



TECHNICAL ASSISTANCE REPORT

REPUBLIC OF SERBIA

Fiscal Transparency Evaluation

JANUARY 2026

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Authoring Department

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Abbreviations and Acronyms

BSL	Budget System Law
CAR	Capital Adequacy Ratio
CBA	Cost Benefit Analysis
CIT	Corporate Income Tax
COFOG	Classification of Functions of Government
EDS	Elektro distribucija Srbije
EITI	Extractive Industries Transparency Initiative
EPS	Elektroprivreda Srbije
ERP	Economic Reform Program
EU	European Union
ESA 2010	European System of Accounts 2010
ESA MGDD	Manual on Government Deficit and Debt
FAD	Fiscal Affairs Department
FS	Fiscal Strategy
FSR	Financial Stability Report
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GFSM 2014	Government Finance Statistics Manual 2014
GDP	Gross Domestic Product
GG	General Government
IMF	International Monetary Fund
MOE	Ministry of Economy
MOF	Ministry of Finance
NBS	National Bank of Serbia
NPL	Non-Performing Loan
PDA	Public Debt Administration
PIM	Public Investment Management
PPP	Public Private Partnership
RB	Republican Budget
ROA	Return on Assets
ROE	Return on Equity
RS	Republic of Serbia
RSD	Republic of Serbia Denar
SAI	Supreme Audit Institution
SALM	Sovereign Asset and Liability Management
SEE	Southeastern Europe
SSF	Social Security Fund
SNG	Subnational Governments
SOE	State-Owned Enterprise
SORS	Statistical Office of the Republic of Serbia
STA	Statistics Department, IMF
UNDP	United Nations Development Program
VAT	Value Added Tax
WB	World Bank

Preface

In response to a request by the Ministry of Finance, a mission from the IMF's Fiscal Affairs Department (FAD), with participation of the Statistics Department (STA), visited Belgrade during January 28-February 10, 2025, to conduct a Fiscal Transparency Evaluation (FTE). The mission team consisted of Mr. Maximilien Queyranne (Lead), Ms. Yasemin Hürçan and Mr. Jonas Frank (all FAD); Mr. Philip Stokoe (Statistics Department), and Mr. Johann Seiwald (FAD Expert).

From the MoF, the mission met with Ms Ana Tripović, Secretary of State; Ms Milica Jovanovic, Assistant Minister and Head of the Macroeconomic and Fiscal Projections and Analyses Department and her team, Ljubica Matic and Ognjen Jancić; Mr Darko Komnenić, Assistant Minister for the Budget, and Ms Mileša Marjanović, Head of the Budget Sector, and their team; Mr Marko Gvero, Director of Treasury; Ms Ana Tripović and Head of the Public Debt Administration; Ms Sanja Putnik, Assistant Minister of the Capital Projects Department; Mr Zlatko Džigal, Head of the Department for Fiscal Risk Monitoring, Mr Ognjen Popović, Head of the Financial Sector Department.

The mission also met with Mr Vroljub Arsić, Chairman of the Committee on Finance, State Budget and Control of Public Spending of the National Assembly; Mr. Duško Pejović, President of the State Audit Institution and Auditor General; Mr Dušan Gavrilović and Ms. Vesna Simonović at the Statistics Office of the Republic of Serbia; and Mr Savo Jakovljević, Director of Research, Ms Ivana Vasić and Mr Tomo Vujović, at the National Bank of Serbia.

Meetings were also held with representatives of the Ministry of Economy; Ministry of Construction, Transport and Infrastructure; Ministry of Energy and Mining; Ministry of Environment; Ministry of European Integration; The National Public Procurement Office; the Health Insurance Fund; The Insurance Deposit Fund; The National Railway Passenger company Srbijavoz; Elektroprivreda Srbije (EPS); the City of Belgrade; the City of Nis; the Belgrade public transport company (GSP); and Transparency Serbia.

The mission is grateful to the authorities for the productive discussions and outstanding cooperation. The mission would like to thank Nenad Vlakerić, Advisor to the Minister of Finance, for all the arrangements and facilitating the work of the mission. The mission is very grateful to Lev Ratnovski, Resident Representative, Marko Paunović and Desanka Obradović (local economists), and Zvezdana Marjanovic for their excellent support to the mission. Finally, the mission is grateful to Ms. Radmila Vujović, and Ms. Marija Rosić for their excellent interpretation and translation services.

