenever inflation at the end of a semi-annual period breaches the limits agreed (see PS, ¶28), the authorities have committed to discuss with staff on reasons for the deviations and the appropriate policy response. The PCI includes standard continuous QTs on trade and exchange restrictions, multiple currency practices, bilateral payment agreements, and non-accumulation of external payment arrears (PS Table 1b).

35. Proposed prior actions and reform targets focus on the underpinnings of fiscal discipline (PS Table 2):

- The **proposed prior actions** 1 and 2 are identical to those for the completion of the fourth SBA review.
- Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law, and there will be no ad hoc pension increases and cash payments to pensioners (**proposed continuous RT**).
- A comprehensive assessment of the pension system will be conducted (**proposed end-March 2026 RT**).
- A report on the structure of wages and employment in general government, drawing on the government's ISKRA system and other data sources, will be prepared (**proposed end-March 2025 RT**).
- Adoption of the STA Human Resources Plan by the government to ensure adequate staffing levels and skills composition over 2025–2028, as assessed by the STA Steering Committee to be consistent with effective operation of STA (**proposed end-July 2025 RT**).
- Approval by the Government of the updated Energy Investment Plan that outlines key investment projects over 2025–2027, their measures of return and sources of financing (**proposed end-March 2025 RT**).

36. The program is fully financed for 12 months with good prospects for its remaining period. Serbia's capacity-to-repay metrics are strong (Table 5b): Fund credit outstanding would reach a maximum of 1.4 percent of GDP, and 4.1 percent of gross reserves in 2024, under the baseline. Debt service to the Fund would peak at 1.2 percent of exports of goods and nonfactor services in 2026 before declining. Serbia benefits from market access as shown by regular successful sovereign bond issuances.

37. Risks to the program implementation are moderate. Serbia's strong track record provides assurances of strong program implementation, including in fiscal and broader structural reforms. The PCI signals the authorities' policy and reform commitments to development partners, investors, and the general public, and serves as a framework for close consultation with staff. Key risks to the program include a worsening of the global economic and financial environment adversely affecting Serbia's small open economy, a loss of fiscal discipline, and a re-emergence of vulnerabilities in the energy sector.

STAFF APPRAISAL

38. Serbia's strong performance under the SBA, supported by wide-ranging reforms, is commendable. Growth has rebounded and the labor market is strong, inflation has fallen, and the banking sector appears sound. International reserves have reached a record high, and government deposits are ample. Public and external debt are both sustainable. Crucial energy sector, fiscal-structural, and SOE governance reforms have made good progress. Reflecting these achievements, Serbia was recently awarded an investment grade credit rating for the first time.

39. The proposed PCI will help Serbia build on this progress. Balancing spending priorities, including on public investment, with ongoing fiscal discipline will anchor the PCI. Continued ambitious structural reforms in the fiscal, energy and SOE sectors will further contribute to the resilience of Serbia's economy and help underpin its strong growth performance.

40. Maintaining fiscal policy prudence is a priority. Keeping fiscal deficits at no more than 3.0 percent of GDP over the program is essential to maintain Serbia's record of fiscal prudence and to ensure that public debt declines to 45 percent of GDP in 2025 and remains on a downward trajectory thereafter. It will also help avoid overheating an already tight labor market. To secure their fiscal goals, the authorities should stand ready to further reprioritize spending demands as needed.

41. The program's wide-ranging structural reforms will support long-term growth and resilience. Improvements to public financial and investment management, fiscal risk management, and fiscal transparency all remain important, particularly to ensure value for money for Serbia's ambitious public investment plans. Intentions to improve public workforce planning and address wage compression should continue to be pursued, including in the tax administration where resolving staffing challenges has become urgent. Persevering with vital energy sector reform is needed to further bolster the financial position of energy utilities, reduce fiscal risks, and strengthen energy security. Implementing important and complex SOE governance reforms remains equally important.

42. A restrictive monetary policy stance is consistent with the state of the economic cycle and prevailing inflationary risks. Continued disinflation efforts remain important since headline inflation has settled in the upper half of the tolerance band, core inflation remains elevated, and risks to inflation are on the upside given a tight labor market and rebounding growth.

43. Preserving financial sector resilience calls for continued vigilance and ongoing improvement of supervisory and regulatory frameworks. The phasing out of temporary forbearance measures is crucial while efforts by NBS to enhance financial regulation, supervision, and infrastructure should continue.

44. Risks to the program are moderate. The authorities' strong track record provides assurances of good policy implementation, including on fiscal and monetary prudence, and continued structural reforms. Rising fiscal spending pressures and remaining energy sector vulnerabilities both continue to warrant close attention.

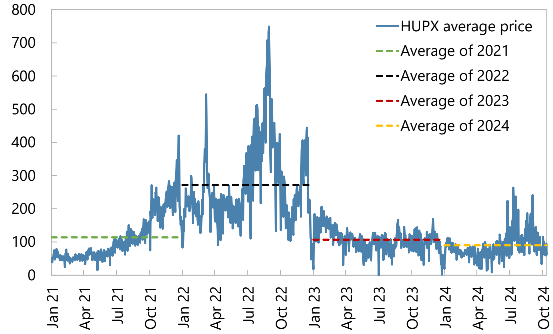
45. Staff supports the request by the authorities for the completion of the 4th Review under the SBA and, upon cancellation of the SBA, for a 36-month PCI.

Figure 1. Serbia: Regional Import Prices, 2021–2024[1/]

Regional electricity price increases over the summer have recently raised EPS's costs for importing power.

Hungarian Power Exchange Electricity Average Price

(EUR/MWh)

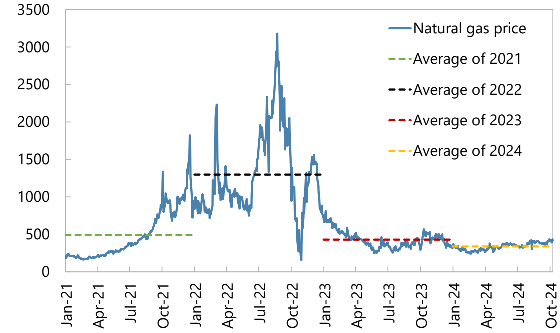


Source: HUPX.

The prices for natural gas …

Dutch TTF Natural Gas Price

(EUR/1000 Cubic Meters)

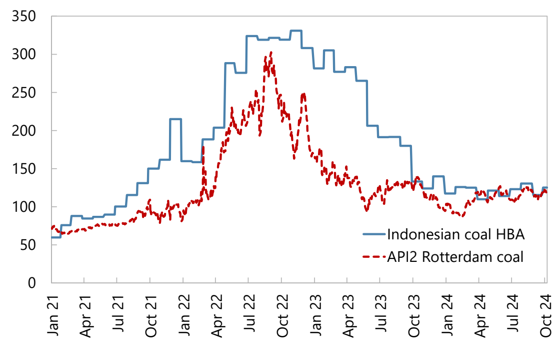


Source: Bloomberg.

… and coal have remained broadly stable …

Indonesian and Rotterdam Coal Prices

(USD/metric tonne)

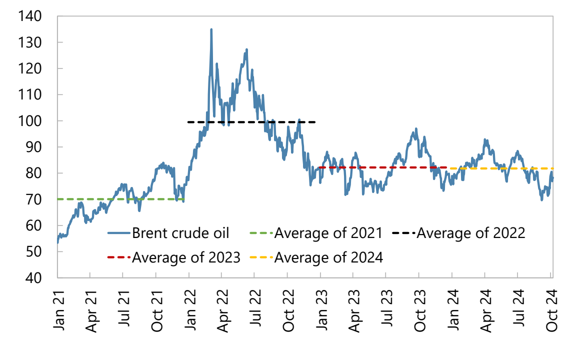


Source: Bloomberg.

… while the price of crude oil has declined.

Brent Crude Oil Price

(USD/Barrel)

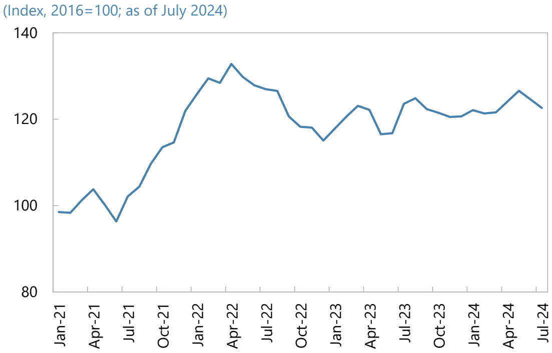


Source: Bloomberg.

International food prices have been stable, …

International Commodity Food Price Index

(Index, 2016=100; as of July 2024)

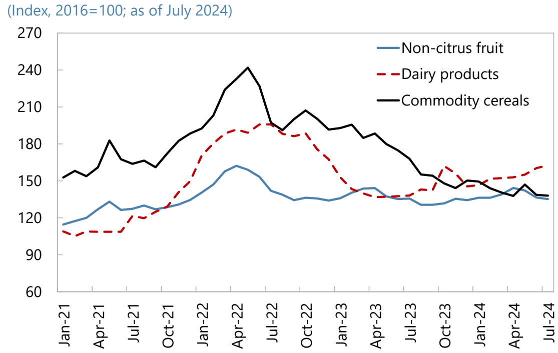


Source: IMF GAS database.

… while prices for Serbia's key agricultural exports have diverged.

Key International Food Prices

(Index, 2016=100; as of July 2024)



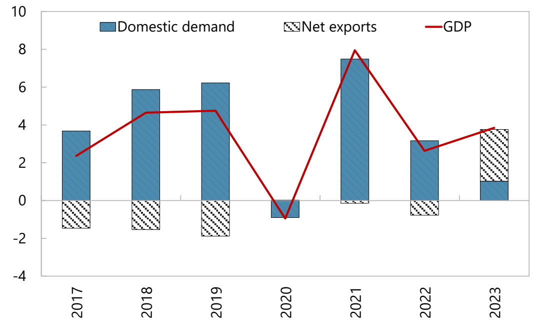
Source: IMF GAS database.

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

Figure 2. Serbia: Real Sector Developments

Growth has recovered from the energy crisis.

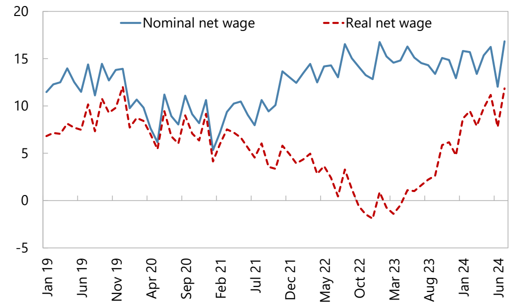
Serbia: Contributions to Growth
(Percent, y/y)



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

Real net wages are growing strongly, ...

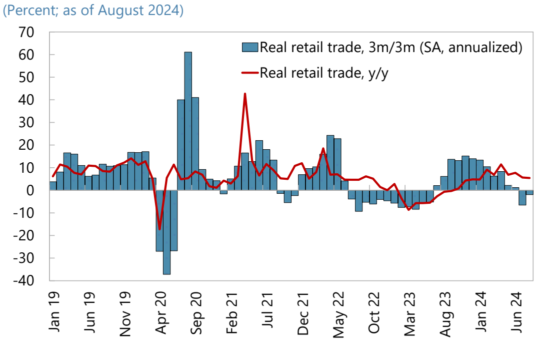
Serbia: Change of Net Wages
(Percent, y/y)



Sources: Haver Analytics and IMF staff calcualtions.

... supporting retail sector activity.

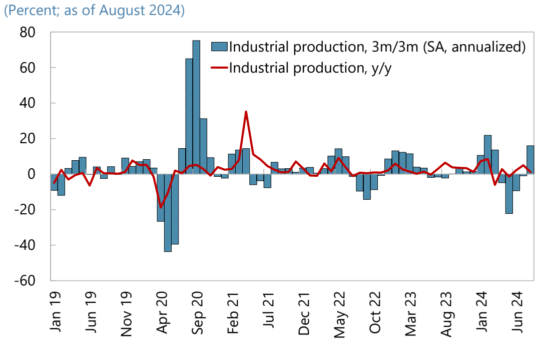
Serbia: Real Retail Trade
(Percent; as of August 2024)



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

Industrial production has expanded moderately.

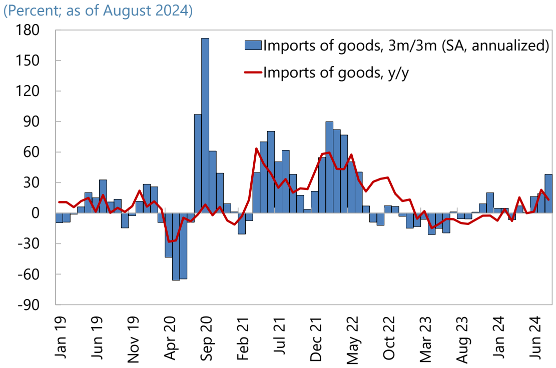
Serbia: Industrial Production
(Percent; as of August 2024)



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

Import growth has increased with strengthening domestic demand ...

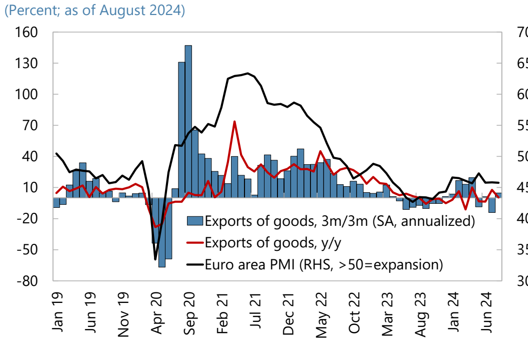
Serbia: Imports of Goods
(Percent; as of August 2024)



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

... but export growth has remained modest, reflecting ongoing weakness in key foreign markets.

Serbia: Exports of Goods and Euro Area PMI
(Percent; as of August 2024)

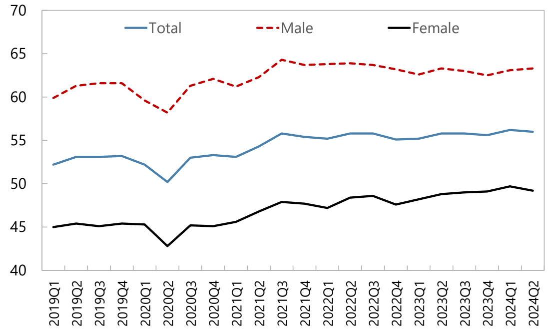


Sources: Haver Analytics, SORS, and IMF staff calculations.

Figure 3. Serbia: Labor Market Developments

Labor force participation has increased.

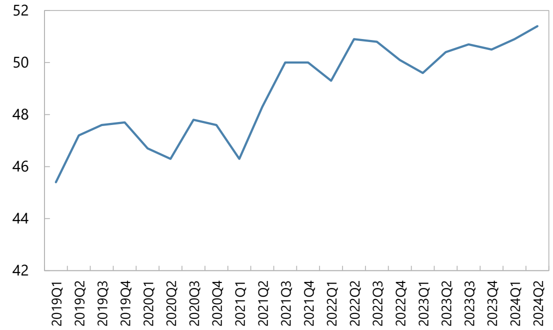
Serbia: Labor Participation Rate
(Percent; 15 year and more)



Source: SORS.

Employment has reached a record high ...

Serbia: Employment Rate
(Percent, 15 year and more)



Source: SORS.

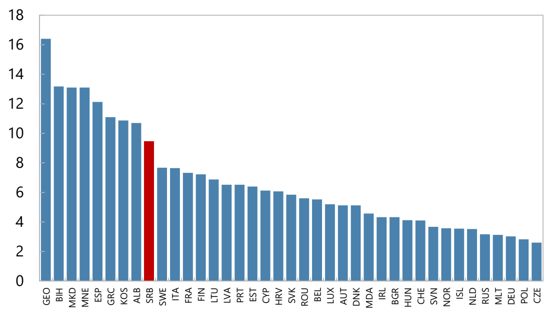
... while unemployment is near historic lows, ...

Serbia: Unemployment Rate
(Percent, 15 year and more)

Source: SORS.

... putting it below most Western Balkan peers.

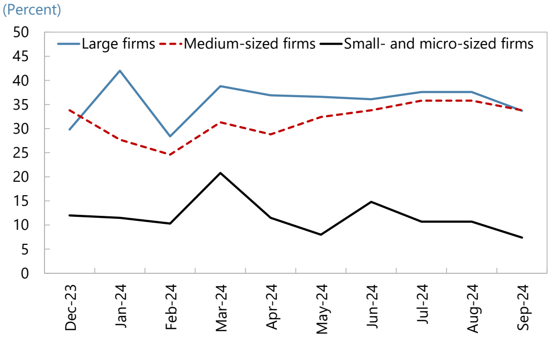
Unemployment Rate
(Percent; in 2023)



Source: Haver Analytics.

Labor markets are tight ...

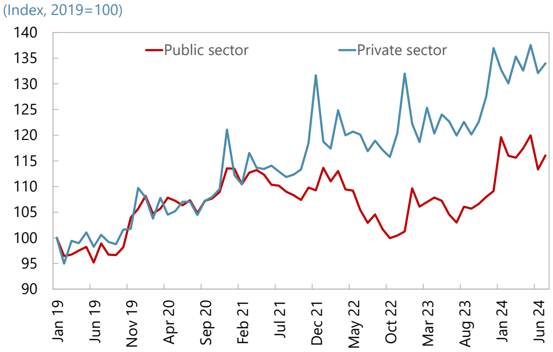
Serbia: Labor Constraints 1/
(Percent)



Source: Serbian Chamber of Commerce.
1/ Percentage of firms raising labor market constraints as their primary concern

... while private and public sector wages continue to rise strongly.

Serbia: Average Monthly Real Net Wages
(Index, 2019=100)



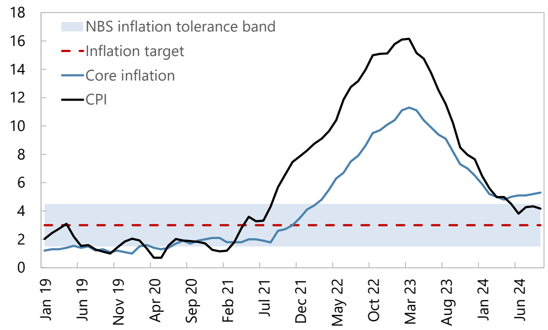
Sources: SORS and IMF staff calculations.

Figure 4. Serbia: Inflation and Monetary Policy

Headline inflation has stabilized in the upper half of the tolerance band while core inflation remains elevated.

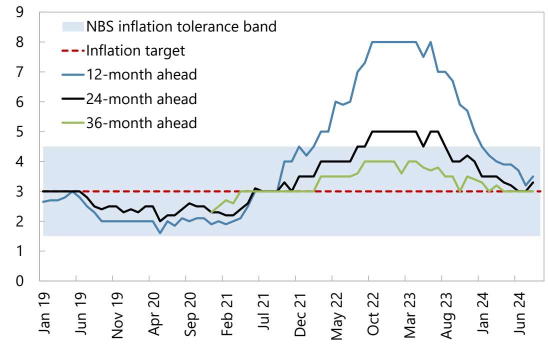
Financial sector inflation expectations have recently edged up but remain close to the inflation target.

Serbia: Inflation
(Percent, y/y; as of September 2024)



Sources: NBS and IMF staff calculations.

Serbia: Financial Sector Inflation Expectations
(Percent; as of September 2024)

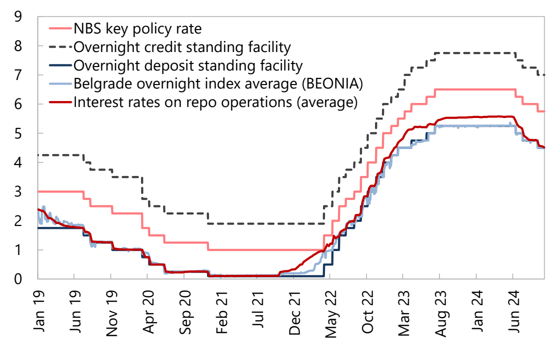


Sources: NBS and IMF staff calculations.

The NBS recently paused its rate cutting cycle, …

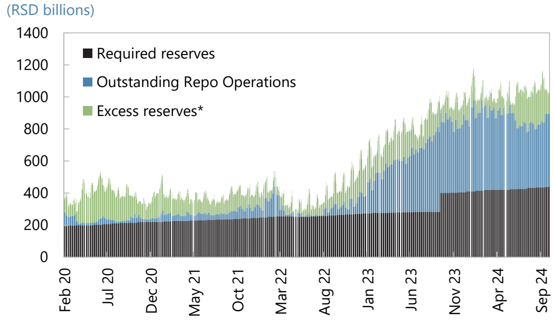
… and continues absorbing excess liquidity with the help of repo operations, its main policy instrument.

Serbia: Interest Rates
(Percent)



Sources: NBS and Haver Analytics.

Serbia: Central Bank Deposits and Repo Operations
(RSD billions)



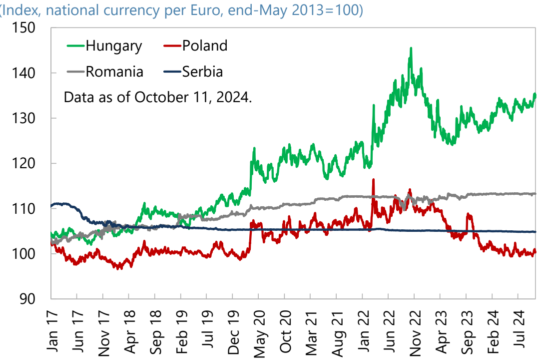
Sources: NBS and IMF staff calculations.

Note: * includes "current account of banks" and "account of deposited liquid resources".

The NBS has maintained a de facto stabilized exchange rate regime against the euro …

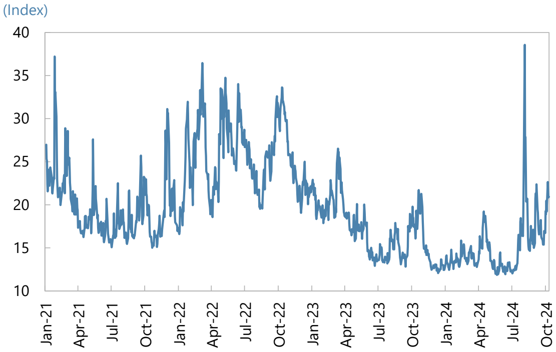
… amid bouts of global risk aversion.

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



Sources: Bloomberg.

CBOE Volatility Index (VIX)
(Index)

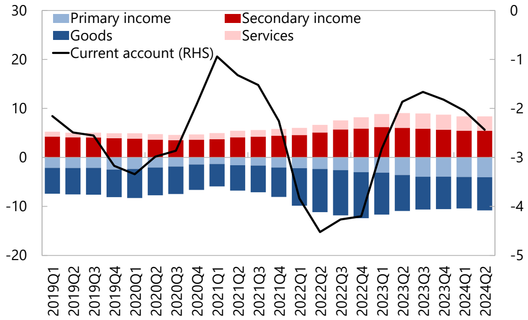


Source: Haver Analytics.

Figure 5. Serbia: Balance of Payments

A widening trade balance and rising primary income outflows have increased the current account deficit …

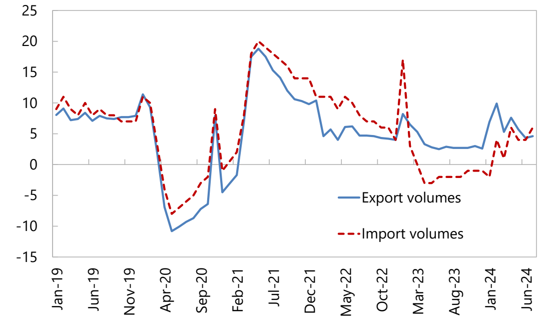
Serbia: Current Account Balance
(Billion of Euros; 4Q moving sum)



Sources: Haver Analytics and IMF staff calculations.

… as robust import growth has offset modest export growth …

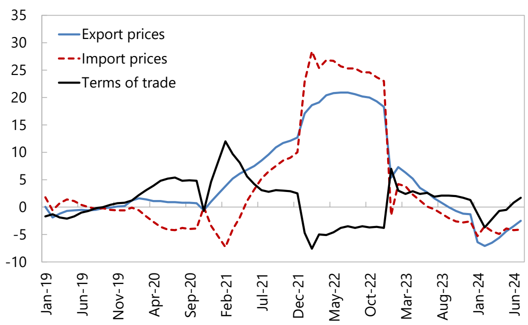
Serbia: Trade Volumes
(Percent, y/y change)



Source: Haver Analytics.

… and a mild improvement in the terms of trade.

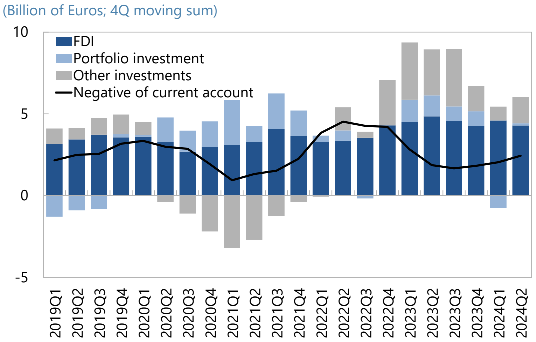
Serbia: Terms of Trade
(Percent, y/y change)



Source: Haver Analytics.

FDI remains robust, more than covering the current account deficit …

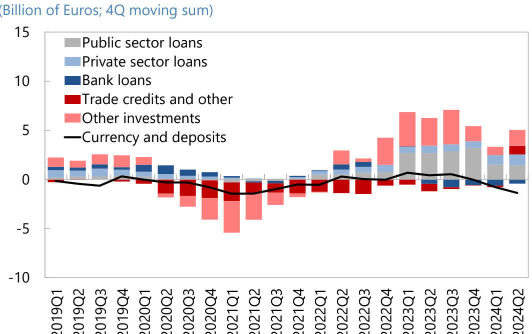
Serbia: Financial Account Composition
(Billion of Euros; 4Q moving sum)



Sources: Haver Analytics and IMF staff calculations.

… while other investment flows have ebbed.

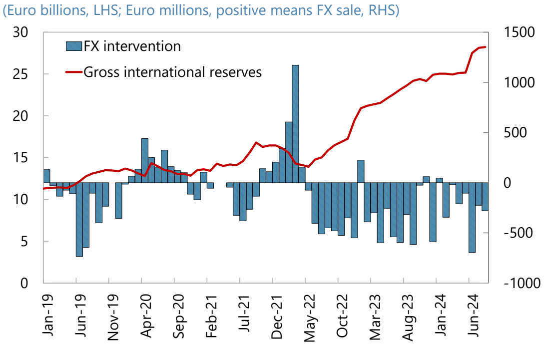
Serbia: Other Investments
(Billion of Euros; 4Q moving sum)



Sources: Haver Analytics, and IMF staff calculations.

International reserves have reached record highs amid ongoing foreign currency purchases by the NBS.

Serbia: Reserves and Interventions
(Euro billions, LHS; Euro millions, positive means FX sale, RHS)

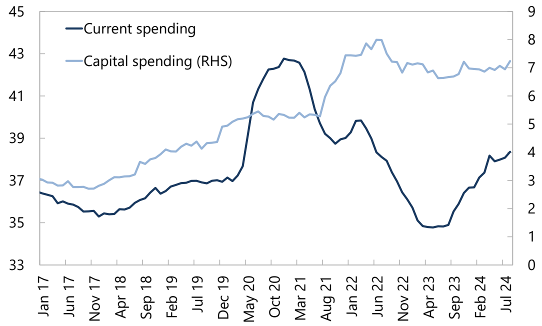


Sources: NBS and Haver Analytics.

Figure 6. Serbia: Fiscal Developments and Financing

Current and capital spending by the government are increasing ...

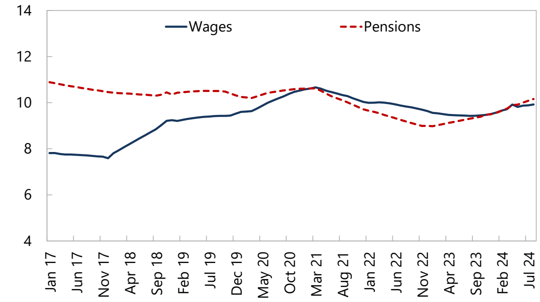
Serbia: Current and Capital Spending
(Percent of GDP, 12M sum)



Sources: Ministry of Finance and IMF staff calculations.

... with public wages and pensions up modestly as a share of GDP.

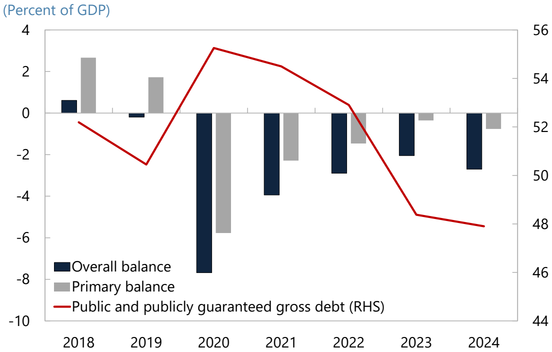
Serbia: Wages and Pensions 1/
(Percent of GDP, 12M sum)



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

Although the deficit has widened, public debt has continued to decline.

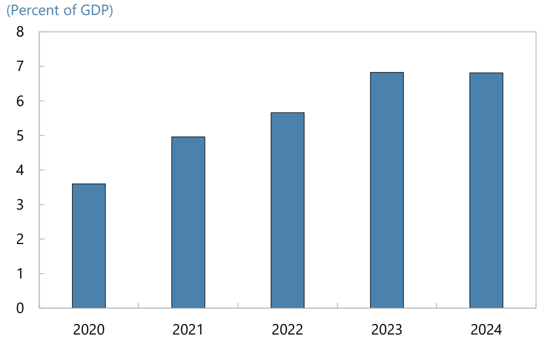
Serbia: Fiscal Balance and Government Debt
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

Government deposits are high.

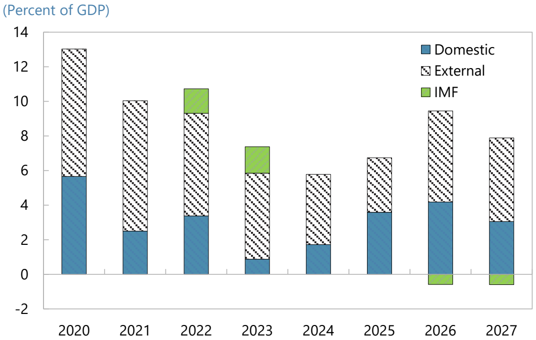
Serbia: Stock of Government Liquid Deposits
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

External financing is expected to continue to predominate ...

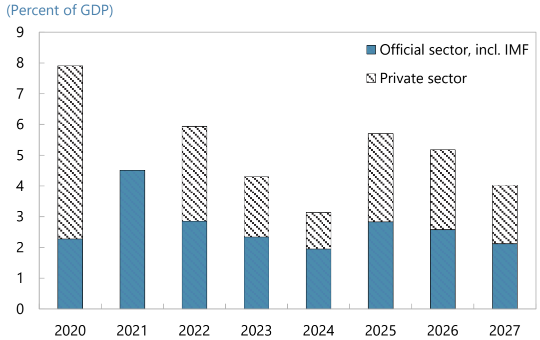
Serbia: Sources of Financing
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

... with a significant share originating from the official sector.

Serbia: External Financing
(Percent of GDP)

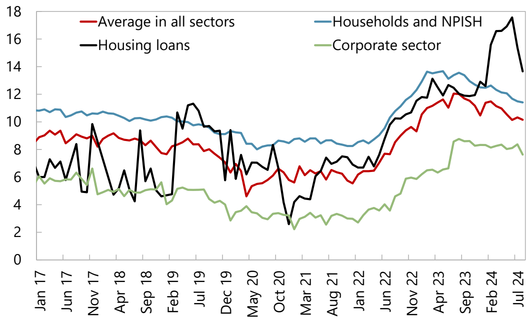


Sources: Ministry of Finance and IMF staff calculations.

Figure 7. Serbia: Selected Interest Rates and Credit Developments

Interest rates have declined, both for dinar lending …

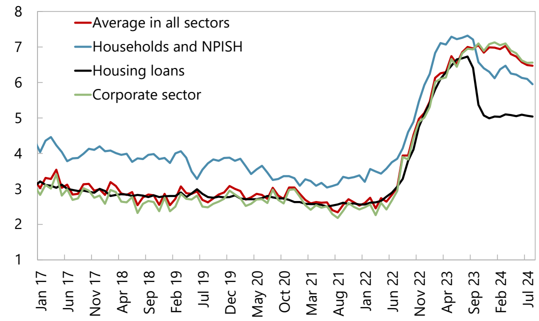
Serbia: Bank Lending Interest Rates (RSD)
(Percent)



Source: NBS.

… and for foreign currency loans.

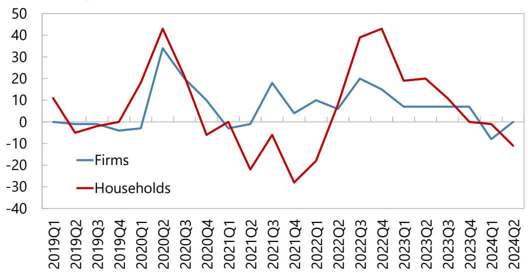
Serbia: Bank Lending Interest Rates (FX and FX-linked)
(Percent)



Source: NBS.

Credit standards have eased …

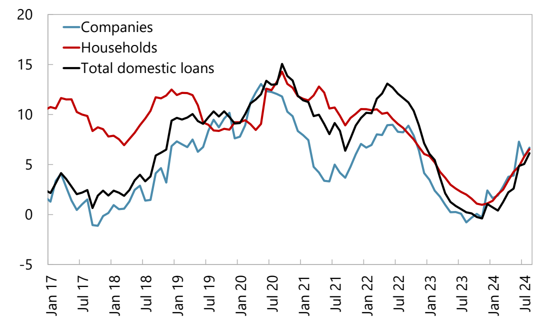
Serbia: Credit Standards
(Net percentage balance 1/)



Source: Haver Analytics.
Note: 1/ Percentage of banks tightening minus percentage of banks loosening credit standards over the past 3 months. A positive balance indicates a tightening of credit standards.

… and credit growth is picking up.

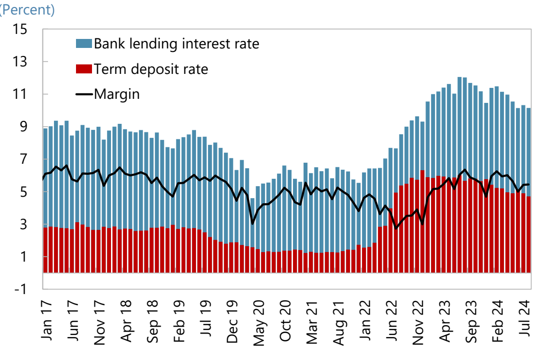
Serbia: Private Sector Credit Growth
(Percent, y/y change at constant exchange rates)



Source: NBS.

Interest rate margins have stabilized, both in domestic currency …

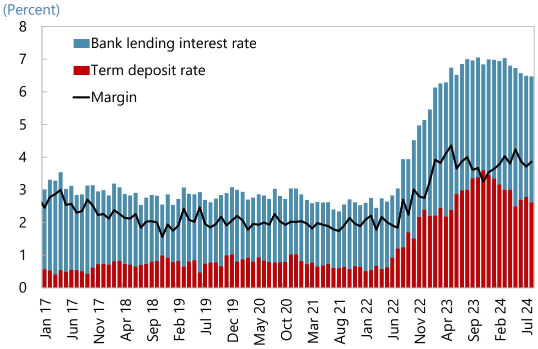
Serbia: Selected Interest Rates (RSD)
(Percent)



Source: NBS.

… and in foreign currency.

Serbia: Selected Interest Rates (FX and FX-linked)
(Percent)



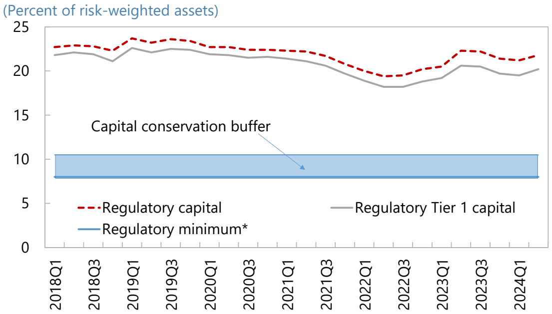
Source: NBS.

Figure 8. Serbia: Key Banking Sector Indicators

Bank capital buffers remain strong and well above regulatory thresholds …

Serbia: Regulatory Capital

(Percent of risk-weighted assets)



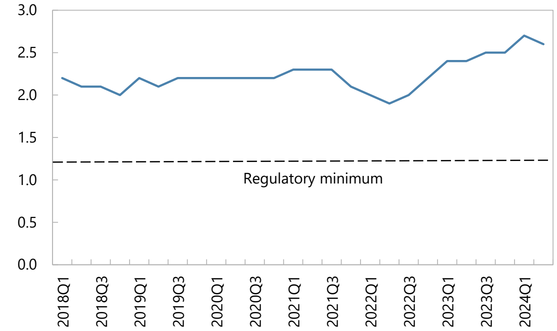
Source: Haver Analytics.

*The NBS also has a countercyclical capital buffer (currently 0%), a capital buffer for systemically important banks and a systemic risk buffer.

… while liquidity has continued to rise.

Serbia: Liquidity Coverage

(Ratio of high-quality liquid assets over total net cash outflow in the next 30 days)

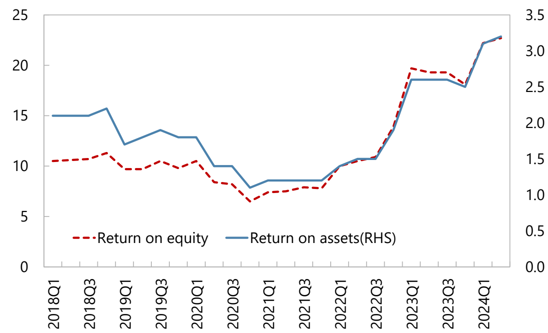


Source: Haver Analytics.

Bank profitability has picked up …

Serbia: Banking Sector Profitabilty

(Percent)

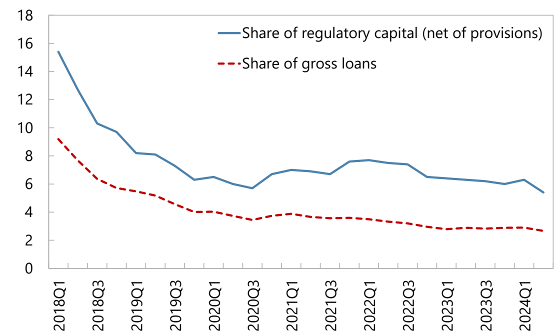


Source: Haver Analytics.

… while NPLs have fallen …

Serbia: Non-Performing Loans

(Percent)

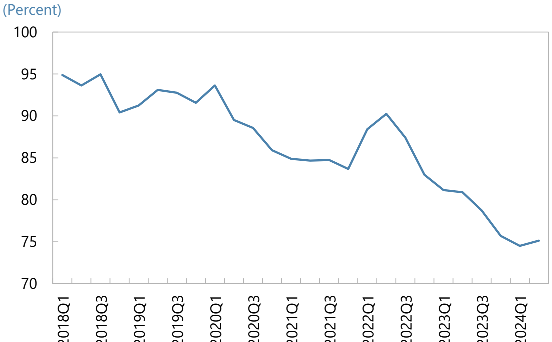


Source: Haver Analytics.

… and deposits are ample.

Serbia: Loan-to-Deposit Ratio

(Percent)

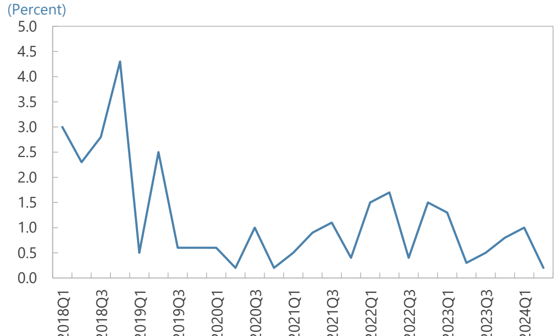


Source: Haver Analytics.

Open foreign currency positions have been well managed through hedging.

Serbia: Net Open FX Position to Regulatory Capital

(Percent)



Sources: NBS and Haver Analytics.

Table 1. Serbia: Selected Economic and Social Indicators, 2022–2029

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)										
Real sector											
Real GDP	2.6	**2.5**	3.8	**3.8**	3.8	**4.2**	4.2	4.2	4.5	3.5	4.0
Real domestic demand (absorption)	3.2	**0.0**	1.0	**5.8**	6.5	**4.7**	4.4	4.4	5.1	3.5	3.8
Consumer prices (average)	12.0	**12.4**	12.4	**4.5**	4.6	**3.1**	3.7	3.3	3.3	3.0	3.0
Consumer prices (end of period)	15.1	**7.6**	7.6	**3.6**	4.0	**3.0**	3.4	3.3	3.2	3.0	3.0
GDP deflator	10.5	**12.0**	13.8	**5.7**	5.0	**3.3**	3.3	3.1	3.2	2.9	2.8
Unemployment rate (in percent) 1/	9.5	**9.5**	9.4	**9.4**	8.6	**9.3**	8.5	8.4	8.3	8.2	8.1
Nominal GDP (in billions of dinars)	7,459	**8,150**	8,818	**8,947**	9,604	**9,629**	10,336	11,108	11,969	12,740	13,619
	(Percent of GDP)										
General government finances											
Revenue 2/	41.2	**42.6**	39.4	**43.3**	40.9	**43.4**	41.2	40.9	40.9	40.9	40.9
Expenditure 2/	44.1	**44.8**	41.4	**45.5**	43.6	**45.9**	44.2	43.9	43.9	43.5	43.4
Current 2/	34.3	**36.7**	33.9	**37.0**	35.7	**37.4**	36.4	36.1	36.1	36.0	36.0
Capital and net lending	9.6	**7.9**	7.3	**8.1**	7.6	**8.3**	7.5	7.5	7.5	7.3	7.3
Amortization of called guarantees	0.2	**0.3**	0.3	**0.3**	0.3	**0.2**	0.3	0.2	0.2	0.1	0.1
Fiscal balance 3/	-2.9	**-2.2**	-2.0	**-2.2**	-2.7	**-2.5**	-3.0	-3.0	-3.0	-2.5	-2.5
Primary fiscal balance (cash basis)	-1.5	**-0.4**	-0.4	**-0.2**	-0.8	**-0.6**	-0.9	-0.9	-1.0	-0.7	-0.8
Gross debt (public and publicly guaranteed) 4/	52.9	**52.3**	48.4	**52.0**	48.0	**50.4**	47.7	46.9	46.4	46.1	45.7
of which: Public debt	50.7	**52.3**	46.2	**52.0**	45.7	**50.4**	45.1	43.7	43.0	42.6	42.4
	(End of period 12-month change, percent)										
Monetary sector											
Broad money (M2)	6.9	**13.1**	13.1	**6.3**	9.7	**4.7**	8.0	7.8	8.3	7.3	7.8
Domestic credit to non-government 5/	7.4	**1.2**	1.2	**4.9**	8.6	**6.5**	7.9	5.7	9.2	7.8	7.8
	(End of period, percent)										
Interest rates (dinar)											
NBS key policy rate	5.0	**6.50**	6.5	**...**	...	**...**	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	5.1	**6.99**	7.0	**...**	...	**...**	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)										
Balance of payments											
Current account balance	-6.5	**-2.6**	-2.3	**-4.1**	-4.4	**-4.7**	-5.1	-5.2	-5.5	-5.5	-5.2
Trade of goods balance	-14.7	**-9.5**	-8.7	**-10.2**	-9.6	**-10.4**	-9.8	-10.0	-10.4	-10.4	-10.2
Exports of goods	42.4	**40.2**	37.2	**39.9**	37.6	**40.6**	38.4	38.8	38.7	39.4	39.9
Imports of goods	-57.1	**-49.8**	-45.8	**-50.1**	-47.2	**-51.0**	-48.2	-48.8	-49.2	-49.7	-50.1
Capital and financial account balance	8.9	**8.6**	7.7	**6.9**	8.1	**7.3**	7.2	6.5	6.7	6.6	6.7
External debt (percent of GDP)	68.5	**67.2**	62.1	**64.5**	61.8	**62.9**	60.3	58.7	55.9	54.7	53.3
of which: Private external debt	31.1	**29.8**	27.5	**27.6**	27.2	**26.1**	26.2	26.3	25.1	24.4	23.9
Gross official reserves (in billions of euro)	19.4	**24.9**	24.9	**27.7**	28.5	**29.8**	30.3	31.3	32.0	33.2	35.0
(in months of prospective imports)	5.2	**6.7**	6.7	**6.8**	6.8	**6.7**	6.6	6.3	5.9	5.7	5.5
(percent of short-term debt)	399.0	**511.9**	511.9	**570.3**	586.7	**612.8**	623.7	642.5	657.0	681.7	718.6
(percent of risk-weighted metric) 6/	130.4	**157.6**	153.0	**163.5**	163.6	**157.1**	161.5	149.1	143.0	139.9	138.4
Exchange rate (dinar/euro, period average)	117.5	**117.4**	117.4	**...**	...	**...**	...	...	...	...	...
REER (annual average change, in percent; + indicates appreciation)	3.3	**6.2**	6.2	**...**	...	**...**	...	...	...	...	...
Social indicators											
Per capita GDP (in US$)	10,023	**11,327**	12,282	**12,415**	13,544	**13,335**	14,750	15,980	17,270	18,437	19,777
Population (in million)	6.7	**6.6**	6.6	**6.6**	6.6	**6.6**	6.6	6.5	6.5	6.5	6.5

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

1/ Unemployment rate of the 15-64 year old labor force.
2/ Includes employer contributions.
3/ Includes amortization of called guarantees.
4/ Includes restitution bonds. Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis.
5/ At constant exchange rates.
6/ The risk-weighted metric is the IMF's ARA metric under fixed exchange rate. Serbia was reclassified as a de facto stabilized exchange rate regime in 2018.