Executive Summary

This report assesses fiscal transparency practices in Serbia in relation to the requirements of the IMF's Fiscal Transparency Code (FTC). Across all three pillars of the code evaluated through 36 principles, Serbia adheres to good and advanced practices in 16 principles but does not meet the minimum standard in 8 principles, or otherwise only meets the basic requirements in the remaining 12 principles of the FTC.

Fiscal transparency practices are stronger in fiscal reporting, forecasting and budgeting, while the relatively weaker performance in fiscal risks management reflects the ongoing reform efforts in this area. Overall, transparency is broadly comparable to the average across other countries that have received FTEs, including for the different levels of ratings across the three pillars that were assessed.

Serbia achieved significant progress in strengthening fiscal management. Serbia's fiscal forecasts and budgets have become more comprehensive, forward-looking, and policy-oriented over the last decade, with the introduction of a medium-term budget framework, program budgeting, green budgeting, fiscal risk analysis, and a citizen budget. Serbia also adopted a new legal framework to strengthen public investment and public corporation management. It is pursuing reforms in developing expenditure baseline estimates and improving costing of new policies, as well as enhancing its understanding of various sources of fiscal risks.

Lack of public disclosure, rather than unavailability, explains why Serbia did not meet criteria for some principles. Quick improvements in transparency could be achieved by publishing reports already available internally, enhancing data quality and user-friendliness of reports, and launching data portals.

The evaluation underscores the need for comprehensive and timely fiscal reports that encompass the government's financial performance, position, and cash flows. Fiscal reporting meets good or advanced practices in 6 principles. The assessment of Pillar 1 of the FTC shows that the frequency of in-year reporting and data presentation using different classifications meet the advanced standard. Serbia also scores well on the coverage of institutions and of stocks, as well as internal data consistency. However, reconciling financing and the change in the stock of debt is critical given large stock-flow discrepancies in the recent past. Serbia is doing the basics on most of the other dimensions, and only two of the principles, on tax expenditures and historical revisions have been assessed as not met. Quantifying and disclosing foregone revenue from tax expenditure would help determine the extent of indirect government support to corporations and households through the tax system. While the authorities have steadily improved the coverage of the general government sector in fiscal reports and fiscal statistics, previous years data are not updated with the broader coverage, leading to breaks in time series.

There is further room for improving budgeting to achieve advanced practices, including by enhancing the effectiveness and transparency of medium-term budgeting. Fiscal forecasting and budgeting meet good and advanced practices in 6 principles. The availability, quality and accessibility of macroeconomic indicators and budget information have improved. Fiscal forecasts included in the Fiscal Strategy have proven credible and are assessed by an independent fiscal council. Budget unity is rated as good but could be improved by incorporating remaining extrabudgetary funds. Performance information, also rated as good, could better capture outcomes of public spending and policies. Increasing transparency around the large public investment program, which is comparatively large and

expected to surge in the coming years, should be a priority, including by publishing cost benefit analyses before approval of large projects and significantly improving competition and transparency for public procurement. Strengthening stakeholder participation in the budgeting process is also important to ensure that diverse perspectives are considered, ultimately leading to more effective and transparent fiscal policy decisions.

Understanding various sources of fiscal risks and improving reporting arrangements would enable better-informed decision-making. Fiscal risks meet advanced practices only in the principle for reporting on the financial sector, while good practices are also met in three other principles (macroeconomic risks, specific fiscal risks, and guarantees). Budget documentation includes both sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios to identify potential sources of deviation from fiscal targets. The main specific risks to the fiscal forecasts are disclosed in budget documents, along with estimates of their magnitude, however they lack a forward-looking perspective. There is also a solid disclosure and issuance framework for government guarantees. However, significant gaps persist in assessing large sources of fiscal risks. Long-term pressures from pension and health spending should be assessed and disclosed as population ageing continues and will adversely impact public finances. Public corporations also create important fiscal risks and are subject to multiple quasi-fiscal activities that should be costed and reported, in line with the draft bylaw on public sector obligations. Publishing more comprehensive and detailed information on subnational government finances that are already available internally offers opportunity for rapid progress in fiscal transparency beyond the Republican budget.