Table 2. Serbia: Medium-Term Framework, 2022–2029

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
					(Percent change)						
Real sector											
GDP growth	2.6	**2.5**	3.8	**3.8**	3.8	**4.2**	4.2	4.2	4.5	3.5	4.0
Domestic demand (contribution)	3.4	**0.0**	1.1	**6.4**	6.8	**5.2**	4.7	4.8	5.5	3.8	4.1
Net exports (contribution)	-0.8	**2.5**	2.7	**-2.6**	-3.1	**-1.0**	-0.5	-0.6	-1.1	-0.3	-0.2
Consumer price inflation (average)	12.0	**12.4**	12.4	**4.5**	4.6	**3.1**	3.7	3.3	3.3	3.0	3.0
Consumer price inflation (end of period)	15.1	**7.6**	7.6	**3.6**	4.0	**3.0**	3.4	3.3	3.2	3.0	3.0
Output gap (in percent of potential)	0.1	**-0.8**	-0.8	**-0.6**	-0.6	**-0.2**	-0.1	0.2	0.6	0.1	0.0
Potential GDP growth	3.4	**3.5**	4.8	**3.6**	3.6	**3.7**	3.7	3.9	4.0	4.0	4.0
Domestic credit to non-government 1/	7.4	**1.2**	1.2	**4.9**	8.6	**6.5**	7.9	5.7	9.2	7.8	7.8
					(Percent of GDP, unless otherwise indicated)						
General government											
Revenue 2/	41.2	**42.6**	39.4	**43.3**	40.9	**43.4**	41.2	40.9	40.9	40.9	40.9
Expenditure 2/	44.1	**44.8**	41.4	**45.5**	43.6	**45.9**	44.2	43.9	43.9	43.5	43.4
Current 2/	34.3	**36.7**	33.9	**37.0**	35.7	**37.4**	36.4	36.1	36.1	36.0	36.0
of which: Wages and salaries 2/	9.2	**9.5**	8.8	**10.1**	9.5	**10.1**	9.7	9.7	9.8	9.8	9.8
of which: Pensions	8.6	**9.5**	8.8	**10.4**	9.7	**10.7**	10.1	10.2	10.1	10.1	10.1
of which: Goods and services	9.1	**9.2**	8.5	**8.8**	8.8	**8.8**	8.7	8.7	8.8	8.8	8.8
Capital and net lending	9.6	**7.9**	7.3	**8.1**	7.6	**8.3**	7.5	7.5	7.5	7.3	7.3
Amortization of called guarantees	0.2	**0.3**	0.3	**0.3**	0.3	**0.2**	0.3	0.2	0.2	0.1	0.1
Unidentified measures	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Fiscal balance 3/	-2.9	**-2.2**	-2.0	**-2.2**	-2.7	**-2.5**	-3.0	-3.0	-3.0	-2.5	-2.5
Gross debt (public and publicly guaranteed) 4/	52.9	**52.3**	48.4	**52.0**	48.0	**50.4**	47.7	46.9	46.4	46.1	45.7
of which: Public debt	50.7	**52.3**	46.2	**52.0**	45.7	**50.4**	45.1	43.7	43.0	42.6	42.4
					(Percent of GDP, unless otherwise indicated)						
Balance of payments											
Current account	-6.5	**-2.6**	-2.3	**-4.1**	-4.4	**-4.7**	-5.1	-5.2	-5.5	-5.5	-5.2
of which: Trade balance	-14.7	**-9.5**	-8.7	**-10.2**	-9.6	**-10.4**	-9.8	-10.0	-10.4	-10.4	-10.2
of which: Current transfers, net (excl. grants)	8.4	**7.6**	7.1	**7.2**	6.9	**6.8**	6.5	6.2	6.1	6.0	6.1
Capital and financial account	8.9	**8.6**	7.7	**6.9**	8.1	**7.3**	7.2	6.5	6.7	6.6	6.7
of which: Foreign direct investment	6.8	**6.0**	5.6	**5.6**	5.3	**5.3**	5.1	4.8	4.7	4.7	4.7
External debt (end of period)	68.5	**67.2**	62.1	**64.5**	61.8	**62.9**	60.3	58.7	55.9	54.7	53.3
of which: Private external debt	31.1	**29.8**	27.5	**27.6**	27.2	**26.1**	26.2	26.3	25.1	24.4	23.9
Gross official reserves											
(in billions of euros)	19.4	**24.9**	24.9	**27.7**	28.5	**29.8**	30.3	31.3	32.0	33.2	35.0
(in percent of short-term external debt)	399.0	**511.9**	511.9	**570.3**	586.7	**612.8**	623.7	642.5	657.0	681.7	718.6
REER (ann. av. change; + = appreciation)	3.3	**6.2**	6.2	**…**	…	**…**	…	…	…	…	…

Sources: NBS, Ministry of Finance, 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/ Includes restitution bonds. Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis.

Table 3. Serbia: Growth Composition, 2022–2029

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)										
Real GDP											
Gross Domestic Product (GDP)	2.6	**2.5**	3.8	**3.8**	3.8	**4.2**	4.2	4.2	4.5	3.5	4.0
Domestic demand (absorption)	3.2	**0.0**	1.0	**5.8**	6.5	**4.7**	4.4	4.4	5.1	3.5	3.8
Consumption	3.0	**0.8**	-0.1	**4.1**	5.0	**4.0**	4.3	4.1	4.7	3.7	4.2
Non-government	3.5	**0.8**	0.5	**4.0**	4.0	**4.2**	4.2	4.2	4.5	3.8	4.0
Government	1.3	**0.3**	-2.4	**4.4**	8.8	**3.3**	4.8	3.8	5.5	3.2	4.9
Investment	3.8	**-2.3**	4.9	**11.6**	11.0	**6.5**	4.5	5.3	6.2	2.9	2.6
Gross fixed capital formation	2.2	**3.9**	9.7	**6.2**	7.0	**4.9**	5.1	5.3	6.1	3.5	4.8
Non-government	3.9	**3.8**	11.0	**3.4**	3.5	**5.0**	5.5	5.5	6.0	4.5	5.0
Government	-3.4	**4.0**	5.4	**15.5**	19.5	**4.5**	3.9	4.7	6.5	0.2	4.3
Exports of goods and services	17.0	**2.4**	2.7	**6.1**	5.7	**6.8**	7.6	6.3	5.6	6.0	6.1
Imports of goods and services	16.2	**-1.1**	-1.6	**8.7**	9.9	**7.1**	7.5	6.3	6.5	5.7	5.5
	(Contributions to GDP growth, percent)										
Real GDP											
Gross Domestic Product (GDP)	2.6	**2.5**	3.8	**3.8**	3.8	**4.2**	4.2	4.2	4.5	3.5	4.0
Domestic demand (absorption)	3.4	**0.0**	1.1	**6.4**	6.8	**5.2**	4.7	4.8	5.5	3.8	4.1
Net exports of goods and services	-0.8	**2.5**	2.7	**-2.6**	-3.1	**-1.0**	-0.5	-0.6	-1.1	-0.3	-0.2
Consumption	2.5	**0.6**	-0.1	**3.4**	4.0	**3.4**	3.5	3.3	3.8	3.0	3.4
Non-government	2.2	**0.6**	0.3	**2.8**	2.5	**2.9**	2.6	2.6	2.8	2.4	2.5
Government	0.2	**0.1**	-0.4	**0.7**	1.5	**0.5**	0.9	0.7	1.0	0.6	0.9
Investment	1.0	**-0.6**	1.2	**3.0**	2.8	**1.8**	1.2	1.4	1.7	0.8	0.7
Gross fixed capital formation	0.5	**0.9**	2.2	**1.5**	1.7	**1.2**	1.3	1.3	1.6	0.9	1.3
Non-government	0.7	**0.7**	1.9	**0.6**	0.7	**0.9**	1.0	1.1	1.2	0.9	1.0
Government	-0.2	**0.2**	0.3	**0.9**	1.0	**0.3**	0.2	0.3	0.4	0.0	0.3
Change in inventories	0.5	**-1.5**	-1.0	**1.5**	1.1	**0.6**	-0.1	0.1	0.1	-0.1	-0.5
Exports of goods and services	8.9	**1.6**	1.6	**4.1**	3.3	**4.7**	4.6	3.9	3.6	3.8	4.0
Imports of goods and services	9.7	**-0.9**	-1.1	**6.7**	6.4	**5.7**	5.1	4.4	4.6	4.1	4.1
	(Percent change, unless otherwise indicated)										
Nominal GDP											
Gross Domestic Product (GDP)	13.4	**14.8**	18.2	**9.8**	8.9	**7.6**	7.6	7.5	7.8	6.4	6.9
Domestic demand (absorption), contribution to GDP growth	17.6	**9.0**	12.9	**11.2**	11.3	**8.4**	8.3	8.1	8.8	6.8	7.2
Net exports of goods and services, contribution to GDP growth	-4.2	**5.8**	5.3	**-1.4**	-2.4	**-0.7**	-0.7	-0.6	-1.0	-0.4	-0.3
Consumption	15.3	**13.0**	12.1	**9.2**	9.8	**7.4**	8.0	7.6	8.1	6.8	7.3
Non-government	16.5	**13.2**	12.7	**8.6**	8.3	**7.4**	7.8	7.6	7.9	6.9	7.1
Government	11.0	**12.5**	10.3	**11.5**	15.3	**7.5**	8.7	7.3	8.9	6.3	8.1
Investment	20.0	**-7.4**	10.3	**16.6**	14.1	**9.8**	7.2	7.8	8.5	5.0	4.7
Gross fixed capital formation	17.7	**7.9**	15.5	**13.0**	11.8	**8.7**	7.9	7.9	8.8	5.6	7.2
Non-government	21.6	**6.3**	17.0	**8.1**	7.1	**8.2**	8.4	8.1	8.6	6.8	7.3
Government	9.0	**11.8**	11.8	**24.2**	24.0	**9.8**	7.0	7.6	9.4	2.7	6.9
Exports of goods and services	31.6	**7.7**	7.2	**8.6**	9.3	**9.1**	9.9	8.7	8.0	8.1	8.1
Imports of goods and services	34.6	**-1.2**	-1.3	**10.2**	12.6	**9.4**	10.0	8.8	8.7	7.8	7.7
Memorandum items											
Nominal GDP (billions of dinars)	7,459	**8,150**	8,818	**8,947**	9,604	**9,629**	10,336	11,108	11,969	12,740	13,619
GDP deflator (percent)	10.5	**12.0**	13.8	**5.7**	5.0	**3.3**	3.3	3.1	3.2	2.9	2.8

Sources: SORS; and IMF staff estimates and projections.

Table 4a. Serbia: Balance of Payments (Billions of euros), 2022–2029 1/

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.1	**-1.8**	-1.8	**-3.1**	-3.6	**-3.9**	-4.5	-5.0	-5.6	-6.0	-6.0
Trade of goods balance	-9.4	**-6.6**	-6.5	**-7.8**	-7.8	**-8.5**	-8.6	-9.5	-10.7	-11.3	-11.9
Exports of goods	26.9	**27.9**	27.9	**30.3**	30.8	**33.2**	33.9	36.9	39.7	43.0	46.5
Imports of goods	-36.3	**-34.5**	-34.4	**-38.1**	-38.7	**-41.7**	-42.6	-46.3	-50.3	-54.3	-58.4
Services balance	2.3	**3.0**	3.0	**3.2**	2.5	**3.3**	2.7	3.0	3.2	3.4	3.7
Exports of nonfactor services	11.1	**13.1**	13.0	**14.2**	13.9	**15.4**	15.3	16.6	18.1	19.5	21.0
Imports of nonfactor services	-8.8	**-10.1**	-10.1	**-11.0**	-11.4	**-12.1**	-12.6	-13.7	-14.8	-16.0	-17.2
Income balance	-3.0	**-3.9**	-3.9	**-4.2**	-4.2	**-4.4**	-4.6	-4.7	-4.7	-5.1	-5.4
Net interest	-0.8	**-1.2**	-1.2	**-1.6**	-1.8	**-1.5**	-1.8	-1.6	-1.3	-1.4	-1.4
Others, including reinvested earnings	-2.2	**-2.6**	-2.6	**-2.7**	-2.4	**-2.9**	-2.8	-3.1	-3.4	-3.7	-3.9
Current transfer balance	5.9	**5.6**	5.6	**5.7**	5.9	**5.8**	6.0	6.2	6.6	6.9	7.5
Official grants	0.6	**0.3**	0.3	**0.2**	0.3	**0.2**	0.3	0.3	0.3	0.4	0.4
Others, including private remittances	5.4	**5.3**	5.3	**5.5**	5.6	**5.5**	5.7	5.9	6.2	6.6	7.1
Capital and financial account balance 1/	5.7	**5.9**	5.8	**5.2**	6.7	**5.9**	6.3	6.1	6.9	7.2	7.8
Capital transfer balance	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	4.3	**4.2**	4.2	**4.2**	4.4	**4.4**	4.5	4.6	4.8	5.2	5.5
Portfolio investment balance	-0.1	**0.9**	0.9	**1.6**	1.0	**1.4**	1.2	2.1	1.4	1.1	1.1
of which: debt liabilities	-0.1	**1.0**	1.0	**1.6**	1.0	**1.4**	1.2	2.1	1.4	1.1	1.1
Other investment balance	1.4	**0.8**	0.7	**-0.6**	1.3	**0.2**	0.7	-0.5	0.6	1.0	1.3
Public sector 1/ 2/	1.6	**1.2**	1.1	**0.2**	0.7	**0.7**	0.7	-1.4	0.9	1.1	1.1
Domestic banks	0.6	**-0.7**	-0.7	**-0.1**	0.0	**-0.1**	-0.1	-0.1	-0.2	-0.3	-0.2
Other private sector 3/	-0.8	**0.3**	0.3	**-0.7**	0.5	**-0.3**	0.2	1.0	0.0	0.2	0.4
Errors and omissions	0.4	**1.0**	0.2	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	**5.1**	4.2	**2.1**	3.0	**2.1**	1.8	1.2	1.3	1.3	1.8
Financing	-1.9	**-5.1**	-4.2	**-2.1**	-3.0	**-2.1**	-1.8	-1.2	-1.3	-1.3	-1.8
Gross international reserves (increase, -)	-2.9	**-5.5**	-4.7	**-2.8**	-3.6	**-2.1**	-1.8	-0.9	-0.7	-1.2	-1.8
Financing Gap	1.0	**0.4**	0.5	**0.7**	0.6	**0.0**	0.0	-0.3	-0.6	-0.1	0.0
Use of Fund credit, net	1.0	**0.2**	0.2	**0.0**	0.0	**0.0**	0.0	-0.6	-0.6	-0.1	0.0
Purchases	1.0	**0.2**	0.2	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	-0.6	-0.6	-0.1	0.0
Development partners	0.0	**0.2**	0.3	**0.7**	0.6	**0.0**	0.0	0.3	0.0	0.0	0.0
Memorandum item											
GDP (billions of euros)	63.5	**69.4**	75.1	**76.1**	82.1	**81.8**	88.4	95.1	102.5	109.2	116.8

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 (Percent of GDP), 2022–2029[1/]

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-6.5	-2.6	-2.3	-4.1	-4.4	-4.7	-5.1	-5.2	-5.5	-5.5	-5.2
Trade of goods balance	-14.7	-9.5	-8.7	-10.2	-9.5	-10.4	-9.8	-9.9	-10.4	-10.4	-10.2
Exports of goods	42.4	40.2	37.2	39.9	37.6	40.6	38.4	38.8	38.7	39.3	39.8
Imports of goods	-57.1	-49.8	-45.8	-50.1	-47.1	-51.0	-48.2	-48.7	-49.1	-49.7	-50.0
Services balance	3.6	4.3	3.9	4.2	3.0	4.1	3.1	3.1	3.2	3.2	3.2
Income balance	-4.7	-5.6	-5.1	-5.6	-5.1	-5.4	-5.3	-5.0	-4.6	-4.6	-4.6
Current transfer balance	9.3	8.1	7.5	7.5	7.2	7.1	6.8	6.6	6.4	6.4	6.4
Official grants	0.9	0.5	0.4	0.3	0.4	0.3	0.4	0.4	0.3	0.3	0.3
Others, including private remittances	8.4	7.6	7.1	7.2	6.9	6.8	6.4	6.2	6.1	6.0	6.1
Capital and financial account balance 1/	8.9	8.6	7.7	6.9	8.1	7.3	7.2	6.4	6.7	6.6	6.7
Capital transfers balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	6.8	6.0	5.6	5.6	5.3	5.3	5.1	4.8	4.7	4.7	4.7
Portfolio investment balance	-0.1	1.3	1.2	2.1	1.2	1.7	1.3	2.2	1.4	1.0	0.9
Other investment balance	2.3	1.2	0.9	-0.8	1.6	0.2	0.8	-0.5	0.6	0.9	1.1
Public sector 1/ 2/	2.5	1.7	1.4	0.2	0.9	0.8	0.7	-1.5	0.8	1.0	0.9
Domestic banks	1.0	-1.0	-0.9	-0.1	0.0	-0.2	-0.2	-0.1	-0.2	-0.3	-0.2
Other private sector 3/	-1.2	0.5	0.5	-0.9	0.6	-0.4	0.2	1.1	0.0	0.2	0.3
Errors and omissions	0.6	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.0	7.4	5.6	2.8	3.7	2.5	2.0	1.2	1.3	1.2	1.5
Financing	-3.0	-7.4	-5.6	-2.8	-3.7	-2.5	-2.0	-1.2	-1.3	-1.2	-1.5
Gross international reserves (increase, -)	-4.6	-7.9	-6.3	-3.7	-4.4	-2.5	-2.0	-1.0	-0.7	-1.1	-1.5
Financing Gap	1.6	0.5	0.7	1.0	0.7	0.0	0.0	-0.3	-0.6	0.0	0.0
Use of Fund credit, net	1.6	0.2	0.2	0.0	0.0	0.0	0.0	-0.6	-0.6	0.0	0.0
Purchases	1.6	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.6	0.0	0.0
Development partners	0.0	0.3	0.4	1.0	0.7	0.0	0.0	0.3	0.0	0.0	0.0
				(Percent change, unless otherwise indicated)							
Memorandum items:											
Nominal growth of exports of goods	29.5	3.8	3.7	8.7	10.5	9.3	10.0	8.6	7.6	8.3	8.3
Nominal growth of import of goods	35.8	-4.8	-5.1	10.4	12.4	9.4	10.0	8.8	8.7	7.8	7.7
Volume growth of exports of goods	9.5	5.1	5.1	6.1	6.8	7.1	7.7	6.2	5.3	6.2	6.2
Volume growth of import of goods	10.4	-2.2	-2.6	8.9	9.7	7.1	7.5	6.3	6.5	5.7	5.6
Trading partner import growth	6.3	-0.9	-1.0	3.3	1.7	3.9	3.7	3.7	3.5	3.6	3.3
Export prices growth	18.3	-1.3	-1.3	2.4	3.5	2.1	2.1	2.3	2.2	2.0	2.0
Import prices growth	23.0	-2.6	-2.6	1.4	2.4	2.2	2.3	2.3	2.1	2.0	2.0
Change in terms of trade	-3.8	1.3	1.3	1.0	1.0	-0.1	-0.2	0.0	0.1	0.0	-0.1
Gross official reserves (in billions of euro)	19.4	24.9	24.9	27.7	28.5	29.8	30.3	31.3	32.0	33.2	35.0
(In months of prospective imports of GNFS)	5.2	6.7	6.7	6.8	6.8	6.7	6.6	6.3	5.9	5.7	5.5
(in percent of short-term debt)	399.0	511.9	511.9	570.3	586.7	612.8	623.7	642.5	657.0	681.7	718.6
(in percent of broad money, M2)	57.4	60.5	65.0	61.8	65.2	61.5	64.1	61.2	57.8	55.8	54.6
(in percent of risk-weighted metric) 4/	130.4	157.6	153.0	163.5	163.6	157.1	161.5	149.1	143.0	139.9	138.4
GDP (billions of euros)	63.5	69.4	75.1	76.1	82.1	81.8	88.4	95.1	102.5	109.2	116.8

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 the IMF's ARA metric for the fixed exchange rate. Serbia was reclassified as a de facto stabilized exchange rate regime in 2018.

Table 5a. Serbia: External Financing Requirements and Sources (Baseline), 2022–2029

(In billions of euros)

	2022	2023	2024	2025	2026	2027	2028	2029
		Est.			Proj.			
Total financing requirement	**11.7**	**10.4**	**10.4**	**9.5**	**12.7**	**12.4**	**12.0**	**11.6**
Current account deficit	4.1	1.8	3.6	4.5	5.0	5.6	6.0	6.0
Debt amortization	4.7	3.8	3.2	3.2	6.9	6.1	4.8	3.7
Medium and long-term debt	3.8	2.6	2.9	3.1	6.9	6.1	4.8	3.7
Public sector	2.1	1.5	1.4	1.7	4.9	4.9	3.8	3.4
Of which: IMF	0.0	0.0	0.0	0.0	0.6	0.6	0.1	0.0
Of which: Eurobonds	0.0	0.0	0.2	0.2	0.0	2.1	1.8	1.6
Of which: Domestic bonds (non-residents)	1.1	0.3	0.3	0.4	0.5	0.4	0.7	0.6
Commercial banks	0.7	0.6	0.7	0.4	0.7	0.4	0.5	0.1
Corporate sector	1.0	0.5	0.8	1.0	1.2	0.8	0.5	0.2
Short-term debt	0.9	1.2	0.3	0.1	0.0	0.0	0.0	0.0
Commercial banks	0.9	0.8	0.2	0.1	0.0	0.0	0.0	0.0
Corporate sector	0.0	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Change in gross reserves (increase=+)	2.9	4.7	3.6	1.8	0.9	0.7	1.2	1.8
Total financing sources	**10.7**	**9.9**	**9.8**	**9.5**	**13.0**	**13.0**	**12.0**	**11.6**
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	4.3	4.2	4.4	4.5	4.6	4.8	5.2	5.5
Portfolio investment (net) 1/	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing (excl. except. financing)	6.3	7.9	6.6	5.8	9.1	7.6	7.1	6.3
Medium and long-term debt	5.4	6.7	6.3	5.7	9.1	7.6	7.1	6.3
Public sector 2/	3.4	4.1	3.5	3.4	5.4	5.6	5.2	4.7
Of which: Eurobonds	0.0	1.6	1.4	1.1	2.3	2.3	2.0	1.6
Of which: Domestic bonds (non-residents)	0.8	0.3	0.4	0.6	0.7	0.7	0.9	0.8
Commercial banks	0.7	1.3	0.9	0.5	0.8	0.4	0.4	0.2
Corporate sector	1.3	1.3	1.9	1.8	2.9	1.5	1.4	1.5
Short-term debt	0.9	1.2	0.3	0.1	0.0	0.0	0.0	0.0
Other net capital inflows 3/	0.1	-2.2	-1.2	-0.7	-0.7	0.6	-0.3	-0.3
o/w trade credit and currency and deposits	-1.0	-0.2	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1
Total financing needs	**1.0**	**0.5**	**0.6**	**0.0**	**-0.3**	**-0.6**	**-0.1**	**0.0**
Exceptional financing (net)	**1.0**	**0.5**	**0.6**	**0.0**	**-0.3**	**-0.6**	**-0.1**	**0.0**
IMF	1.0	0.2	0.0	0.0	-0.6	-0.6	-0.1	0.0
Development partners, *by debtor:* 4/	0.0	0.3	0.6	0.0	0.3	0.0	0.0	0.0
General government	0.0	0.1	0.3	0.0	0.3	0.0	0.0	0.0
SOEs (from IFIs)	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves (**without** except. financing)	18.4	23.4	26.4	28.2	29.4	30.7	32.0	33.8
as % of ARA Metric	123.6	143.7	151.5	150.3	140.3	137.5	134.9	133.7
Gross international reserves (**with** except. financing)	19.4	24.9	28.5	30.3	31.3	32.0	33.2	35.0
as % of ARA Metric	130.4	153.0	163.6	161.5	149.1	143.0	139.9	138.4
Debt service	5.5	5.2	5.0	5.0	8.3	7.3	6.0	4.8
Interest	0.8	1.4	1.8	1.8	1.5	1.3	1.2	1.0
Amortization	4.7	3.8	3.2	3.2	6.9	6.1	4.8	3.7

Sources: NBS, and IMF 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.
4/ Exceptional financing is provided by the World Bank, AFD, KfW, EBRD and Cassa Depositi e Prestiti (see MEFP). Some loans are disbursed to the budget and are public debt, others are disbursed to SOEs in the energy sector and are publicly guaranteed debt.

Table 5b. Serbia; Indicators of Capacity to Repay the Fund, 2022–2029[1/]

	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Fund repurchases and charges 2/								
In millions of SDRs	4	73	89	75	504	527	79	36
In millions of euros	5	90	109	91	616	646	97	45
In percent of exports of goods and NFS	0.0	0.2	0.2	0.2	1.2	1.1	0.2	0.1
In percent of GDP	0.0	0.1	0.1	0.1	0.6	0.6	0.1	0.0
In percent of quota	0.6	11.1	13.6	11.4	77.0	80.5	12.1	5.6
In percent of total external debt service	0.1	1.7	2.2	1.8	7.4	8.8	1.6	0.9
In percent of gross international reserves	0.0	0.4	0.4	0.3	2.0	2.0	0.3	0.1
Fund credit outstanding (end-period)								
In millions of SDRs	786	949	949	949	516	41	-	-
In millions of euros	986	1,162	1,158	1,160	631	50	-	-
In percent of exports of goods and NFS	2.6	2.8	2.6	2.4	1.2	0.1	-	-
In percent of GDP	1.6	1.5	1.4	1.3	0.7	0.0	-	-
In percent of quota	120.0	145.0	145.0	145.0	78.8	6.3	-	-
In percent of total external debt	2.3	2.5	2.3	2.2	1.1	0.1	-	-
In percent of gross international reserves	5.1	4.7	4.1	3.8	2.0	0.2	-	-
Memorandum items:	(In millions of euros, unless otherwise indicated)							
Exports of goods and NFS	38,000	40,956	44,770	49,202	53,476	57,731	62,411	67,491
Quota (in millions of SDRs)	654.8	654.8	654.8	654.8	654.8	654.8	654.8	655.8
GDP	63,498	75,079	82,080	88,392	95,070	102,524	109,203	116,794
Total external debt service	5,466	5,206	4,991	4,965	8,308	7,349	5,973	4,764
Public sector external debt	23,724	25,964	28,347	30,081	30,846	31,539	33,017	34,314
Total external debt	43,489	46,636	50,676	53,259	55,798	57,284	59,621	62,221
Total external debt stock excluding IMF	42,475	45,458	49,498	52,081	55,179	57,277	59,668	62,267
Gross international reserves	19,416	24,909	28,546	30,349	31,262	31,968	33,171	34,965

Source: IMF 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 (Billions of RSD), 2022–2029[1/]

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	3,076	3,473	3,473	3,872	3,928	4,177	4,257	4,541	4,892	5,214	5,572
Taxes	2,760	3,079	3,079	3,444	3,486	3,715	3,764	4,061	4,398	4,704	5,028
Personal income tax	302	348	348	390	398	419	429	465	504	536	570
Social security contributions 2/	952	1,061	1,061	1,217	1,221	1,311	1,352	1,467	1,601	1,709	1,821
Taxes on profits	209	272	272	289	292	316	298	314	336	368	401
Value-added taxes	779	843	843	936	954	1,010	1,047	1,133	1,223	1,306	1,397
Excises	338	367	367	404	417	436	423	456	493	528	566
Taxes on international trade	79	81	81	88	88	94	95	102	110	119	128
Other taxes	100	107	107	120	115	130	120	123	131	138	146
Non-tax revenue	285	343	343	392	399	426	447	431	445	459	489
Capital revenue	16	9	9	9	7	10	7	8	9	9	10
Grants	16	43	43	27	36	27	39	40	41	43	46
Expenditure	3,292	3,654	3,654	4,068	4,189	4,418	4,568	4,874	5,250	5,536	5,913
Current expenditure	2,560	2,988	2,988	3,313	3,433	3,601	3,761	4,013	4,324	4,587	4,899
Wages and salaries 3/	684	775	775	901	910	970	1,000	1,074	1,170	1,244	1,341
Goods and services	680	751	751	788	843	845	898	963	1,048	1,116	1,202
Interest	107	149	149	176	186	188	217	231	235	235	237
Subsidies	160	214	214	213	243	230	267	262	286	304	325
Transfers	929	1,099	1,099	1,235	1,251	1,368	1,377	1,484	1,586	1,689	1,794
Pensions	638	774	774	927	931	1,035	1,043	1,128	1,209	1,290	1,371
Other transfers 4/	291	325	325	309	320	333	335	356	377	399	423
Capital expenditure	508	568	568	706	704	775	754	811	887	913	979
Net lending	206	74	74	20	21	23	23	25	17	18	19
Amortization of activated guarantees	18	24	24	29	31	20	31	26	23	18	16
Fiscal balance	-216	-180	-180	-197	-260	-241	-311	-333	-358	-321	-341
Financing	216	180	180	197	260	241	311	333	358	321	341
Privatization proceeds	0	0	0	0	0	0	0	0	0	0	0
Equity investment	0	0	0	0	0	0	0	0	0	0	0
Domestic	-148	-307	-284	-31	-1	5	130	261	304	171	216
External	364	343	314	177	231	236	181	102	125	157	125
Program	197	17	1	0	6	9	24	28	29	9	9
Project	139	168	152	184	165	198	178	201	236	252	249
Bonds and loans	0	267	270	369	189	176	124	320	313	245	188
IMF resources (net)	106	0	0	0	0	0	0	0	0	0	0
Amortization	-78	-109	-109	-376	-130	-147	-145	-448	-454	-348	-321
Financing gap	0	144	151	51	30	0	0	-29	-72	-6	0
IMF - SBA	0	144	135	0	0	0	0	-65	-72	-6	0
Development partners	0	0	16	51	30	0	0	36	0	0	0
Memorandum items:											
Gross wages and salaries	587	670	670	772	786	832	862	925	1,008	1,072	1,155
Arrears accumulation (domestic)	1	-1	-1	-1	-1	0	0	0	0	0	0
Government deposits (stock)	422	602	602	651	654	586	604	463	396	347	349
Gross debt (public and publicly guaranteed) 5/	3,946	4,266	4,266	4,648	4,605	4,857	4,934	5,208	5,556	5,868	6,228
Public debt	3,784	4,076	4,070	4,384	4,392	4,527	4,657	4,856	5,151	5,426	5,769
Publicly guaranteed debt	162	190	196	264	214	330	277	352	405	442	459
Nominal GDP	7,459	8,150	8,818	8,947	9,604	9,629	10,336	11,108	11,969	12,740	13,619

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/ Includes severance payments. Includes employer contributions.
4/ Excludes foreign currency deposit payments to households, reclassified below the line.
5/ Includes restitution bonds. 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 (Percent of GDP), 2022–2029[1/]

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	41.2	42.6	39.4	43.3	40.9	43.4	41.2	40.9	40.9	40.9	40.9
Taxes	37.0	37.8	34.9	38.5	36.3	38.6	36.4	36.6	36.7	36.9	36.9
Personal income tax	4.1	4.3	3.9	4.4	4.1	4.4	4.1	4.2	4.2	4.2	4.2
Social security contributions 2/	12.8	13.0	12.0	13.6	12.7	13.6	13.1	13.2	13.4	13.4	13.4
Taxes on profits	2.8	3.3	3.1	3.2	3.0	3.3	2.9	2.8	2.8	2.9	2.9
Value-added taxes	10.5	10.3	9.6	10.5	9.9	10.5	10.1	10.2	10.2	10.2	10.3
Excises	4.5	4.5	4.2	4.5	4.3	4.5	4.1	4.1	4.1	4.1	4.2
Taxes on international trade	1.1	1.0	0.9	1.0	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Other taxes	1.3	1.3	1.2	1.3	1.2	1.3	1.2	1.1	1.1	1.1	1.1
Non-tax revenue	3.8	4.2	3.9	4.4	4.2	4.4	4.3	3.9	3.7	3.6	3.6
Capital revenue	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.2	0.5	0.5	0.3	0.4	0.3	0.4	0.4	0.3	0.3	0.3
Expenditure	44.1	44.8	41.4	45.5	43.6	45.9	44.2	43.9	43.9	43.5	43.4
Current expenditure	34.3	36.7	33.9	37.0	35.7	37.4	36.4	36.1	36.1	36.0	36.0
Wages and salaries 3/	9.2	9.5	8.8	10.1	9.5	10.1	9.7	9.7	9.8	9.8	9.8
Goods and services	9.1	9.2	8.5	8.8	8.8	8.8	8.7	8.7	8.8	8.8	8.8
Interest	1.4	1.8	1.7	2.0	1.9	1.9	2.1	2.1	2.0	1.8	1.7
Subsidies	2.2	2.6	2.4	2.4	2.5	2.4	2.6	2.4	2.4	2.4	2.4
Transfers	12.5	13.5	12.5	13.8	13.0	14.2	13.3	13.4	13.2	13.3	13.2
Pensions	8.6	9.5	8.8	10.4	9.7	10.7	10.1	10.2	10.1	10.1	10.1
Other transfers 4/	3.9	4.0	3.7	3.5	3.3	3.5	3.2	3.2	3.1	3.1	3.1
Capital expenditure	6.8	7.0	6.4	7.9	7.3	8.0	7.3	7.3	7.4	7.2	7.2
Net lending	2.8	0.9	0.8	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Amortization of activated guarantees	0.2	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.1	0.1
Fiscal balance	-2.9	-2.2	-2.0	-2.2	-2.7	-2.5	-3.0	-3.0	-3.0	-2.5	-2.5
Financing	2.9	2.2	2.0	2.2	2.7	2.5	3.0	3.0	3.0	2.5	2.5
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-2.0	-3.8	-3.2	-0.3	0.0	0.1	1.3	2.4	2.5	1.3	1.6
External	4.9	4.2	3.6	2.0	2.4	2.5	1.7	0.9	1.0	1.2	0.9
Program	2.6	0.2	0.0	0.0	0.1	0.1	0.2	0.3	0.2	0.1	0.1
Project	1.9	2.1	1.7	2.1	1.7	2.1	1.7	1.8	2.0	2.0	1.8
Bonds and loans	0.0	3.3	3.1	4.1	2.0	1.8	1.2	2.9	2.6	1.9	1.4
IMF resources (net)	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-1.3	-1.2	-4.2	-1.3	-1.5	-1.4	-4.0	-3.8	-2.7	-2.4
Financing gap	0.0	1.8	1.7	0.6	0.3	0.0	0.0	-0.3	-0.6	0.0	0.0
IMF - SBA	0.0	1.8	1.5	0.0	0.0	0.0	0.0	-0.6	-0.6	0.0	0.0
Development partners	0.0	0.0	0.2	0.6	0.3	0.0	0.0	0.3	0.0	0.0	0.0
Memorandum items:											
Gross wages and salaries	7.9	8.2	7.6	8.6	8.2	8.6	8.3	8.3	8.4	8.4	8.5
Arrears accumulation (domestic)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government deposits (stock)	5.7	7.4	6.8	7.3	6.8	6.1	5.8	4.2	3.3	2.7	2.6
Gross debt (public and publicly guaranteed) 5/	52.9	52.3	48.4	52.0	48.0	50.4	47.7	46.9	46.4	46.1	45.7
Public debt	50.7	52.3	46.2	52.0	45.7	50.4	45.1	43.7	43.0	42.6	42.4
Publicly guaranteed debt	2.2	2.3	2.2	3.0	2.2	3.4	2.7	3.2	3.4	3.5	3.4
Nominal GDP (billions of RSD)	7,459	8,150	8,818	8,947	9,604	9,629	10,336	11,108	11,969	12,740	13,619

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/ Includes severance payments. Includes employer contributions.
4/ Excludes foreign currency deposit payments to households, reclassified below the line.
5/ Includes restitution bonds. 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, 2023–2025[1/]

(Central government debt, in billions of euros)

	Debt Stock July 2024 (end of period)			Debt Service 2023	2024	2025	2023	2024	2025
	(In Euro bln)	(Percent of total debt)	(Percent of GDP)	(In Euro bln)			(Percent of GDP)		
Total	38.2	100.0	46.7	4.5	3.0	3.6	6.0	3.6	4.1
External	27.3	71.3	33.3	1.1	1.4	1.5	1.5	1.7	1.7
Multilateral creditors 2/	8.3	21.6	10.1	0.5	0.6	0.6	0.7	0.7	0.7
IMF	2.4	6.3	2.9						
World Bank	0.0	0.0	0.0						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	5.8	15.3	7.1						
o/w: IBRD	2.3	6.0	2.8						
EIB	1.8	4.8	2.2						
Others (IDA, EU, CEB, EBRD, EUROFIMA, KfW)	1.7	4.5	2.1						
Bilateral Creditors	6.2	16.3	7.6	0.3	0.5	0.5	0.5	0.7	0.6
Paris Club	0.3	0.8	0.4	0.2	0.1	0.0	0.2	0.1	0.0
o/w: PC Germany KfW	0.0	0.0	0.0						
PC United Kingdom	0.0	0.0	0.0						
Non-Paris Club	5.9	15.5	7.2	0.2	0.4	0.5	0.2	0.5	0.6
o/w: UAE	2.2	5.9	2.7						
China	2.8	7.3	3.4						
Russia	0.7	1.8	0.8						
Others	0.2	0.6	0.3						
Bonds	10.3	27.0	12.6	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	1.9	4.9	2.3	0.2	0.1	0.2	0.3	0.1	0.2
Other international creditors	0.6	1.5	0.7	0.0	0.2	0.2	0.1	0.2	0.2
o/w: JICA	0.1	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Domestic	11.0	28.7	13.4	3.4	1.6	2.1	4.5	1.9	2.4
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	9.1	23.9	11.2	3.2	1.4	1.9	4.2	1.7	2.2
Loans and other domestic debt	1.8	4.7	2.2	0.2	0.2	0.2	0.2	0.3	0.2
Memo items:									
Collateralized debt 3/	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities	1.8	4.8	2.2						
o/w: Public guarantees	1.8	4.8	2.2						
o/w: Other explicit contingent liabilities 4/	0.0	0.0	0.0						
Nominal GDP	81.9			75.2	81.9	88.1			

Source: Serbia Public Debt Management Agency.

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, 2022–2029

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of RSD, unless otherwise indicated; end of period) 1/										
Net foreign assets 2/	1,853	**2,700**	2,700	**3,056**	3,115	**3,309**	3,343	3,462	3,575	3,757	3,997
In billions of euro	*15.8*	***23.0***	*23.0*	***25.9***	*26.6*	***28.2***	*28.6*	*29.6*	*30.6*	*32.2*	*34.2*
Foreign assets	2,692	**3,381**	3,381	**3,751**	3,819	**4,006**	4,051	4,178	4,291	4,461	4,708
NBS	2,291	**2,933**	2,933	**3,282**	3,353	**3,515**	3,561	3,665	3,744	3,883	4,091
Commercial banks	401	**448**	448	**470**	466	**492**	490	513	547	578	618
Foreign liabilities (-)	-838	**-681**	-681	**-695**	-703	**-697**	-708	-716	-717	-704	-712
NBS	-116	**0**	0	**-3**	-3	**-3**	-3	-3	0	0	0
Commercial banks	-722	**-680**	-680	**-692**	-700	**-694**	-705	-713	-717	-704	-712
Net domestic assets	2,117	**1,789**	1,789	**1,719**	2,011	**1,690**	2,195	2,509	2,891	3,178	3,479
Domestic credit	3,348	**3,162**	3,162	**3,476**	3,630	**3,712**	4,042	4,523	5,199	5,716	6,304
Government, net	172	**-56**	-56	**85**	-65	**105**	54	310	599	757	955
NBS	-476	**-675**	-675	**-643**	-758	**-584**	-704	-558	-487	-436	-436
Claims on government	101	**87**	87	**56**	56	**59**	59	62	65	68	72
Liabilities (deposits)	577	**762**	762	**700**	814	**643**	763	620	552	505	508
Banks	648	**619**	619	**728**	693	**689**	758	868	1,085	1,193	1,391
Claims on government	729	**703**	703	**823**	777	**781**	842	952	1,170	1,277	1,475
Liabilities (deposits)	81	**84**	84	**95**	84	**92**	84	84	84	84	84
Non-government sector	3,218	**3,254**	3,254	**3,427**	3,731	**3,643**	4,024	4,250	4,637	4,996	5,385
Households	1,458	**1,474**	1,474	**1,550**	1,599	**1,646**	1,722	1,816	1,978	2,128	2,291
Enterprises	1,715	**1,733**	1,733	**1,827**	2,082	**1,945**	2,247	2,376	2,595	2,799	3,020
Other assets, net	-1,231	**-1,373**	-1,373	**-1,757**	-1,619	**-2,022**	-1,847	-2,014	-2,308	-2,538	-2,825
Capital accounts (-)	-1,094	**-1,220**	-1,220	**-1,491**	-1,437	**-1,704**	-1,639	-1,786	-2,058	-2,263	-2,524
Broad money (M2)	3,971	**4,490**	4,490	**4,774**	5,126	**4,999**	5,538	5,971	6,466	6,935	7,476
Currency in circulation	311	**369**	369	**395**	411	**414**	451	494	543	591	645
Demand deposits	1,080	**1,340**	1,340	**1,432**	1,490	**1,501**	1,635	1,792	1,971	2,143	2,340
Time and saving deposits	423	**516**	516	**552**	776	**578**	852	934	1,028	1,117	1,220
Foreign currency deposits	2,158	**2,264**	2,264	**2,396**	2,450	**2,506**	2,600	2,750	2,923	3,085	3,270
In billions of euro	*18.4*	***19.3***	*19.3*	***20.3***	*20.9*	***21.3***	*22.2*	*23.5*	*25.0*	*26.4*	*28.0*
	(Year-on-year percent change, unless otherwise indicated)										
Memorandum items											
M2	6.9	**13.1**	13.1	**6.3**	9.7	**4.7**	8.0	7.8	8.3	7.3	7.8
Velocity (M2)	1.8	**1.8**	1.8	**1.9**	1.9	**1.9**	1.9	1.9	1.9	1.8	1.8
Deposits at constant exchange rate	7.2	**12.6**	12.7	**5.9**	9.6	**4.9**	7.9	7.7	8.2	7.2	7.7
Credit to non-gov. (current exchange rate)	10.0	**4.3**	4.4	**4.1**	8.6	**4.5**	6.5	6.7	7.1	6.6	7.0
Credit to non-gov. (constant exchange rates) 3/	10.2	**4.4**	4.5	**3.6**	8.7	**4.8**	6.6	6.8	7.1	6.6	7.0
Domestic	7.4	**1.2**	1.2	**4.9**	8.6	**6.5**	7.9	5.7	9.2	7.8	7.8
Households	6.2	**1.2**	1.2	**4.9**	8.5	**6.3**	7.7	5.5	9.0	7.6	7.6
Enterprises and other sectors	8.4	**1.3**	1.2	**4.9**	8.7	**6.7**	8.0	5.8	9.3	7.9	7.9
External	15.6	**10.0**	10.3	**1.5**	8.7	**1.9**	4.4	8.8	3.6	4.4	5.4
Credit to non-gov. (real terms) 4/	-4.4	**-3.1**	-3.0	**0.5**	4.4	**1.5**	3.0	3.3	3.7	3.5	3.8
Domestic credit to non-gov. (real terms)	-6.9	**-6.1**	-6.1	**1.6**	4.4	**3.2**	4.3	2.2	5.7	4.6	4.6
Households	-7.9	**-6.1**	-6.1	**1.5**	4.3	**3.1**	4.2	2.1	5.6	4.5	4.5
Enterprises and other sectors	-6.0	**-6.1**	-6.1	**1.8**	4.5	**3.3**	4.4	2.4	5.8	4.7	4.8
External	0.2	**2.1**	2.3	**-1.4**	4.5	**-1.4**	0.9	5.3	0.3	1.3	2.3
Deposit euroization (percent of total) 5/	59.0	**54.9**	54.9	**54.7**	51.9	**54.6**	51.1	50.2	49.4	48.6	47.9
Credit euroization (percent of total) 5/	64.2	**64.8**	64.8	**63.8**	63.9	**62.8**	63.0	62.1	61.2	60.3	59.4

Sources: NBS; 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 RSD/euro exchange rates for converting FX and FX-indexed loans to RSD.
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, 2022–2029

	2022	2023		2024		2025		2026	2027	2028	2029
		CR 24/202		CR 24/202	Proj.	CR 24/202	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of RSD, unless otherwise indicated; end of period) 1/										
Net foreign assets	2,175	**2,933**	2,933	**3,279**	3,349	**3,511**	3,558	3,662	3,741	3,879	4,088
In billions of euro	*18.5*	***25.0***	*25.0*	***27.8***	*28.6*	***29.9***	*30.4*	*31.3*	*32.0*	*33.2*	*35.0*
Gross foreign reserves	2,291	**2,933**	2,933	**3,282**	3,353	**3,515**	3,561	3,665	3,744	3,883	4,091
Net domestic assets	-964	**-1,523**	-1,523	**-1,904**	-1,842	**-2,113**	-1,966	-1,879	-1,797	-1,781	-1,812
Net domestic credit	-562	**-1,065**	-1,065	**-1,799**	-1,737	**-2,113**	-1,966	-1,879	-1,797	-1,781	-1,812
Net credit to government	-476	**-675**	-675	**-643**	-758	**-584**	-704	-558	-487	-436	-436
Claims on government	101	**87**	87	**56**	56	**59**	59	62	65	68	72
Liabilities to government (-)	-577	**-762**	-762	**-700**	-814	**-643**	-763	-620	-552	-505	-508
Reserve money	1,211	**1,410**	1,410	**1,375**	1,508	**1,399**	1,591	1,783	1,944	2,098	2,276
Currency in circulation	311	**369**	369	**395**	411	**414**	451	494	543	591	645
Commercial bank reserves	548	**696**	696	**596**	705	**584**	724	848	933	1,014	1,107
Required reserves	273	**410**	410	**295**	302	**309**	320	339	360	380	403
Excess reserves	276	**287**	287	**301**	403	**275**	404	509	573	634	704

Sources: NBS; 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, 2021–2024

	2021	2022				2023				2024		
		Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Capital adequacy												
Regulatory capital to risk-weighted assets	20.8	20.0	19.4	19.5	20.2	20.5	22.3	22.2	21.4	21.2	21.8	21.9
Regulatory Tier 1 capital to risk-weighted assets	19.7	18.9	18.2	18.2	18.8	19.2	20.6	20.5	19.7	19.5	20.2	20.1
Nonperforming loans net of provisions to regulatory capital	7.6	7.7	7.5	7.4	6.5	6.4	6.3	6.2	6.0	6.3	5.4	5.0
Regulatory Tier 1 capital to assets	11.8	11.6	11.4	11.0	11.0	10.9	11.7	11.5	11.0	10.8	11.2	11.2
Large exposures to capital	86.0	98.9	104.7	109.3	86.7	87.0	70.0	71.2	85.6	95.9	87.7	89.0
Regulatory capital to assets	12.4	12.2	12.2	11.8	11.7	11.7	12.7	12.4	11.9	11.7	12.2	12.1
Asset quality												
Nonperforming loans to total gross loans	3.6	3.4	3.3	3.2	3.0	3.0	3.2	3.2	3.2	3.2	2.9	2.7
Sectoral distribution of loans (percent of total loans)												
Deposit takers	0.0	0.2	0.8	0.8	0.7	0.8	0.4	0.3	0.2	0.1	0.3	0.1
Central bank	1.5	0.4	0.2	1.4	3.3	8.4	10.1	11.7	11.0	11.8	10.0	11.2
General government	1.7	1.7	1.9	1.8	2.2	2.2	2.2	2.3	2.7	2.7	2.7	3.1
Other financial corporations	0.6	0.6	1.0	0.9	1.1	1.0	1.0	0.9	1.0	1.0	1.1	1.1
Nonfinancial corporations	49.3	50.2	49.8	48.8	47.6	44.4	43.4	42.5	43.4	42.2	42.3	41.3
Agriculture	3.0	2.8	2.6	2.8	2.8	2.5	2.4	2.3	2.4	2.2	2.1	2.1
Industry	15.5	19.5	19.3	19.1	18.4	17.2	16.6	16.2	16.4	16.3	16.4	15.9
Construction	4.9	4.9	4.6	4.2	4.1	3.8	4.0	3.8	4.0	3.8	4.0	3.9
Trade	12.5	10.9	11.1	11.0	10.7	10.1	9.9	9.5	9.4	9.4	9.3	9.0
Other loans to nonfinancial corporations	13.4	12.3	12.1	11.6	11.7	10.7	10.6	10.6	11.2	10.4	10.4	10.5
Households and NPISH	45.0	44.7	44.2	43.2	43.2	40.5	40.1	38.9	39.4	39.6	39.3	38.9
Households and NPISH of which: mortgage loans to total loans	17.4	17.5	17.3	17.1	17.4	16.3	16.1	15.5	15.5	15.4	15.2	14.9
Foreign sector	1.9	2.0	2.1	3.1	2.0	2.8	2.7	3.4	2.3	2.6	4.3	4.3
IFRS provision for NPLs to gross NPLs	56.3	56.3	57.0	57.1	58.1	58.4	57.9	58.7	60.5	59.1	60.7	61.8
IFRS provision of total loans to total gross loans	3.2	3.1	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.2	3.0	2.9
Earnings and Profitability												
Return on assets	1.2	1.4	1.5	1.5	1.9	2.6	2.6	2.6	2.5	3.1	3.2	3.1
Return on equity	7.8	10.0	10.5	10.9	13.9	19.7	19.3	19.3	18.1	22.2	22.7	22.4
Liquidity												
Customer deposits to total (noninterbank) loans	119.5	113.1	110.8	114.4	120.5	123.2	123.6	127.0	132.1	134.2	133.1	131.6
Foreign-currency-denominated loans to total loans	63.2	64.5	65.7	66.6	65.5	62.6	61.4	60.5	59.7	58.5	59.5	57.8
Average monthly liquidity ratio	2.1	2.0	1.9	2.0	2.2	2.4	2.4	2.5	2.5	2.7	2.6	2.4
Average monthly narrow liquidity ratio	1.7	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Sensitivity to Market Risk												
Net open position in foreign exchange to regulatory capital	0.4	1.5	1.7	0.4	1.5	1.3	0.3	0.5	0.8	1.0	0.2	1.7
Foreign-currency-denominated liabilities to total liabilities	61.4	62.7	64.5	63.7	62.1	61.3	60.4	59.5	57.9	58.5	57.5	57.5
Classified off-balance sheet items to classified balance sheet assets	39.1	37.9	37.7	37.7	39.6	39.8	40.9	43.2	45.2	45.8	45.8	48.2

Source: NBS.

Table 11a. Serbia: Schedule of Reviews and Available Credit Under the 2-year SBA Arrangement, 2022–2024

			Access (Additional)			Credit Available (Cumulative)			
Availability Date	Condition	Original Purchase Intention	SDRs (Mill)	Quota 1/ (Percent)	EURs 2/ (Mill)	SDRs (Mill)	Quota 1/ (Percent)	EURs 2/ (Mill)	Status
December 19, 2022	Approval of the SBA Arrangement	Purchase	785.76	120.00	992.6	785.76	120.00	992.6	Purchased
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	Purchased
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	Precautionary
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	Precautionary
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	Precautionary

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

Table 11b. Republic of Serbia: Proposed Schedule of Reviews Under the Policy Coordination Instrument, 2024–2027[1/]

Program Review	Test Date	Review Date
Board Discussion of the PCI Request		December 9, 2024
First Review	April 1, 2025	June 30, 2025
Second Review	October 1, 2025	December 31, 2025
Third Review	April 1, 2026	June 30, 2026
Fourth Review	October 1, 2026	December 31, 2026
Fifth Review	April 1, 2027	June 30, 2027
Sixth Review	October 1, 2027	December 31, 2027

1/ At the approval of the PCI

Annex I. Risk Assessment Matrix

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Global Conjunctural Risks				
Intensification of regional conflict(s).	**High** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and increase refugee flows.	Short to medium term	**High** Adverse spillovers and commodity price shocks would reduce trade, lower investor confidence and stall FDI. Inflation may rise, raising demands for fiscal support programs, thereby weakening the fiscal position. Serbia's current preferential economic relations with the EU (Serbia is a candidate country) could be downgraded which would reduce trade, lower investor confidence and stall FDI. **Medium** Supply of natural gas to Serbia could be disrupted implying energy security risks. Higher costs of natural gas imports could increase costs and create fiscal risks.	• Tighten monetary policy if there are strong signs of increased inflation and second-round effects. • Intensify efforts to secure alternative energy sources and, in extremis, allocate supplies in accordance with a national rationing plan. • Allow automatic stabilizers to operate. • Target support to vulnerable households. • Adjust energy tariffs further to help offset changes in costs.
Commodity price volatility.	**High** A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility.	Short to medium term	**High** Cost push inflation resumes, lowering real incomes. Sharp increases in energy prices could raise bankruptcies. Inflation expectations could worsen and lead to a wage-price spiral.	• Adjust energy tariffs further to help offset changes in costs. • Tighten monetary policy if there are strong signs of increased inflation and second-round effects. • Targeted support to vulnerable households. • Accelerate efforts to secure energy diversification.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Global growth surprise: Slowdown.	**Medium** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in EMDEs.	Short to medium term	**High** Sharp growth slowdown, and weaker fiscal and external positions.	• In the event of a negative supply shock, tighten monetary policy, if there are signs of second-round inflation effects. • In the event of a negative demand shock accompanied by lower inflation, and recognizing strengthened buffers, loosen monetary policy. • Allow automatic fiscal stabilizers to operate. • Target support to vulnerable households.
Global growth surprises: Acceleration.	**Low** Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.		**Low (positive)** Exports increase, narrowing the current account and possibly improving the terms of trade.	• Adjust policy mix to manage the additional demand and keep inflation low.
Monetary policy calibration.	**Medium** Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital flow and exchange rate volatility in EMDEs.	Short to medium term	**High** Global inflation stays higher for longer, increasing imported inflation in Serbia. Inflation expectations worsen. Risk premia for Serbia could increase along with other EMDEs.	• Some monetary tightening if there are strong signs of increased inflation and second-round effects. • Modest loosening if clear evidence emerges of major central banks keeping monetary policy tight for longer than warranted.
Systemic financial instability.	**Medium** High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including, from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial	Short to medium term	**Medium** Parent banks may become more risk averse about their Serbian operations.	• Further strengthen already robust and vigilant banking supervision. • Intensify surveillance of developments in home economies of parent banks. • Tighten policies if financial conditions for

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	feedback loop affecting weak banks and NBFIs.			EMs worsen, leading to higher risk premia and depreciation pressures. • Maintain stability-oriented macroeconomic policies and a predictable regulatory regime to retain confidence in the Serbian economy.
Sovereign debt distress.	**Medium** Domino effects of higher global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access, and contraction of growth and social spending.		**Medium** Serbia's access to the Eurobond market would likely be curtailed, similar to other EMDEs, but helped by rather limited integration into global capital markets, a recently obtained investment grade rating, and a high share of FDI. The risk for capital outflows from non-residents appears manageable in the near term.	• Obtain financing from bilateral creditors, as in the past. • Maintain stability-oriented macroeconomic policies and a predictable regulatory regime to retain confidence in the Serbian economy.
		Global Structural Risks		
Deepening geo-economic fragmentation.	**High** Broader conflicts, inward oriented policies, and weakened international cooperation result in a less efficient reconfiguration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary systems, and lower growth.	Short to medium term	**High** Similar impact as described in conjunctural risks, but deeper and longer lasting. **Medium (positive)** While Serbia may benefit from near-shoring of business activities, these positive effects are likely to be short-lived and may disappear should geopolitical blocs evolve.	• Take measures to ensure globally diversified trade and financing. • Enhance efforts to ensure a business-friendly environment by maintaining stability-oriented macroeconomic policies, continuing to combat the grey economy, and prioritizing reforms that ensure evenhandedness within the framework of a market and rules-based economy.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Cyberthreats.	**High** Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	Short to medium term	**Medium** While digitalization of the economy and government operations is progressing, it is not yet at the stage where the impact of cyberattacks would appear to have a macro-critical impact.	• Implement high standards of IT security for government and public IT infrastructure, taking advantage of expertise in the local IT sector. • Strengthen a cyberattack emergency response capacity.
Climate change.	**Medium** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	Medium term	**Medium** Serbia is exposed to some climate risks including droughts (adversely impacting food supply and electricity generation), landslides, waterlogging (adversely affecting coal production and electricity generation), and earthquakes. Yet domestic coal and hydroelectric capacity provide some independence from global energy market developments while ongoing reforms have strengthened the resilience of the energy sector.	• Strengthen disaster preparedness, including contingency reserves in the budget. • Build further capacity for fiscal risk management to strengthen government planning and budgeting. • Adhere to a well-specified national energy and climate strategy and communicate any changes transparently and with appropriate lead times.
Domestic policy errors or loss of fiscal discipline.	**Medium** Looser fiscal policy on the back of intensifying spending pressures, and escalating costs and/ or lower than expected benefits from ambitious public investment plans. **Medium** Structural reform delays. Selective price and interest rate controls that impede contractual freedoms and create planning uncertainty.	Short to medium term	**High** Looser fiscal policy and/or higher public investment could raise imports, weaken reserve buffers, and create inflationary pressures. Higher inflation and current account deficits could prompt the central bank to tighten monetary policy, resulting in a less desirable policy mix. **High** Structural reform delays would undercut growth prospects. Loss of fiscal discipline and regulatory instability would undermine	• Take corrective action to restore fiscal discipline, also by prioritizing fiscal spending, adhere to fiscal deficit objectives, and accelerate improvements to medium-term budgeting. • Carefully prioritize and phase in investment projects. Evaluate investment performance and leverage results to strengthen public investment management.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
			market confidence, jeopardize the investment grade rating and result in higher spreads.	• Re-prioritize structural reforms with well-defined action plans and front-loading of corrective actions. • Phase out price and interest rate controls. • Continue practice of issuing debt largely long-term.
Energy sector reform delays.	**Medium** Weakening reliability of domestic power production and transmission providers, requiring higher energy imports. Political pressure and continued weak governance of energy SOEs delay efficiency enhancements, diversification of energy supplies, and the green transformation.	Short to medium term	**High** Financial viability of energy SOEs remains at risk, despite reform efforts, weakening energy security and the green transition, with possible negative consequences for international competitiveness.	• Take corrective action in the spirit of ongoing energy sector reforms. • Further adjust energy tariffs to ensure full cost recovery and enable sufficient investment spending for energy infrastructure upgrades. • Further strengthen management of key energy SOEs, inter alia, by insulating companies from political interference. • Implement, and as needed update, a prioritized energy sector strategy with well-defined roles for the government, SOEs and the private sector.

Annex II. Sovereign Risk and Debt Sustainability Analysis

Table 1. Serbia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting sizable fiscal and external buffers. But higher fiscal spending led by ambitious public investment plans is associated with wider deficits and a lower debt reduction. Financing is manageable, also reflecting a robust creditor base. Rising pension liabilities will require pension reform to underpin longer-term fiscal sustainability.
Near term 1/	...	...	
Medium term	Moderate	Moderate	Medium term risks are moderate. Ambitious public investment plans and additional spending on wages, social benefits, subsidies, and defense are leading to higher deficits. Still, public debt continues to decline on robust economic growth and some drawdown of ample government deposits. Fiscal financing risks appear manageable, helped by comfortable average debt maturities, a large share of official financing, liquid domestic banks, and effective debt management.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Moderate	Long term risks are moderate. The pension system is helped by rising female retirement ages, retirement of smaller age cohorts, stagnating life expectancy, and some scope for further employment gains. But absent mitigating measures, a shrinking and aging population will put pressures on public finances.
Sustainability assessment 2/	...	Sustainable	Debt is sustainable. Debt is projected to continue to fall and GFNs appear manageable, conditional on ongoing fiscal discipline, rigorous expenditure prioritization amid large spending needs, and sustained fiscal-structural and SOE reforms.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Serbia is at a moderate overall risk of sovereign stress and debt is sustainable. Fiscal and external buffers are sizeable but higher fiscal spending led by ambitious public investment plans is leading to wider deficits and is slowing the decline in public debt. Maintaining confidence will require ongoing fiscal discipline, rigorous expenditure prioritization, sustained fiscal-structural and SOE reforms, and continued prudent public debt management. In the long term, debt sustainability risks from an ageing population will need mitigating measures.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for 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 probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Serbia: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG (chosen)	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:

Coverage		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	except Serbia's two road funds
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	No	not applicable
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 (chosen)	Loans (chosen)	Debt securities (chosen)	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis (chosen)	Nominal value 5/ (chosen)	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated (chosen)	

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

	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
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
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.

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).

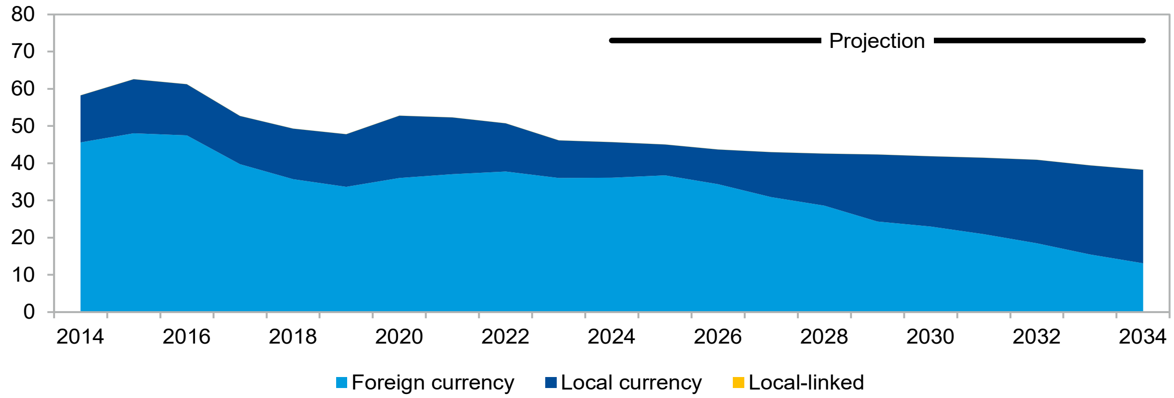
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

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.

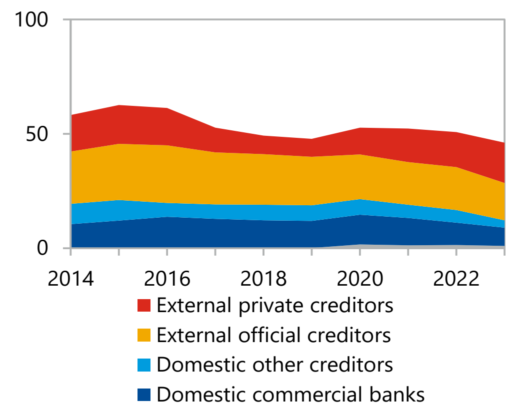
Commentary: Serbia's debt coverage and disclosure is consistent with standard recommendations.

Table 3. Serbia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)

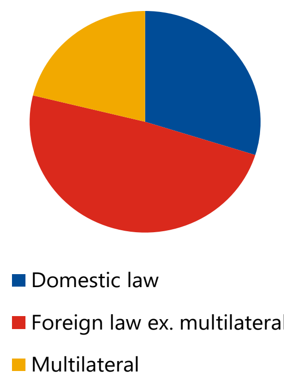


Public Debt by Holder (Percent of GDP)



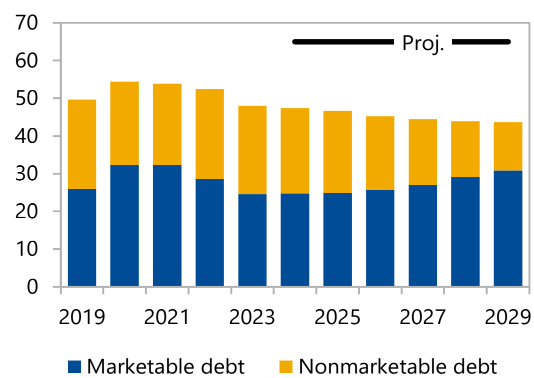
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



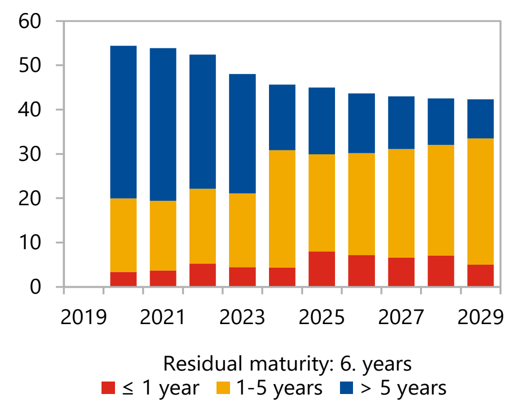
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Public debt remains on a declining path with domestic and multilateral creditors accounting for more than half of the stock. Debt issuance is characterized by medium-term maturities and fixed rates.

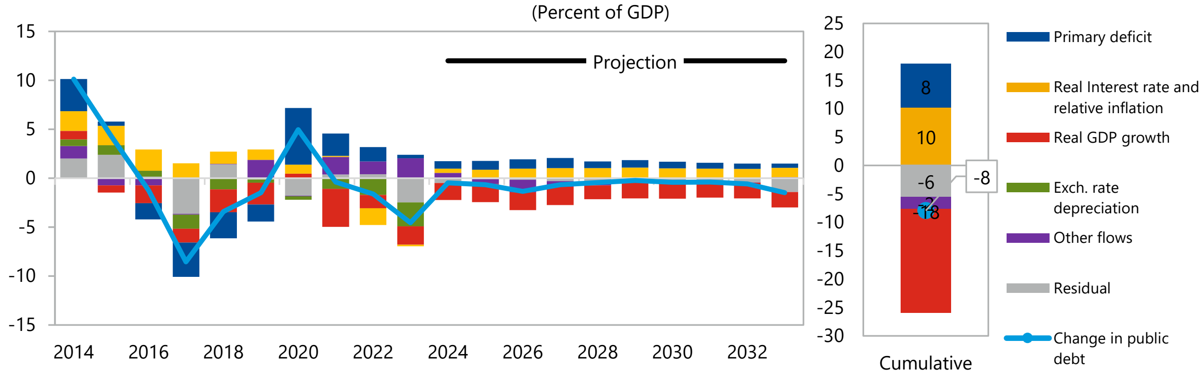
Table 4. Serbia: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	46.2	45.7	45.0	43.7	43.0	42.6	42.3	41.9	41.5	40.9	39.4
Change in public debt	-4.6	-0.5	-0.7	-1.3	-0.7	-0.4	-0.2	-0.4	-0.4	-0.6	-1.5
Contribution of identified flows	-2.1	0.0	-0.6	-1.2	-0.4	-0.1	0.2	-0.1	0.0	-0.1	-0.1
Primary deficit	0.4	0.8	0.9	0.9	1.0	0.7	0.8	0.7	0.6	0.5	0.4
Noninterest revenues	39.4	40.9	41.2	40.8	40.8	40.9	40.9	40.8	40.8	40.7	40.7
Noninterest expenditures	39.7	41.7	42.1	41.8	41.9	41.6	41.6	41.5	41.4	41.3	41.2
Automatic debt dynamics	-4.5	-1.3	-1.0	-0.8	-0.8	-0.4	-0.6	-0.6	-0.6	-0.6	-0.6
Real interest rate and relative inflation	-0.2	0.4	0.9	1.0	1.0	1.0	1.1	1.0	1.0	1.0	0.9
Real interest rate	-2.6	-0.3	0.6	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Relative inflation	2.4	0.7	0.3	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.1
Real growth rate	-1.9	-1.7	-1.8	-1.8	-1.9	-1.4	-1.6	-1.6	-1.6	-1.6	-1.6
Real exchange rate	-2.4	…	…	…	…	…	…	…	…	…	…
Other identified flows	2.0	0.5	-0.5	-1.3	-0.6	-0.4	0.0	-0.2	0.0	0.0	0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	2.0	0.5	-0.5	-1.3	-0.6	-0.4	0.0	-0.2	0.0	0.0	0.1
Contribution of residual	-2.5	-0.5	-0.1	-0.2	-0.3	-0.4	-0.4	-0.3	-0.4	-0.4	-1.4
Gross financing needs	9.3	6.0	6.9	11.0	10.3	11.0	11.8	10.1	12.5	12.7	12.7
of which: debt service	8.9	5.3	6.0	10.1	9.3	10.3	11.0	9.5	11.9	12.2	12.3
Local currency	4.3	1.6	2.6	2.4	1.2	3.4	3.4	4.6	6.5	6.9	7.4
Foreign currency	3.0	3.7	3.4	7.7	8.1	6.9	7.7	4.9	5.3	5.3	4.8
Memo:											
Real GDP growth (percent)	3.8	3.9	4.2	4.2	4.5	3.5	4.0	4.0	4.0	4.0	4.0
Inflation (GDP deflator; percent)	13.8	5.0	3.3	3.1	3.2	2.9	2.8	2.9	2.9	2.9	2.9
Nominal GDP growth (percent)	18.2	9.0	7.6	7.5	7.8	6.4	6.9	7.0	7.0	7.0	7.0
Effective interest rate (percent)	3.9	4.3	4.6	4.7	4.8	4.8	4.9	4.9	4.9	4.9	4.9

Contribution to Change in Public Debt

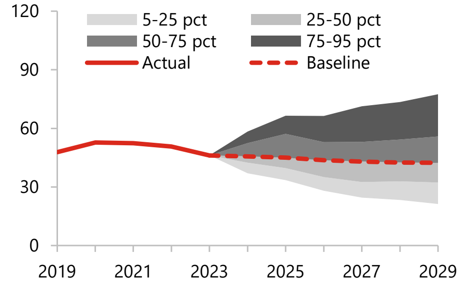
(Percent of GDP)



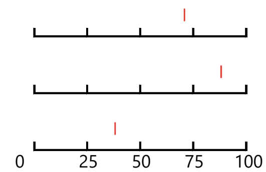
Commentary: Public debt is projected to continue declining, reflecting strong growth underpinned by robust private consumption and investment, and some drawdown of ample government deposits. The primary deficit is anticipated to widen, driven by higher fiscal spending led by ambitious public investment plans.

Table 5. Serbia: Medium-Term Risk Assessment

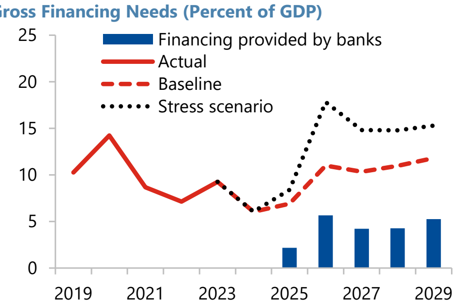
Final Fanchart (Percent of GDP)



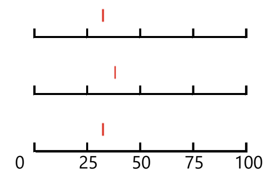
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	56.1	0.8	
Probability of debt non-stabilizaiton *(percent)*	58.9	0.5	
Terminal debt-to-GDP x institutions index	24.1	0.5	
Debt fanchart index (DFI)		1.8	
Risk signal: 3/		**Moderate**	



Gross Financing Needs (Percent of GDP)



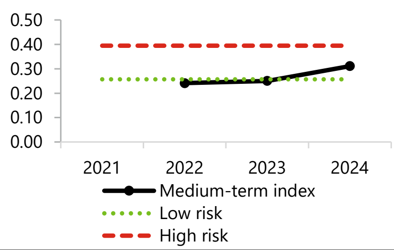
	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	9.5	3.2	
Initial Banks' claims on the gen. govt *(pct bank assets)*	11.8	3.8	
Chg. In banks' claims in stress *(pct banks' assets)*	12.4	4.1	
GFN financeability index (GFI)		11.2	
Risk signal: 4/		**Moderate**	



Triggered stress tests (stress tests not activated in gray)

Banking crisis   Commodity prices   Exchange rate   Contingent liab.

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.8	0.4	0.5	0.2
GFN finaceability index	11.2	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 26.1 pct.

Commentary: The Debt Fanchart Module and the GFN Financeability Module suggest moderate debt sustainability risks while the medium-term index is moderate. Domestic financing risks are mitigated by a liquid banking sector and a large share of near- to medium-term financing needs expected to be met by official creditors.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Table 6. Serbia: Realism of Baseline Assumptions

Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			

	real-time	t+3	t+5
Historical Output Gap Revisions 2/			

Comparator Group:

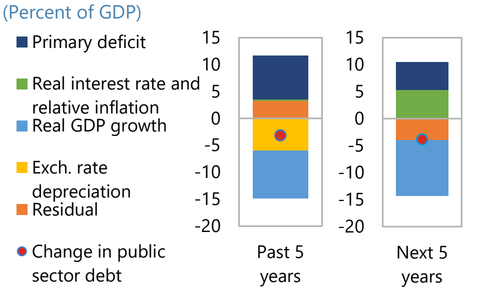
Emerging Markets, Non-Commodity Exporter, Program

Color Code:

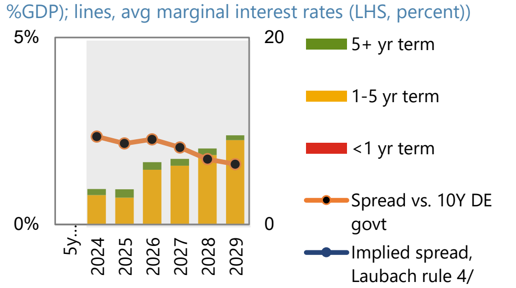
Optimistic
- > 75th percentile
- 50-75th percentile

Pessimistic
- 25-50th percentile
- < 25th percentile

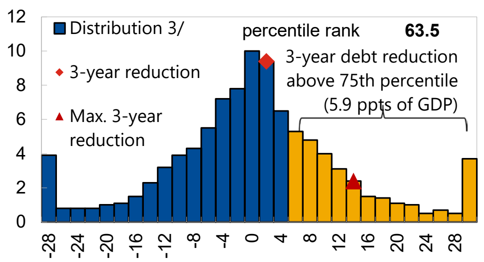
Public Debt Creating Flows
(Percent of GDP)



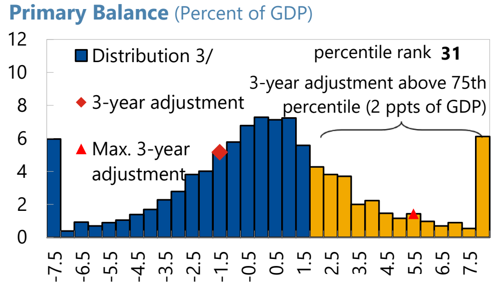
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



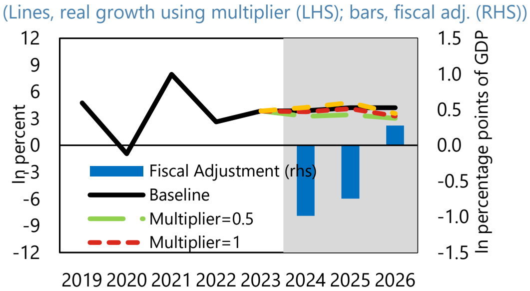
3-Year Debt Reduction
(Percent of GDP)



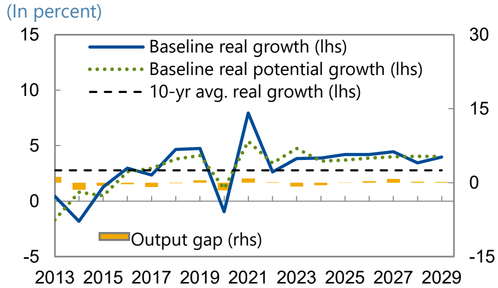
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(In percent)



Commentary: Serbia has shown strong growth and policy performance in recent years. Realism analysis suggests that projected fiscal deficit and public debt trajectories are without systemic biases and broadly in line with history and peers. Robust medium-term growth projections are driven by a catch-up in productivity and ongoing capital accumulation, yielding potential growth of around 4 percent.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Table 7. Serbia: Long-Term Risk Assessment

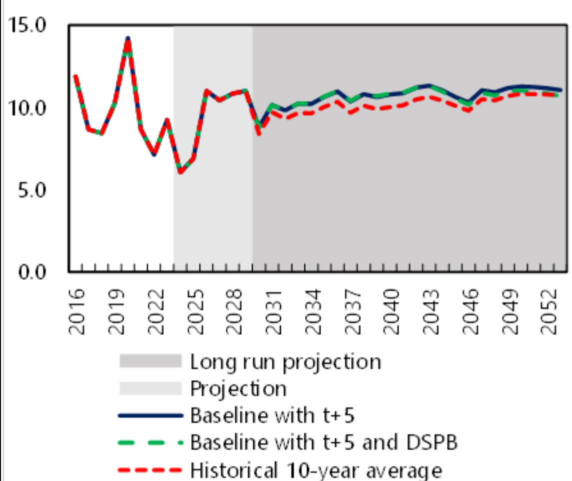
Serbia: Triggered Modules

Large amortizations	**Pensions**	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

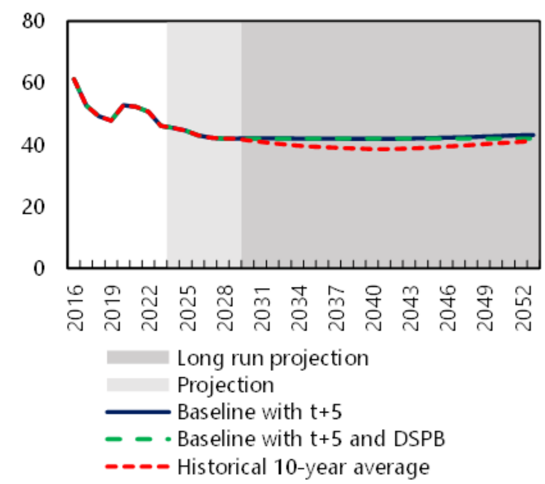
Serbia: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



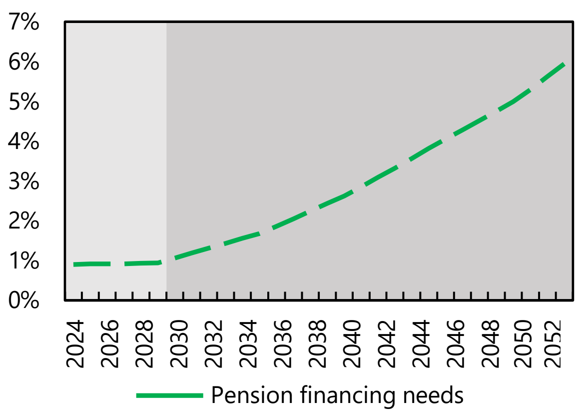
Commentary: In the long term, public debt and gross financing needs remain near their 2023 levels under scenarios where nominal GDP growth, the primary balance and REER changes are kept in line with 2029 baseline projections or historical 10-year averages, suggesting a low risk for debt sustainability and gross financing needs.

Table 7. Serbia: Long-Term Risk Assessment (concluded)

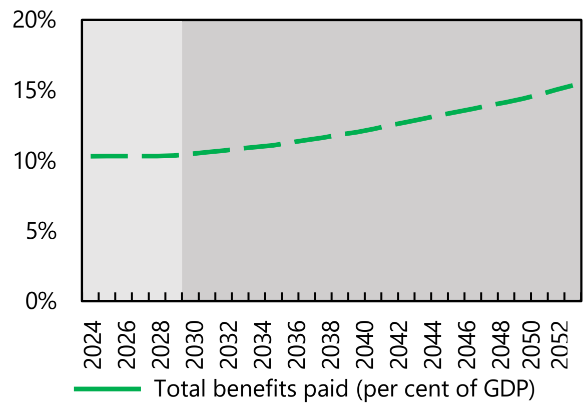
Serbia: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	**30 years**	**50 years**	**Until 2100**
(pp of GDP per year)	2.6%	4.6%	6.3%

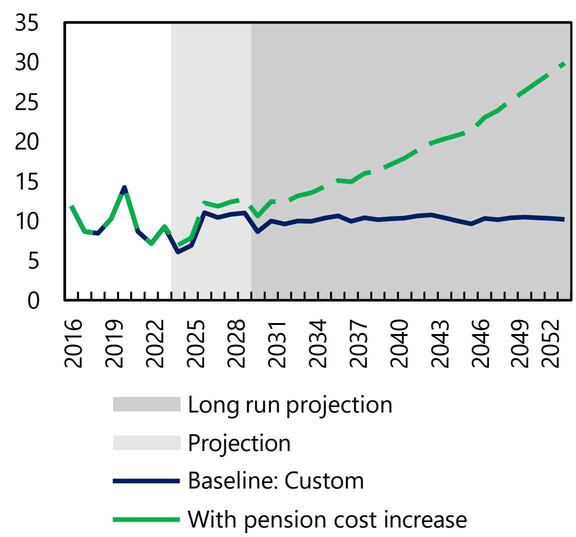
Pension Financing Needs



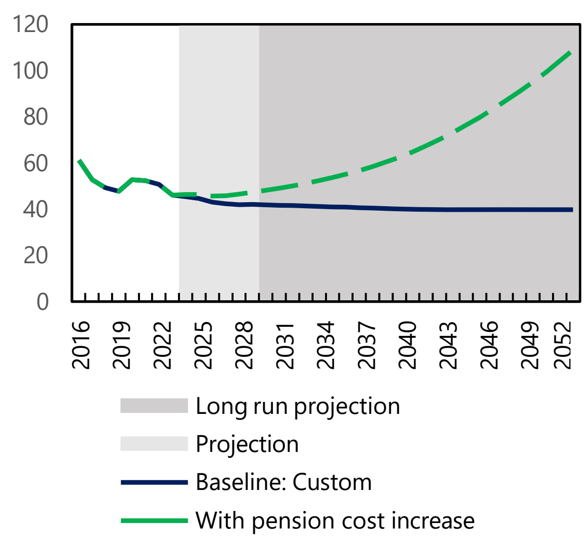
Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The costs of population ageing on the pension system would, absent any policy reforms, put the public debt to GDP ratio on a rising trajectory in the longer term, pointing to the merits of adopting mitigating fiscal measures or further pension reforms.

Appendix I. Letter of Intent

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

Belgrade, November 22, 2024

Dear Ms. Georgieva:

We have successfully navigated the period of economic uncertainty and the energy crisis that gave rise to the Stand-By Arrangement (SBA) that was approved by the IMF Executive Board on December 19, 2022. Supported by the SBA, we took decisive actions to maintain macroeconomic and financial stability, including by increasing and modernizing tariffs to improve the finances and efficiency of our energy sector, fiscal structural reforms, and SOE governance reforms.

Thanks to our economic program supported by the SBA, the Serbian economy today continues to perform well. Growth is robust, unemployment is low, and inflation has declined to within the inflation tolerance band of the National Bank of Serbia. Reflecting our achievements, Serbia was, for the first time, awarded investment grade by S&P Global Ratings in October 2024.

Performance under the program remains strong. As set out in Table 1a attached to this letter, all end-June 2024 quantitative performance criteria (QPCs), as well as the standard continuous performance criteria (Table 1b) were met. Most indicative targets for end-June and end-September 2024 were also met, including the end-September fiscal deficit. In June and September, we exceeded the ceiling on the accumulation of arrears by a small margin when we temporarily stopped transfers to one extrabudgetary entity to hold discussions on their spending needs; these arrears have already been reduced and we intend to fully clear them in 2024. In September we exceeded the ceiling on the current primary expenditure of the Republican budget, following the decision to increase the fiscal deficit by 0.5 percent of GDP including to settle a court decision on maternity leave benefits and to provide additional transfers to the Health Fund. The structural reform agenda has progressed well, with all but one SBA structural benchmark (SB) met or completed with minor delays. As data on reclassified public enterprises and agencies will only become available in 2025, we have postponed the review of the parameters of the fiscal rule (end-November 2024 SB) until we will have been able to review the data and assess the implications for fiscal policymaking.

Considering our strong performance under the program, we request the completion of the Fourth and Final Review under the SBA. We have approved a 2024 supplementary budget and will approve a 2025 budget in line with understandings reached with staff (both are prior actions as set out in Table 2 attached to this letter). Completion of the Fourth Review would allow us to purchase the equivalent of SDR 316.47 million (48.33 percent of quota) in addition to the amounts available after the completion of the 2nd and 3rd Reviews (SDR 316.53 million and SDR 316.46 million, corresponding to 48.34 and 48.33 percent of quota, respectively).

Given our success with reducing macroeconomic imbalances, accumulating significant reserves and fiscal buffers, and strong balance of payments financing, we will not make these purchases as Serbia continues not to have an actual balance of payments need. Moreover, upon the completion of the Fourth Review under the SBA, we hereby notify the Fund that we are cancelling the SBA and requesting approval of a 36-month Policy Coordination Instrument (PCI). The separately attached Program Statement will describe our forward-looking policies under the PCI.

In line with our commitment to transparency, we intend to make this letter available to the public, along with the documents for the new PCI, and the IMF Staff Report for the Fourth Review under the SBA and the Request for a PCI. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the Serbian government's website.

Sincerely,

/s/
Miloš Vučević
Prime Minister

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

/s/
Siniša Mali
First Deputy Prime Minister

Minister of Finance

Attachments: Tables 1a, 1b and 2.

Table 1a. Serbia: Quantitative Performance Criteria and Indicative Targets Under the SBA 2024[1/]

	End-Jun. 2024			End-Sept. 2024		
	QPC	Adj. Prog.	Act.	IT 5/	Adj. Prog.	Act.
	CR 24/202			CR 24/202		
I. Quantitative Performance Criteria (QPCs, semi-annually)						
1 Ceiling on the general government fiscal deficit (in billions of dinars) 2/ 3/	102.4	106.7	-33.2	136.5	123.1	-29.1
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/	767.7	769.7	761.3	1,132.1	1,129.8	1,145.8
3 Floor on Net International Reserves (in billions of euros) 4/	10.5		21.5	10.6		22.1
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		5.2	1.0		2.2
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
IV. Inflation consultation band (quarterly) 7/						
Upper band limit (1.5 percent above center point)	6.0			5.4		
End of period inflation, center point 8/	4.5		*3.8*	3.9		*4.2*
Lower band limit (1.5 percent below center point)	3.0			2.4		

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. A surplus is reported with a negative sign.
4/ Calculated consistent with Gross International Reserves at 100 percent of the ARA metric.
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 1b. Serbia: Standard Continuous Performance Criteria

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

Table 2. Serbia: Structural Benchmarks Under the SBA

	Description	Target Date	Status	Objective
	Prior Actions			
1	Adoption of the revised 2024 budget by the National Assembly consistent with key fiscal parameters, including the overall deficit.			Fiscal transparency and fiscal discipline.
2	Adoption of the 2025 budget by the National Assembly consistent with key fiscal parameters, including the overall deficit.			Fiscal transparency and fiscal discipline.
	Structural Benchmarks			
	Fiscal			
1	Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law, and there will be no ad hoc pension increases and cash payments to pensioners.	Continuous from January 1, 2024	Met.	Supports achieving fiscal objectives and the credibility of the fiscal rule.
2	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	Not met due to technical complexities. IMF TA ongoing. Revised action plan on expanded fiscal data coverage incorporated in new PCI.	Continued strengthening of public financial management practices in support of achieving fiscal objectives, and improved fiscal data.
3	Include in the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027 a table that incorporates the following information for all budgeted public investment projects apart from those related to defense and security: project expenditure to date; spending estimate for current year, budgeted amount for the budget year; expenditure projections for two outer years; and estimated total project cost.	End-November 2024	Met.	Enhance transparency around public investment and improve medium-term budgeting framework.
	Energy			
4	EPS to approve a new electricity supply pricing system for the non-regulated sector, which will become effective with the consent of the General Assembly of the EPS as of November 1, 2024.	End-August 2024	Met.	Move energy tariffs toward cost recovery and a sustainable structure, create financial space for investments and control fiscal risks.
5	Srbijagas to revise methodology for gas price calculation for the non-regulated sector to reflect the results of the analysis of margin adequacy to accommodate planned investment in gas sector infrastructure (effective August 1, 2024).	End-July 2024	Not met, completed effective October 15, 2024, ahead of the heating season.	Move energy tariffs toward cost recovery and a sustainable structure, create financial space for investments and control fiscal risks.
	Other			
6	Prepare a draft bylaw that has been sent to ministries and stakeholders with appropriate expertise for comments, with the draft bylaw prescribing the procedure and method of determining public sector obligations incurred by SOEs when implementing the goals of the public sector.	End-September 2024	Met.	Make effective the provisions and intent of the new SOE governance law, and strengthen SOE management.

Appendix II. Program Statement

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

Belgrade, November 22, 2024

Dear Ms. Georgieva:

The Serbian economy continues to perform well despite the challenging global and regional environment. Growth has rebounded, unemployment is at a historic low, and living standards have continued to increase. Inflation has fallen to the inflation tolerance band of the National Bank of Serbia (NBS). Although the current account deficit has widened, strong FDI inflows continue to support the ongoing build-up of foreign exchange reserves, which have reached new record highs. Serbia has no balance of payments needs. Financial stability is being maintained and close monitoring of the financial sector continues. Fiscal revenues remain strong and the fiscal deficit narrow. We are increasing public investments in the lead up to Expo 2027 and as part of the "Leap into the Future" to further strengthen Serbia's infrastructure. These investments are consistent with keeping public debt on a downward path and with broader macroeconomic stability. Reflecting all these achievements, Serbia was, for the first time, awarded investment grade by S&P Global Ratings in October 2024.

To continue leveraging the IMF's support of Serbia's macroeconomic and financial stability and following our cancellation of the SBA upon completion of the fourth and final review, we request the approval of a 36-month Policy Coordination Instrument (PCI) that will cover 2025 to 2027 (as well as the remainder of 2024). The PCI will support Serbia in credibly maintaining fiscal discipline while making room for strong public investment spending. The PCI will also support Serbia's ongoing ambitious structural reform agenda, focused on fiscal, SOE, and energy reforms. The PCI will support a successor program to that supported by the soon-to-expire SBA, which was approved by the Executive Board on December 19, 2022 during the energy crisis. To support the PCI request, this Program Statement (PS) outlines the government's objectives and sets out the economic policies that the Government and the NBS intend to implement under the new program.

The new PCI will be monitored through quantitative targets, standard continuous conditionality, and reform targets, as described in this PS and the Technical Memorandum of Understanding (TMU).

Reviews by the IMF under the PCI will be conducted semi-annually to assess program implementation and to reach understanding on any further program reforms needed. While we believe that the policies set forth in this PS are adequate to achieve the program's economic objectives, we will promptly take any additional measures that may become necessary for this purpose. We will also consult with the IMF in advance of any revisions to the policies contained in our PS or any new policies that may affect program objectives, in accordance with the IMF's policies on such consultations; and we 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 policy statement available to the public, along with the TMU, and the IMF staff report for the Fourth Review under the SBA and the Request for the PCI. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the Serbian government's website.

Sincerely,

/s/
Miloš Vučević
Prime Minister

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

/s/
Siniša Mali
First Deputy Prime Minister

Minister of Finance

Attachments: Technical Memorandum of Understanding

Program Statement for the Period December 2024–December 2027

1. **This Program Statement (PS) sets out our economic program for the remainder of 2024 and for 2025–27.** The program aims to: (i) preserve macroeconomic and financial stability; (ii) credibly balance our public investment and social expenditure commitments with continued fiscal discipline and with keeping public debt on a downward path; (iii) further strengthen energy resilience and create space to realize energy investment needs; and (iv) foster inclusive and sustainable medium-term growth through structural reforms. The goals of the program are aligned with our aspirations to join the EU.

Recent Economic Developments and Outlook

2. **Serbia's strong macroeconomic performance is expected to continue.** Reflecting this strong performance, Serbia was, for the first time, awarded investment grade by S&P Global Ratings in October 2024.

- **Growth.** Real GDP growth strengthened in H1:2024, driven by private consumption and investment. We expect growth to reach 3.8 percent in 2024, supported by private consumption from continued employment and wage growth, and domestic investment as public infrastructure projects in transport, energy, and utilities take shape. We expect growth of around 4 to 5 percent over the coming years on continued public investment strength ahead of Expo 2027.
- **Inflation.** Headline inflation (4.2 percent y/y in September 2024) has returned to the NBS's target band (3 percent +/- 1.5 percent), helped by tighter monetary policy and easing energy and food price pressures, but core inflation (5.3 percent y/y) remains sticky. We project inflation to slow to 4.0 percent by end-2024, and to 3.4 percent by end-2025, but we will continue to monitor inflation developments closely, and will adjust policies as needed.
- **Balance of payments.** The current account deficit is projected to widen to 4½–5 percent of GDP in 2024 and over the medium term as domestic demand picks up given higher public investment. Continued strong FDI inflows are, however, expected to more than cover the wider current account deficit, enabling continued reserve accumulation.
- **Fiscal.** Strong fiscal performance, including CIT and VAT revenue overperformance, resulted in a fiscal surplus in H1:2024 and kept general government debt on a declining path. For 2024 as a whole, the fiscal deficit is set to increase to 2.7 percent of GDP, from a programmed 2.2 percent of GDP, to help fund additional spending needs. Unplanned, but necessary, fiscal expenditures include settlement of maternity leave benefits arising from a Constitutional Court decision, subsidies to the electricity distribution company EDS for smart meters, correction of the indexation of social benefits to vulnerable populations, and exceptionally high overtime payments following some security incidents. At the same time, we are permanently increasing farmers' support following another year of drought conditions, as well as elementary school teachers' salaries and birth grants for newborns. We are also increasing funding for important public investment and defense projects. On the financing side, we issued an 8-year benchmark

bond in the amount of 2.9 billion dinars in March. On the international market, we issued in June a 10-year US$1.5 billion ESG bond at a 4.75 percent interest rate after hedging into euros.

3. Serbia continues to face external and domestic risks. Key risks from the international environment include the still-uncertain global growth outlook and the risks of deepening geoeconomic fragmentation. Geopolitical tensions, and global energy and primary commodity price movements, also represent risks. Domestic risks include the continued exposure of the agricultural sector to climate change and extreme weather events, and the pace of FDI inflows in an uncertain world.

4. Serbia has, however, built up considerable buffers to navigate these risks. Foreign exchange reserves and government deposits are high, public and external debts are sustainable, and banks are well-capitalized and liquid. Serbia is an attractive destination for FDI. The requested PCI adds to our resilience by enhancing the credibility of our economic policies. Serbia's medium-term outlook remains favorable and is also supported by our commitment to continued responsible macroeconomic policies and an ambitious structural reform agenda.

Economic Policies

A. Fiscal Policies

5. We commit to a fiscal deficit of no more than 2.7 percent of GDP in 2024 in line with program understandings. We approved a 2024 supplementary budget consistent with this target (**prior action**). This deficit is moderately higher than the deficit agreed during the Third Review under the SBA as it makes room for necessary spending but keeps debt on a downward path.

6. We will approve a budget targeting an overall fiscal deficit of no more than 3.0 percent of GDP in 2025 in line with program understandings (prior action). Public wage increases of 11 percent for teachers and related staff and 8 percent for the rest of the public sector have been agreed for 2025, with a resulting wage bill of 9.7 percent of GDP, in line with the special fiscal rule. Pensions will increase by 10.9 percent in 2025, with resulting pension expenditure of 10.1 percent of GDP, which is also in line with the special fiscal rule. We increased agricultural subsidies in late 2024 and will not increase them further. We have provided the funds needed for defense and security, and for Expo 2027. We have carefully reviewed our public investment program and decided on projects to be included in the 2025 budget and, for multi-year projects, their phasing over 2026–27. Overall public investments, including by local governments, social security funds and extrabudgetary funds, are slated to exceed 7 percent of GDP each year. For all projects apart from security and defense projects that exceed Euro 20 million we have published past and projected funding in the revised Fiscal Strategy for 2025 with Projections for 2026 and 2027 (**end-November 2024 SB under the 2022 SBA**).

7. We are committed to maintaining fiscal discipline over the medium term. Over 2026–27 we will keep the overall fiscal deficit at no more than 3.0 percent of GDP, and over 2028–29 we will aim for a deficit of no more than 2.5 percent of GDP. Absent large adverse shocks, this would be consistent with public debt declining as a ratio to GDP. In support of this core macroeconomic objective, we are committed to continuing to control key areas of expenditure. We will adhere to our special fiscal rules on wages and pensions. We will review options for rationalizing our agricultural expenditures and will limit them to no more than the 2025 nominal level during 2026-2027. In case we require further increases in defense expenditure, we will reduce other expenditure to fully absorb such increases into the envelope given by the 3.0 percent overall fiscal deficit. We will also ensure that public investment projects are contracted in a cost-effective manner.

8. We will review spending needs and allocate sufficient resources for those areas experiencing spending pressures. We have eliminated temporary arrears in our road maintenance fund Putevi Serbije and provided additional transfers from the Republican budget in 2024 to help meet obligations from existing contracts. Recognizing the importance of adequate road maintenance and rehabilitation to prevent the degradation of roads and in view of higher future expenditure needs in this area, we will review carefully, by June 2025, the funding needs of Putevi Serbije in preparation for the 2026 budget cycle. Given the increase in numbers of doctors, nurses and other health professionals, and new hospitals and advances in innovative medical treatments, our health expenditures are increasing. We will consult with our health fund and the Ministry of Health on baseline expenditure needs over the coming years and options for meeting these needs.

9. To underpin our fiscal deficit targets, we have identified options for increasing revenue and containing spending in the event of adverse shocks. Our conservative approach to budgeting and medium-term fiscal planning will help us to adhere to agreed fiscal targets. Going beyond this, we are committed to further prioritizing public investment projects to strictly support the 3 percent cap on fiscal deficits in the event of adverse shocks. We have introduced excise taxes on certain tobacco-related products and are considering tolls for trucks on regional roads.

10. Our fiscal financing strategy is well diversified. Spreads on our international bonds are on a downward trajectory, also helped by our investment grade rating. We intend to borrow on domestic and international markets using financial instruments and loan agreements, to draw on government deposits as needed, and to continue to borrow from international and bilateral partners, including for project financing. Financing for the 2024 budget has been completed, and issuance of debt securities over the remainder of 2024 will pre-fund the 2025 budget and help maintain market presence. We aim to increase the share of dinar-denominated debt to more than 30 percent over time. Reflecting ongoing strong fiscal performance and a recent GDP revision, public debt is expected to fall to about 48 percent of GDP by end-2024.

11. We will continue to closely monitor fiscal performance and will take corrective actions as needed. We will closely monitor expenditure and revenue risks. We will maintain strong liquidity buffers and will not accumulate public sector external debt payment arrears (**standard continuous target**). We will also refrain from accumulating domestic payment arrears (**quantitative target**). Our efforts to contain public spending will continue to be monitored through a program ceiling on current primary spending of the Republican budget, excluding capital spending and interest payments (**quantitative target**). Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law and we will refrain from ad hoc pension increases and cash payments to pensioners (**reform target, continuous**). The liquidity of state-owned enterprises (SOEs) in the energy sector has improved, and these SOEs are not expected to require liquidity support in 2024, 2025 and beyond. In the event these SOEs do require liquidity support, this will be delivered in a transparent manner and channeled through the government budget, and we will reassess our SOE and energy sector policies accordingly.

12. We remain committed to activating the fiscal deficit component of our fiscal rule. Because of prudent fiscal policy and recently revised GDP numbers, our public debt (including guaranteed debt) fell to 46.9 percent of GDP at end-June. This is only 1.9 percentage points above the level at which our planned overall deficits of 3.0 percent of GDP would be fully consistent with our fiscal rule.

13. We are committed to strictly limiting the issuance of state guarantees. We have issued, as planned, a state guarantee for an Elektroprivreda Srbije (EPS) liquidity loan from Cassa Depositi e Prestiti for EUR 100 million of which EUR 70 million is being currently disbursed. We will issue a guarantee of no more than EUR 1.9 billion for the construction of a solar power plant undertaken by EPS. We will not issue any new state guarantees for liquidity support to the SOEs, or state guarantees for any company in the portfolio of the former Privatization Agency. The Government will also refrain from actions that can be interpreted as implicit state guarantees. We will continue to issue guarantees for project loans provided by multilateral financial organizations in support of our investment and reform agenda.

B. Structural Fiscal Policies

14. We continue to enhance public financial management (PFM).

- We have continued to work on strengthening the medium-term budgetary framework, in line with the Action Plan for Improving the Medium Term Budget Framework that we adopted in September 2023 in line with IMF recommendations. Our aim is to make medium-term budgeting more effective and binding and to increase budget transparency. For the 2025 budget, we benefitted from the indicative limits for the outer two years which we introduced with the 2024 budget as a starting point for budget discussions with line ministries. As line ministries are gaining experience with these limits, we are noticing more robust estimation of their medium-term financial requirements. We are also working on strengthening the budget baseline estimation methodology with IMF technical assistance. We aim to prepare an improved methodology in Q1:2025 for use in the 2026 budget cycle. We have also developed a machine learning tool to support projecting budget expenditure.

- We have completed the multi-year commitment registry in SPIRI, our budgeting and accounting system. Together with the improvements to baseline budgeting, this allowed us to improve our estimates of available fiscal space. Our estimates will become more robust as budget users become more familiar with the new processes and as data quality improves.

- From 2025, budget execution for all indirect budget users will be undertaken through our SPIRI system. The integration of 1,500 primary schools, 130 university-level entities, and all local governments, the province of Voijvodina and their indirect budget users (about 500 entities) into SPIRI is well advanced, including user training. We anticipate that we will need to provide significant support to them during the start-up phase in 2025.

- We continue to introduce green budgeting. For the 2025 budget cycle, we have applied for the Republican Budget for the first time our new green tagging methodology, which was developed with technical assistance and adopted in December 2023. All budget beneficiaries submitted an annex in support of the green tag, and a working group validated the projects being tagged. The next steps will include integrating the "green annex" as a pop-up form into SPIRI, applying green tagging for local government budgets, and further training of budget beneficiaries on those projects that can be considered green.

- We will continue to strictly adhere to the budget calendar and to the transparency of the budget process by expanding the content of our within-year budget reports and budget documentation. The full integration of indirect budget users into SPIRI is providing us with a more timely and more comprehensive picture of fiscal developments. From the 2026 budget onwards, we plan to include information on total project costs in the budget documentation, as well as a reconciliation table for changes in budget ceilings.

15. We will continue strengthening the role and capacity of the Fiscal Risks Monitoring Unit (FRMU) at the MOF.

- We have reorganized the FRMU and moved it from the Fiscal Risks and Public Investment Management Department of the Ministry of Finance to the Budget Department to improve information sharing. We have continued to work on using new methodologies to monitor fiscal risks stemming from SOEs, local governments, litigation, and natural disasters, but continue to encounter challenges with data and models. Nevertheless, we also have been working to improve and standardize our reporting and have further expanded fiscal risk reporting in the Fiscal Strategy for 2025–27 released in June 2024. We are adding forward-looking elements to the fiscal risk section in the revised Fiscal Strategy for 2025–27 and will continue to quantify fiscal risks to support fiscal planning.

- We will continue using the methodology that was developed with IMF TA support for managing fiscal risks associated with the state-guarantee schemes.

16. We are further strengthening our public investment management (PIM) practices to support strong project preparation, selection, and implementation.

- We have adopted most necessary secondary legislation, four rule books and forms to make operational the 2023 Decree on Capital Projects, and will adopt the PIMIS rule book by the end of 2024. This has moved us closer to the goal of establishing a single project pipeline for all ongoing and future capital projects and to apply clearly regulated procedures for selecting and monitoring capital projects. This will, in turn, help ensure more efficient spending of budget funds and identify projects' strategic relevance.

- The new Public Investment Management Information System (PIMIS), which became operational on June 1, 2023 for projects under implementation, was upgraded to make it consistent with the new regulation and to incorporate projects in the pre-implementation phase starting from the project idea stage. In April 2024, we sent a circular to all line ministries on the PIMIS upgrade and their obligations arising from this. We have expanded PIMIS's usage to the national level as of mid-2024 and aim to include local and provincial levels in 2025. Building on initial experiences with PIMIS, we will strengthen the linkage between the budget system SPIRI and PIMIS, also by including the project identification code of SPIRI into PIMIS.

- Our PIM Department acts as the secretariat for the Commission on Capital Investments, which is in charge of reviewing and prioritizing public investment projects and advancing them from the idea stage to implementation. A new Commission was appointed following the formation of the Government and has held its initial meetings. As its first official act, it has approved the list of projects that are being included in the Western Balkan's Investment Framework for funding under the EU's Western Balkan's growth facility.

- We have reorganized the previous Fiscal Risk and Public Investment Management Department, and that department will now exclusively focus on public investment management. We will continue strengthening the capacity of the department by hiring new employees and training existing employees. Our National Academy of Public Administration (NAPA) has started a special program on public investment management.

- Our PIM Department currently monitors about 150 large projects, based on past and current legislation. About 60 projects are under preparation, and about 90 projects are under implementation. We are strengthening the information flow between our PIM Department, which monitors projects against their implementation plans and key performance indicators, the budget department and the public debt agency in support of robust project implementation on time and on budget, and early identification of emerging project risks.

17. With the scaling up of the investment budget, we are enhancing public investment transparency.

- We have included in the Revised Fiscal Strategy 2025–27 a table that contains the following information for budgeted public investment projects with estimated costs exceeding EUR 20 million (apart from those related to defense and security): project expenditure to date, spending estimate for current year, budgeted amount for the budget year, expenditure projections for 2026 and 2027, and estimated total project cost (end-November 2024 SB under the SBA). We will amend the Budget System Law in November 2024 to incorporate these data as a permanent feature of the fiscal strategy. We are also moving forward with incorporating such data for all projects receiving budget funding in our budget system SPIRI.

- We will ensure that each Ministry and public entity in charge of budgeted investment projects publishes on their websites project appraisal studies for the signed investment projects that have a total value of over EUR 20 million unless this is precluded by the confidentiality clauses in government-to-government contracts or commercial contracts. We have sent the line ministries a circular to remind ministries of this requirement.

- We will upgrade the website Srbija 2027 to provide additional information on the scope, phasing, benefits and estimated costs of the projects under the "Leap into the Future—Serbia 2027" Investment program. By end-January 2025 we plan to update the website with the information on the scope of the project, total project cost, the benefits of the project, and the completion date.

- The Public Procurement Office will continue regular public reporting, at least at an annual frequency, on all procurements, including those that were exempted from the regular procurement regime, and disclosing the basis for the exemptions.

18. For those projects not yet been signed or budgeted, we commit to applying fully our existing and recently strengthened PIM regulations to support robust project preparation, prioritization, and selection:

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

- We will adhere to the single pipeline of investment projects, starting from the project idea stage. We will also rigorously implement project monitoring by the PIM department of the Ministry of Finance according to the project-size thresholds defined by the new Decree on Capital Projects and other regulations.

- The selection of projects will be supported by assessments of affordability and of alternative financing options provided by the Public Debt Administration, Ministry of Finance (Macro-financial analysis and Budget departments), and Ministry of European Integration.

- We will continue informing the Commission on Capital Investments of public private partnership (PPP) projects. The Provincial Commission and the Local Commission will both submit biannual reports on their work to the Ministry of Finance, which contain basic information about capital projects within their competence.

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

19. Resolving staffing challenges in Serbian Tax Administration (STA) is an urgent and macro-critical priority. STA faces critical staffing challenges given the ongoing wave of retirements of skilled staff. We will address this situation under a comprehensive approach described below:

- *Immediate measures.* The Ministry of Finance, STA, and the Government HR Service (SUK), working together, by end-December 2024, will: (a) set STA a 2025 annual hiring quota of no less than 1000 persons and expand this quota further without delay when the initial quota will be appropriately utilized; (b) increase STA temporary staff quota from 600 to no less than 800 persons; (c) ensure that STA can use electronic job applications, including via the SUK's HR-MIS system once that becomes available. These steps will boost STA's ability to hire staff on a permanent and temporary (including to engage university students) basis. To complement these efforts, also by end-December 2024, STA will develop, and the Ministry of Finance will assess and approve, a strategy to onboard new hires and to facilitate the conversion of temporary staff to permanent positions, and a recruitment campaign strategy.

- *Follow-up measures.* The Ministry of Finance, Ministry of Public Administration and Local Self-Government, STA, and SUK, working together and in consultation with the IMF experts, by mid-April 2025, will assess the success of the immediate measures above and the scope for further steps, such as: (a) changing STA job systematization to enable it to recruit staff across a wider range of disciplines and deploy them more flexibly throughout STA; (b) allowing STA to deliver hiring or non-hiring decisions electronically; (c) expanding STA's ability to audit and service taxpayers outside the region of taxpayer residence and changing the job position rulebook to break the link between job positions and specific locations; (d) enabling STA to hire retired staff in temporary positions with the purpose of training and mentoring new staff; and (e) taking steps to respond to the bottlenecks identified in assessing the implementation of the immediate measures above. We will also prepare analysis of the appeals processes in STA hiring, assess whether the use of temporary positions can effectively offset the delays to permanent hiring that occur due to the appeals processes, and assess whether there might be scope to make appeals process more efficient.

- *Medium-term measures***.** The Ministry of Finance and STA, working together and possibly engaging external consultants, will conduct an analysis of hiring bottlenecks at STA, covering wages, hiring procedures, the systematization rulebook, and employment trends. Based on this analysis, and endorsed by the STA Steering Committee, we will adopt a Human Resource Plan for 2025–28 to address existing and prospective STA hiring problems over that period **(end-July 2025 RT)**.

- To promote STA as an employer of choice, STA will undertake a major public marketing campaign stressing the importance of STA, the pressing need for an increased workforce, and the benefits of working at STA, an employer with cutting edge techniques and skilled staff.

20. We will also continue to make progress in other areas of tax administration: (i) We re-issued in October 2024 the tender for procuring a new **commercial-off-the-shelf-system (COTS)** under the World Bank Tax Administration Modernization Project this is to be implemented from 2025. The COTS is complemented by a HR Management Information System (HRMIS) and IT systems for document management and records management. (ii) We continue to address data gaps and adjust analytical tools to improve **VAT and CIT gap estimations** to better identify sources of non-compliance. (iii) Using a targeted approach, our new dedicated **high-net-worth unit** has launched several audits and issued a number of successful tax assessments. We will maintain and strengthen the activity of this unit. (iv) Our reforms will reflect the areas of improvement identified in the updated **Tax Administration Diagnostic Assessment Tool (TADAT) review** and will continue to be supported by IMF TA and the World Bank Tax Administration Modernization Project. (v) With the aim of improving tax compliance and transparency, STA is committed to publishing a list of **large tax debtors** (owing more than 20 million RSD) at least once per year. (vi) With the aim of improving tax compliance and to speed up the processing of VAT returns, and in line with international standard practice, the Ministry of Finance will grant STA **access to the e-invoices data.**

21. The phased establishment of a central electronic public wage and employment registry *Iskra* is well advanced. This registry allows for better planning, executing, and controlling of wage spending. The system covers: direct budget users and indirect budget users at the Republic level with the most important ones being the judicial sector, the cultural sector, the employment and social affairs sector, the education sector apart from higher education institutions; and the health sector. From January 2025, *Iskra* will also cover local self-government units with indirect beneficiaries (preschool institutions, cultural institutions, social welfare institutions). Coverage of the remaining public employees (Ministry of Defense, Ministry of Internal Affairs, Security Information Agency BIA and higher education institutions) will be completed by 2027. The *Iskra* registry will play an essential role in designing and implementing a comprehensive reform of the public wage system, which is becoming increasingly important, as wage compression and competition from the private sector make it increasingly difficult to attract essential high skilled employees such as engineers, IT specialists, and managers to the public sector.

22. We will publish a report on the structure of wages and employment in general government institutions covered by the *Iskra* registry (end-March 2025 RT). The report will shed light on the staffing and salary pressures in the public sector, which will assist us in future policy decisions on public sector wages. The report will use *Iskra* data and, when needed, other data sources, and will: (i) contain information on salaries and other remuneration, as well as staffing levels, for a wide range of typical jobs in the public sector; (ii) distinguish the information by broad sectors of employment (for example, public administration, education, health care) and, separately, by all bases of the salary scale; (iii) provide salary and other remuneration data in the form of summary statistics, such as median, 25th and 75th percentiles, and top and bottom pay bands; and (iv) outline the history of average salaries over several years where available. In conjunction with the above report focused on data, we intend to prepare a narrative report explaining the legal framework for public sector wage setting, describing the salary bases and coefficients, as well as regulations for key pay elements (bonuses, overtime, additional special benefits such as accelerated pension, etc.).

23. We will conduct and publish a comprehensive actuarial analysis of the Serbian pension system (end-March 2026 RT). This analysis will shed light on the long-term financial sustainability of the Serbian pension system and clarify the ability of the Serbian pension system to support adequate standards of living for the retirees while containing fiscal pressures as the population ages. The analysis will consider a range of macroeconomic and demographic developments. Alongside the report, we will prepare a model of the Serbian pension system that can be updated with new input data to enable assessing the impacts of economic and demographic developments or changing pension system parameters on the actuarial characteristics of the pension system.

24. We will continue working on upgrading fiscal data and government finance statistics (GFS). Upcoming upgrades to fiscal data and government finance statistics (GFS) as well as the recently released quinquennial benchmark revision of the national accounts statistic will require a review of the numerical parameters of the fiscal rule. With Fund technical assistance (TA) support, we are working on automating the preparation of monthly GFSM 2014-compliant fiscal data, expanding the coverage of indirect budget users and extrabudgetary units to all materially relevant general government units, and developing data for the compilation of financial accounts. We have formed coordination committees between SORS, the MoF and the NBS to ensure smooth coordination between all participating government bodies. From 2025 onward, budget execution of all indirect budget users will be fully incorporated in our fiscal data. All other relevant data, including public enterprises reclassified into the general government sector, are expected to be available from 2026. Following review and assessment of the data, and preparation of an explanatory report on the revised coverage and the impact on our fiscal data, we will shift reporting of our fiscal position in the Fiscal Strategy and our monthly reports to the materially relevant general government compliant with GFSM 2014. We also plan to make our debt reporting consistent with these changes. We will accordingly update fiscal rule definitions and parameters in the Budget System Law to align them with statistical definitions, revisions to the national accounts and the other improvements to fiscal data. We plan to make these changes for the 2027 budget cycle, with fiscal reporting in the new coverage targeted to start from January 2027.

C. Energy Sector Policies

25. We are committed to continuing to make good progress in addressing remaining weaknesses in Serbia's energy sector. Our policies have been critical for ensuring energy security while strengthening fiscal and external sustainability.

- The series of electricity tariff increases for the regulated and unregulated sectors in 2022–23 helped achieve cost recovery at the state-owned electricity company EPS. In the unregulated sector, we removed in May 2024 the fixed electricity price that was introduced during the energy crisis and have adopted new pricing methodologies that were implemented in November 2024.

- By March 2025 we will prepare a report to assess the adequacy of grid fees paid to **Elektrodistribucija Srbije (EDS)**, as well as the adequacy of the fees paid by the EDS and EMS to EPS for losses. The report will be prepared by the Ministry of Mining and Energy in cooperation with EDS, EMS, and EPS. Based on the findings, we will assess by May 2025 the need to implement an increase in grid fees with the aim of improving EDS financial conditions and allow for much-needed investments by EDS.

- More broadly, we plan to, annually, assess the need for the adjustment of regulated electricity tariffs and on that basis adjust tariffs as needed to secure **cost recovery** in the regulated sector.

- We will continue to implement the **restructuring plan for EPS**. The plan specifies reform priorities in EPS governance and organizational structure, including managerial and sectorial layouts, audit processes, internal controls, and compliance procedures, and outlines financial projections predicated on annual regulated tariff adjustments. As key near-term step, we will introduce KPIs for top 60 EPS managers.

- We continue to strive to ensure **energy affordability** for Serbia's population. We will continue to rely on a system of block tariffs, with a lower electricity price for households up to a certain electricity consumption threshold. Last winter, our energy-vulnerable consumer protection program covered 170.000 recipients: the recipients of means-tested social assistance and the pensioners with minimum pensions. This year, in view of an increase in the real value of pensions and stable regulated energy prices, we intend to make the program more targeted and means-tested, and expect it to cover about 75,000 most vulnerable recipients.

- In the **gas sector**, tariff increases in 2022–23 helped improve the financial situation of Srbijagas. Srbijagas has also adopted a new gas pricing system for the unregulated sector that was implemented with the beginning of the 2024–25 heating season. Among other changes, the methodology introduced new types of contracts and increased the Srbijagas margin so that future needed investments can be made. For Transportgas, we will ensure the completion of its unbundling in 2025, consistent with our commitments to the EU.

- In line with our commitment to **transparency**, we will publish the financial statements of EPS and Srbijagas. We will also continue with the publication of monthly reporting of overdue receivables to Srbijagas and EPS from their top-20 debtors including changes in overdue receivables since January 2022.

26. We will prepare and approve by the Government an updated Energy Investment Plan (end-March 2025 RT). The update will set out the investment needs in the energy sector for 2025–27, project evaluations, and financing sources. To this end, for each project with the size of over 20 million euro, the plan will include information on the expected rate of return of each project, measures of the contribution of each to the green transition, and details of planned financing sources (republican budget, SOE own sources, or SOE borrowing with a state guarantee). The internal rates of return will be calculated by the relevant SOEs and scrutinized by the Ministries of Finance and Energy.

27. We have continued to develop a comprehensive agenda for green growth to ensure a more sustainable and environmentally friendly economic development. Preparing for the EU Carbon Border Adjustment Mechanism (CBAM) remains a priority. As part of these preparations, we will consider carbon pricing mechanisms, including carbon taxes. We adopted in July 2024 the Integrated National Energy and Climate Plan that defines our goals for reducing greenhouse gas emissions, increasing the share of renewable energy sources in gross final energy consumption, and greater energy efficiency in line with the new Energy Development Strategy of Serbia. The Integrated National Energy and Climate Plan (INECP) places the focus on investments in renewable energy sources, where around 3.5 GW of new wind and sun power plants energy will be connected to the network by 2030. Furthermore, we will continue facilitating higher private investment in renewables through auctions and other measures, and the next wind and solar auctions are planned for 2H:24 and 2H:25.

D. Monetary and Exchange Rate Policies

28. The primary monetary policy objective is to secure and maintain price stability. This plays a crucial role in contributing to economic and financial stability and in fostering sustainable economic growth. With the easing of inflation, we cut the key policy rate to 5.75 percent, in three 25 bps steps from mid-year. Going forward, monetary policy will continue to maintain a cautious stance in view of continued core price pressures and remaining upside risks to inflation. The NBS will continue to monitor key inflation developments in the domestic and international spheres. The PCI will monitor inflation developments through a consultation process, where in case that inflation at the end of a semiannual period breaches the band limits of 1½ percentage point around a specified center point, we will discuss with IMF staff the reasons for the deviation and the appropriate policy response. The center point is specified as 4.0 percent at end-December 2024, 3.8 percent at end-June 2025, and 3.6 percent at end-December 2025, with the relevant measure of inflation being 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).

29. Sustaining the relative exchange rate stability of the dinar against the euro is an important pillar of our policy. With this in mind, we have continued to accumulate gross international reserves, which stood at EUR 28.3 billion at end-September 2024. We are committed to maintaining gross international reserves well above the program's NIR floor, equivalent to 100 percent of the ARA metric. We will also continue to sterilize dinar liquidity injected through foreign exchange purchases.

30. Promoting dinarization remains important. Confidence in the currency and the domestic banking system is strong. As a result, dinarization of deposits and receivables increased to 44.2 percent and 36.8 percent in September, respectively, and dinar savings of households are at a record high. Beyond pursuing policies that support macroeconomic stability, which is of the utmost importance in promoting dinarization, other measures include lower reserve requirements for dinar liabilities, remuneration of required reserves held in dinars, mandatory down payment ratios for foreign currency loans, systemic risk buffers for FX linked lending, higher capital requirements from January 2025 on foreign currency-indexed loans, the need to meet Net Stable Funding Ratio (NSFR) requirements on foreign currency-linked loans in dinars, and other regulations that reduce incentives to offer foreign currency-linked loans. Over time, higher dinarization will improve the transmission of our monetary policy to domestic financing conditions and further strengthen financial stability by reducing currency mismatches on private sector balance sheets.

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

E. Financial Sector Policies

32. Maintaining financial stability is a key priority and we will continue to monitor risks in the banking sector closely. The banking system remains well capitalized (with average capital adequacy ratio of almost 22 percent as of July 2024), highly liquid, and profitable. NPL ratios are low, at 2.8 percent as of July 2024, and we continue to monitor asset quality closely. The temporary measure capping the interest rate for first-time users of variable rate housing loans of up to EUR 200,000 at 4.08 percent is set to expire at end-2024 and be replaced by a 5 percent cap for a transitional period of one year.

33. We will continue to strengthen the regulatory and supervisory framework and to enhance Serbia's financial infrastructure.

- To further harmonize our prudential framework with international and EU standards and based on a Serbia-EU regulatory gap analysis undertaken by the NBS, we introduced new Net Stable Funding Ratio (NSFR) requirements. As a next step, we are considering regulations introducing the minimum regulatory leverage ratio for banks.

- We will propose to Parliament a new Law on the Protection of Users of Financial Services that will further harmonize Serbia consumer legislation with EU standards.

- We are continuing to prepare for Serbia's accession to the EU's Single Euro Payments Area payment systems (SEPA). Relatedly, we amended the Payment Services Act to make it consistent with EU's PSD2 payment services directive, and to enable open banking driven services in the Serbian market.

- We are implementing a credit registry, which will be run by the NBS, and which would cover information on bank loans in the format consistent with the EU's "AnaCredit" harmonized standard for central bank credit registry information.

- We continue implementing the Capital Market Development Strategy (CMDS), including by operationalizing the Corporate Bond Issuer Program that aims to educate, promote, and support issuers in their preparation for issuance of corporate bonds.

34. We continue reforming state-owned financial institutions and will ensure their strong oversight.

- We will continue implementing the strategy for Banka Poštanska Štedionica (BPS) and monitoring risks related to lending to medium-size companies, SOEs, and local governments.

- The Development Fund (DF) and the Export Credit and Insurance Agency (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. In addition, in line with the Action Plan as defined in the adopted Concept of Development Financing Policy, both DF and AOFI have started raising awareness among SMEs, introducing external audit, improving performance management, internal audit risk management and business compliance functions.

F. Structural and Governance Policies

35. We are committed to bringing SOE governance in line with the recent landmark SOE Governance Law. In April 2024, we adopted an Action Plan for the implementation of the SOE Ownership Strategy for 2024–25. We are working with EBRD and SECO experts on the secondary legislation for the law. In this context, the Ministry of Finance has prepared the draft bylaw on costing of public service obligations with support from IMF TA and have circulated it to the relevant ministries and stakeholders (end-September 2024 SB under the SBA). We plan to approve this bylaw by March 2025, engage in preparatory measures (assessing the PSO cost and separating PSO and non-PSO activities in SOE accounting; analyzing the procedures for entrusting public services to the SOE based on the relevant regulations and the accompanying analysis of the legal framework; and undertaking pilot exercises) soon thereafter, with the start of the full implementation of the PSO bylaw in January 2028. We are committed to strengthening the relevant SOE unit in the Ministry of Economy, by providing adequate financing, recruiting university graduates, and reallocating existing Ministry staff.

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

- We remain committed to not reopening MSK as it has consistently struggled to achieve profitability and has been unable to cover its operating costs, primarily gas bills.

- We will ensure sufficient resources in the budget to transparently support JP PEU Resavica through subsidies and to prevent further accumulation of arrears to EPS. We will assess the feasibility of privatizing JP PEU Resavica, and if that proves infeasible will promptly remove it from the governance under the Privatization Law to governance under the new SOE Law.

37. We will continue strengthening 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. NBS and SORS are coordinating on the compilation of financial and non-financial accounts for general government consistent with GFSM 2014, targeting transmission to the IMF and Eurostat from 2026. The 5-yearly benchmark revision of national accounts estimates was released. It featured methodological improvements and new data sources, drawing among others on the 2022 census and the 2023 agriculture census, and implementing revised methodologies for government finance statistics. Following the improvements to the national accounts and fiscal statistics we will look further into subscribing to the IMF's Special Data Dissemination Standard (SDDS).

38. We have further developed information systems covering social protection programs to help address social needs. Our current focus is on integrating the Social Card register with the SOZIS information system. This integration will include modules for social benefits and services at the local level, payment of entitlements at the national level, and reporting by users and other authorized entities. The Republic and Provincial Institutes for Social Protection, along with the Chamber of Social Protection, will also benefit from SOZIS. In July 2024, we launched web services that enable the transfer of applicant data from the SOZIS system to the Social Card register. We plan to integrate the payment module by 2026.

39. We will continue strengthening the AML/CFT framework.

- Based on the MONEYVAL 5th Enhanced Follow-up Report, Serbia is fully or largely compliant with FATF Recommendations. We will continue our regular reporting under the EU agenda.
- We will ensure the adequate and timely implementation of the requirements of all AML/CFT related EU Directives and Regulations, in line with the FATF Standards and with EU implementation deadlines.
- The competent AML/CFT authorities, including the Administration for Prevention of Money Laundering, and other law enforcement agencies, will continue their regulatory, supervisory, and other activities, as well as continuous strengthening of their capacities, including as concerns the AML/CFT trends and emerging risks. The NBS will continue enforcing AML/CFT regulations via on- and off-site inspections of financial institutions, including assessing the impact of high-risk non-residents on the risk level of each individual bank and the impact of cross-border threats in financial flows, and for providers of services related to virtual currencies.
- We enacted, and are implementing, a new Law on Central Records which strengthens Serbia's capacities in ensuring adequate, accurate and up-to-date information on beneficial owners in the already existing Central Records of Beneficial Owners.
- A working group was formed in June 2024 to update the national AML/CFT/WMD Proliferation risk assessments (NRA) that were adopted in November 2024. The updated AML/CFT strategy and NRA action plan are expected to be finalized by year-end.
- Preparations for the MONEYVAL consultation round 6 are progressing well. In July 2024, we completed trainings with all AML/CFT stakeholders, and are finalizing the processes and completing the technical compliance annex, ahead of the on-site evaluation in 2025.
- We will continue closely monitoring the implementation of targeted financial sanctions by regulated entities to prevent potential spillovers related to the Ukraine conflict.

Program Monitoring

40. Progress in the implementation of the policies under the PCI will be monitored through quantitative targets (QTs), continuous targets, and reform targets (RTs). These are detailed in Tables 1-2, with definitions provided in the attached Technical Memorandum of Understanding (TMU). Reviews by the IMF are 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 by April 1, 2025, the second review by October 1, 2025, the third review by April 1, 2026, the fourth review by October 1, 2026, the fifth by April 1, 2027, and the sixth review by October 1, 2027.

Table 1a. Serbia: Quantitative Program Targets[1]

	2024	2025	
	End-Dec.	End-Jun.	End-Dec.
	QT	QT	QT
I. Quantitative Targets (QTs, semi-annually)			
1 Ceiling on the general government fiscal deficit (in billions of dinars) 2/ 3/	263.0	161.9	314.0
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/	1,643.0	923.1	1,827.4
3 Floor on Net International Reserves (in billions of euros) 4/	11.6	11.9	12.8
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) 5/	1.0	1.0	1.0
II. Continuous Targets			
5 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros) 6/	0.0	0.0	0.0

1/ As defined in the Program Statement, and the Technical Memorandum of Understanding.

2/ Cumulative since the beginning of a calendar year.

3/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees. A surplus is reported with a negative sign.

4/ Calculated consistent with Gross International Reserves at 100 percent of the ARA metric.

5/ Net cumulative change since the start of the calendar year, measured as the change in the stock at the test date and at the start of that year.

6/ Small unsettled government obligations with Libya on a 1981 loan remain under dispute.

Table 1b. Serbia: Standard Continuous Targets

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

Table 2. Serbia: Reform Targets

	Description	Target Date	Objective
	Prior Actions		
1	Adoption of the revised 2024 budget by the National Assembly consistent with key fiscal parameters, including the overall deficit.		Fiscal transparency and fiscal discipline
2	Adoption of the 2025 budget by the National Assembly consistent with key fiscal parameters, including the overall deficit.		Fiscal transparency and fiscal discipline
	Reform Targets		
	Fiscal		
1	Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law, and there will be no ad hoc pension increases and cash payments to pensioners.	Continuous	Achieving fiscal objectives, and supporting the credibility of the fiscal rule.
2	Conduct and publish a comprehensive actuarial analysis of the pension system.	End-March 2026	Ensuring long-term fiscal sustainability, and supporting the credibility of the fiscal rule.
3	Publish a report on the structure of wages and employment in general government institutions covered by the Iskra registry.	End-March 2025	Strengthening government HR policies and the effectiveness of the government, and supporting the credibility of the fiscal rule.
4	Adoption of the Serbian Tax Administration (STA) Human Resources Plan by the government to ensure adequate staffing levels and skills composition over 2025-2028, as assessed by the STA Steering Committee to be consistent with effective operation of STA.	End-July 2025	Strengthening the tax administration, and achieving fiscal objectives.
	Other		
5	Approval by the Government of the updated Energy Investment Plan that outlines key investment projects over 2025-2027, their measures of return, and sources of financing.	End-March 2025	Address the medium- to long-term viability of energy SOEs and associated fiscal risks, enhance security of electricity production, and formalize a key aspect of the climate strategy.

Attachment I. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program. To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on September 30, 2024, except as noted below. The quantitative targets and reform targets for assessing program performance are shown in Tables 1a, 1b and 2 of the Program Statement (PS). 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. Reflecting the ongoing work program to expand the coverage of the general government sector in within-year reporting, consolidated general government data for 2023 and beyond include service institutions like dormitories in the education sector now included in the budgetary execution system, and health sector institutions reported by the Health Fund. Consolidated general government data for 2024 also includes science institutes, agencies, and high schools. Consolidated general government data for 2025 also include primary schools and universities as well as other institutions of higher education. 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 Transportgas; and district heating companies; and any public enterprise that may be created by unbundling or be newly founded.

6. Quantitative fiscal targets (PS Table 1a) are specified cumulatively from the beginning of each calendar year except where defined otherwise. This includes in particular the quantitative targets on the general government fiscal deficit and the current primary expenditure of the Republican budget.

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 a quantitative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶2 above, except local governments; (ii) the Development Fund, and (iii) the Export Credit and Insurance Agency (AOFI). Arrears to be covered include outstanding payments on wages and pensions; social security contributions; obligations to banks and other private companies and suppliers; as well as arrears to other government bodies. This quantitative target will be measured as the change in the stock of domestic arrears 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.

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 an accepted rate on auction is lower than a coupon rate, in that case the market value is higher than nominal value and/or a bond with an above-market coupon is reopened ahead of a coupon payment.

9. Continuous reform target on pension payments. Pensions will only be adjusted through the adjustment mechanism specified in the Pension Insurance Law. The authorities will refrain from increasing pension payments by (i) making any other general adjustment to pensions, and (ii) making ad hoc pension payments such as bonuses.

10. For the purposes of the continuous reform target, pension payments are defined as cash expenditures (including lump-sum payments) paid to pensioners. Pensioners include all persons whose benefits are considered a pension (including old-age, disability or survivors' pensions), as identified by the Republic Fund for Pension and Disability Insurance. Pension payments include regular monthly pension payments and one-off and adjustment payments arising in the course of pension administration paid by the Republic Fund for Pension and Disability Insurance, as well as any ad hoc pension payments or bonuses paid to pensioners (which may be classified as social transfers in the fiscal accounts).

B. Public Debt

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

12. 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.

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

C. Floor on Net International Reserves

14. 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 September 30, 2024. Monetary gold will be valued at the average London fixing market price that prevailed on September 30, 2024.

Cross Exchange Rates and Gold Price for Program Purposes, September 30, 2024

Valued in:

Currency:	RSD	Euro	USD	SDR	GBP	Yuan
RSD	1.0000	0.0085	0.0095	0.0070	0.0071	0.0669
Euro	117.0840	1.0000	1.1165	0.8232	0.8336	7.8296
USD	104.8670	0.8957	1.0000	0.7373	0.7466	7.0126
SDR	142.2385	1.2148	1.3564	1.0000	1.0127	9.5117
GBP	140.4559	1.1996	1.3394	0.9875	1.0000	9.3925
Yuan	14.9540	0.1277	0.1426	0.1051	0.1065	1.0000
Gold	275,794.97	2,355.53	2,629.95	1,938.96	1,963.57	18,442.89

Sources: International Monetary Fund and NBS.

15. **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.

16. **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.

17. **Reserve-related short-term 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. If the NBS conducts swaps as an intermediate between two banks, commitments to sell foreign exchange

[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 certified to be at least 995/1000 pure.

arising from swaps in foreign currencies vis-à-vis domestic currency are included in foreign exchange denominated liabilities after netting with claims in foreign exchange arising from these swaps.

18. 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.

D. 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 program 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.

E. Reporting

21. General government revenue data and the Treasury cash position table will be submitted weekly; and the stock of spending arrears as defined in ¶6 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.

22. The stock of spending arrears (> 60 days past due) as reported in the MOF Invoice central registry system (CRF) will be submitted within 14 calendar days after the end of each month.

23. 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.

24. Pension spending will be submitted within 35 days of the end of each month. Details will include total spending, and the breakdown of payments financed by each entity (e.g., the Republic Fund for Pension and Disability Insurance, the Republican budget, etc.)

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

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

27. 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. **Receivables of the top 20 debtors to Srbijagas and EPS** will be submitted within 30 calendar days after the end of each quarter, as well as published on the company websites.

28. Detailed balance of payments data on a value basis provided on a monthly basis, 45 days after the end of the month or after publication, which is traditionally available on the NBS website and downloaded by the IMF team.

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

30. Volumes and prices of trade in goods data, on a monthly basis, 8 weeks after the end of the month, which is traditionally available on the SORS website and downloaded by the IMF team.

31. Any support provided from the Republican budget or local government budgets to public enterprises in the energy sector will be reported quarterly within 35 calendar days after the end of the quarter. This will also include any guarantees extended.

32. 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.

33. Data relevant for staff monitoring of standard continuous targets. Data on exchange rates will be submitted in accordance with the Fund's Multiple Currency Practices Policy that became effective on February 1, 2024, and the agreed monitoring tool. NBS determined exchange rates required include the official exchange rate for RSD/EUR (official mid-rate and buy rate and sell rate for foreign exchange), and the six cash rates for RSD/EUR, RSD/USD, and RSD/CHF (buy rates and sell rates, respectively). Exchange rates will normally be submitted weekly at the end of the first business day in the following week. Exchange rates will be submitted daily by close of business of the following business day during the five business days prior to a Board meeting, and if a multiple currency practice has been observed, as requested by Fund staff. Other data relevant for monitoring other standard continuous targets will be expeditiously provided if any official actions are taken in these areas (see PS Table 1b).

Data Reporting for Quantitative Targets		
Reporting Agency	Type of Data	Timing
Statistical Office and NBS	Trade in goods data, volumes and prices 1/	Monthly, within 8 weeks of the end of the month
Ministry of Finance	Fiscal deficit of the consolidated general government	Within 35 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 35 days of the end of the month
Ministry of Finance	External debt payment arrears by general government, Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Gross accumulation of domestic payment arrears by the general government (without local government), the Development Fund, and AOFI	Within 45 days of the end of the quarter
Ministry of Finance	Earmarked grants and receipts from small-scale disposal of assets	Within four weeks of the end of the quarter
NBS	Detailed balance of payments data, value basis 2/	Monthly, within 45 days of the end of the month
NBS	Gross international reserves, composition details	Every two weeks, at the end of the first business day in the following week
NBS	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.
NBS	Exchange rate data required for monitoring under the Fund's Multiple Currency Practices Policy.	Normally weekly, at the end of the first business day in the following week, if needed daily at close of business of the following day. 2/

1/ Sufficient to notify IMF that data is available on SORS website.

2/ Sufficient to notify IMF that data is available on NBS website.

Statement by Mr. Patryk Łoszewski, Executive Director for Serbia and Mr. Vuk Djokovic, Advisor to the Executive Director
December 9, 2024

The Serbian economy continues to perform strongly and is projected to grow by 3.8 percent this year—one of the highest rates in the region—driven by private consumption and both public and private investment. Inflation has declined to within the National Bank of Serbia's (NBS) tolerance band, and employment remains robust. Consumption is supported by real wage growth, high employment, and improved consumer confidence. Investment sentiment is favorable, evidenced by high foreign direct investment (FDI) and portfolio inflows—and driven by high earnings, the proximity of the European Union market, macroeconomic stability, and declining country risk—as shown by the recent credit rating upgrade. However, net exports negatively contributed to GDP growth, with imports outpacing exports. Despite a slightly higher-than-projected current account deficit—which remains fully covered by FDI—foreign exchange (FX) reserves have increased. High FX inflows since the beginning of 2024 have created appreciation pressures on the dinar, prompting the NBS to intervene by purchasing about EUR 1.9 billion. The growth outlook remains positive, with the authorities expecting the economy to expand by 4.4 percent over the next two years and investments to surpass 25 percent of GDP. Building on gains in macroeconomic stability, low and declining public debt, strong policies and credibility, Serbia was awarded investment grade status by S&P Global Ratings for the first time in October.

The current Stand-By Arrangement (SBA) has been critical in helping Serbia weather the headwinds of the regional energy crisis and navigate a period of high economic uncertainty. It has been instrumental in preserving macroeconomic stability, implementing important reforms in the energy sector, and ensuring fiscal discipline and continuous fiscal consolidation during difficult times. Under the SBA, critical reforms have been implemented to restore the financial sustainability of state-owned enterprises (SOEs) in the energy sector, including tariff adjustments and measures to strengthen SOE governance and oversight. More broadly, the macroeconomic and structural policies implemented under the SBA have proven effective and successful, as shown by the achievement of investment grade status, which testifies to the strength of these policies and the authorities' credibility and ownership. The arrangement also provided necessary liquidity during a temporary bout of heightened market risk aversion. Notably, Serbia used IMF resources judiciously, drawing on them only when needed. Since the second review, the authorities have treated the SBA as precautionary, as market conditions improved, and market access was restored.

Serbia has a strong history of successful engagement with the IMF. Since 2015, the country has benefited from substantive precautionary, non-financing support from the IMF. Over that period, the authorities have implemented a broad range of macroeconomic, financial sector, and structural reforms. Most notably, fiscal sustainability has been restored as public debt declined by about 27 percent due to continuous fiscal consolidation. Additionally, under consecutive IMF-supported programs, the banking sector balance sheet has been cleaned up and non-performing loans (NPLs) declined to record lows. Between 2018 and 2022 Serbia had two arrangements under the Policy Coordination Instrument (PCI), which the authorities found particularly useful to help steer macroeconomic and structural policies and reinforce fiscal discipline. These arrangements also served as a useful signaling device.

The authorities are well aware of the hard-won macroeconomic stability and fiscal sustainability achieved since 2015, and the continuity of their prudent macroeconomic policy is assured. They also demonstrated strong capacity in contingency planning and implementation, as shown by robust macroeconomic management during the COVID-19 pandemic and the more recent energy crisis.

Fiscal policy

At this juncture, the authorities are prioritizing public infrastructure investment, including through the "Leap into the Future—Expo 2027" initiative, which is a key pillar for boosting growth potential. As assessed by the IMF in 2017, the lag in the quantity and quality of Serbian public infrastructure relative to its peers hinders growth and convergence. Over the long run, the availability and quality of infrastructure are both critical for bolstering economic activity. Fiscal consolidation since 2015 was instrumental in creating the necessary fiscal space for much needed higher investments. While improving infrastructure is critical for fostering growth and increasing living standards, the authorities remain mindful of the importance of preserving the achieved macroeconomic gains and see continuous arrangement with the IMF as critical in that regard.

The adopted 2025 budget, consistent with parameters agreed under the PCI arrangement and the authorities' revised medium-term fiscal strategy, envisages a modest increase in the budget deficit to about 3 percent of GDP. This budget deficit is critical to accommodate large investment needs as well as an increase in current spending on the back of mandatory increases in public wages, pensions, and interest payments. The 2024 supplementary budget, enacted in September, already accommodated higher agricultural subsidies to cushion drought-related losses, augmented social transfers, and increasing healthcare costs. These spending increases and the overall deficit, however, are not jeopardizing the downward trend of public debt. Increases in public wages and pensions—the two largest budget items—are consistent with the special fiscal rules. Tax revenue remains strong, supported by buoyant economic activity, high employment, and robust domestic demand. Risks to budget execution going forward are low, given conservative revenue and expenditure budgeting and the inclusion of indirect budget users in the budget as well as in the budget execution system, which will allow improved tracking of their spending.

The authorities underscore the importance of structural fiscal measures agreed under the PCI arrangement. Serbia is strengthening its medium-term budget orientation to help support a fiscal path consistent with program objectives. Assessing the viability of the public pension system through a comprehensive actuarial analysis is essential for containing fiscal pressures as the population ages. The authorities agree on the urgent need for a more strategic approach to human resource management at the Serbian Tax Authority, which faces significant challenges from an aging workforce and increased business continuity risks.

Monetary and financial sector policy

Following three consecutive reference rate cuts of 25 basis points since April, the NBS paused the easing cycle, as headline inflation of 4.5 percent in October remains at the upper bound of the inflation tolerance band and core inflation remains sticky. The authorities agree that elevated uncertainty and geopolitical tensions require enhanced vigilance and data-dependent decision-making. Headline inflation is expected to gradually decline towards the midpoint of the inflation tolerance band, which will be reached towards the end of 2025. The gradual return to target will be supported by restrictive monetary conditions, anchored expectations, and declining imported inflation. At the same time, the authorities underscore that the expected real wage growth consistent with the increase in productivity, will help lower core inflation. Supported by prudent monetary policy and the credibility of the NBS, inflation expectations for the financial sector are well anchored within the NBS tolerance band.

The financial sector remains sound, liquid, and well-capitalized, with a capital adequacy ratio of close to 22 percent. All banks in Serbia have a liquidity ratio well above 100 percent, and the NPL ratio stood at 2.8 percent, supported by robust regulatory and macroprudential frameworks. Credit activity recorded healthy growth of about 6.6 percent in September. Lending to households grew by 7.8 percent, and corporate loans grew by 5 percent. More than half of new loans were issued in dinars, driven by the NBS decision to impose higher capital requirements for FX and FX-indexed loans if such loans issued since 2023 surpass 71 percent of the bank's loan portfolio in 2025. Both loan and deposit dinarization is increasing, driven by macroeconomic stability and increasing confidence in the currency and banking system, while being supported by a set of macroprudential measures that reduce incentives to offer FX-linked loans.

Energy sector policies

The authorities are steadily advancing energy sector reforms. Mitigating deficiencies in Serbia's energy sector while ensuring energy security and managing associated fiscal risks were key components of the SBA. Close vigilance in the energy sector and implementation of needed reforms will continue under the requested PCI arrangement. In November, Elektroprivreda Srbije (EPS), a power provider, enacted a new electricity supply pricing system for the unregulated sector. EPS has also begun implementing its restructuring plan to improve operations, although its complex organization continues to create challenges. Most notably, the EPS supervisory board has appointed all permanent executive directors and set performance targets for top managers. In 2025, power sector reforms will focus on assessing the appropriateness of grid fees to strengthen the financial position of Elektrodistribucija Srbije (EDS), a power distribution utility, and create space for its essential investments.

The authorities are advancing a comprehensive green growth agenda for sustainable economic development. In July, Serbia adopted the Integrated National Energy and Climate Plan (INECP), setting goals for reducing greenhouse gas emissions, increasing renewable energy use, and improving energy efficiency. The INECP focuses on investing in renewable energy, aiming to connect 3.5 gigawatt of new wind and solar power by 2030. Additionally, Serbia is continuing to encourage private investment in renewables through auctions—in November, the Ministry of Energy initiated a new auction to provide incentives to build a total of 425 megawatts renewable energy power plants.