Based on these findings, the evaluation provides several recommendations to enhance fiscal transparency in Serbia. These recommendations are discussed in detail in each Pillar of the evaluation but are summarized in Table 0.1. Table 0.2 represents a summary of Serbia's performance against the FTC, while Table 0.3 presents an estimate of Serbia's public sector financial overview for 2023.

Table 0.1. Serbia: Summary of Recommendations 1

Pillar 1: Improve the comprehensiveness, quality, comparability, and integrity of fiscal reports			
	Recommendation	Principle(s)	Entity and Timeline
1.1	Further expand the coverage of institutional units and stocks in fiscal reports.	1.1.1, 1.1.2	MOF, NBS Short term, medium term
1.2	Publish a tax expenditure report in an annex to the budget as required in the Budget System Law	1.1.4	MOF Medium term
1.3	Improve the reconciliation of data within and between fiscal reports	1.3.2, 1.4.3	MOF, SORS Medium term
1.4	Introduce a revisions policy for fiscal data and improve the consistency of data over time.	1.3.3	MOF Medium term
Pillar II: Improve the budget and fiscal forecasting			
2.1	Present all documents published by the MoF in a systematic and accessible form on the website	2.3.2, 1.2.2	MOF Short term
2.2	Strengthen transparency for public investment budgeting, project selection and tendering	2.1.4	MOF Short term, medium term
Pillar III: Improve analysis and disclosure of risks to the public finances			
3.1	Strengthen the Budget System Law provisions concerning contingency reserve	3.2.1	MOF Medium term
3.2	Improve the analyses and disclosure of risks both on asset and liability side (initially financial asset and liabilities)	3.2.2	MOF Short term, medium term
3.3	Improve reporting and fiscal risk management of SOEs	3.3.2	MOF, MOE Short term, medium term
3.4	Disclose total obligations and other exposures under public-private partnership contracts		MOF, MOE Short term
3.5	Strengthen transparency on subnational finances and fiscal risks	3.3.1	MOF Medium term
3.6	Strengthen the analysis and disclosure of long-term sustainability, including in key expenditure areas (pensions, health fund)	3.1.3	MOF, PIO, HF Medium term

Note: HF – Health Fund; MOF = Ministry of Finance; MOE = Ministry of Economy; NBS = National Bank of Serbia; PIO = Pension Fund - SORS = Statistical Office of the Republic of Serbia;

1/ Short term is within 12 months, medium term is 1-2 years, and long term is more than 2 years.

Table 0.2. Serbia: Summary Assessment Against Fiscal Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
1.1. Coverage of Institutions	1.1. Budget Unity	1.1. Macroeconomic Risks
1.2. Coverage of Stocks	1.2. Macroeconomic Forecasts	1.2. Specific Fiscal Risks
1.3. Coverage of Flows	1.3. Medium-term Budget Framework	1.3. Long-term Fiscal Sustainability
1.4 Coverage of Tax Expenditures	1.4. Investment Projects	2.1. Budgetary Contingencies
2.1. Frequency of In-Year Reporting	2.1. Fiscal Legislation	2.2. Asset and Liability Management
2.2. Timeliness of Annual Accounts	2.2. Timeliness of Budget Documentation	2.3. Guarantees
3.1. Classification	3.1. Fiscal Policy Objectives	2.4. Public-Private Partnerships
3.2. Internal Consistency	3.2. Performance Information	2.5. Financial Sector
3.3. Historical Revisions	3.3. Public Participation	2.6. Natural Resources
4.1. Statistical Integrity	4.1. Independent Evaluation	2.7. Environmental Risks
4.2. External Audit	4.2. Supplementary Budget	3.1. Subnational Governments
4.3. Comparability of Fiscal Data	4.3 Forecast Reconciliation	3.2. Public Corporations

LEGEND	LEVEL OF PRACTICE				
	Not Met	Basic	Good	Advanced	Not Applicable

Table 0.3. Serbia: Public Sector Financial Overview, 2023
(Percent of GDP)

	General Government					Public Corporations			Eliminations for Consolidation	Public Sector
	Central Government	Social Security Funds	Local Governments	Consolidation Gen. Govt.	Consolidated General Government	Nonfinancial	Financial	Central Bank		
Transactions										
Revenue	22.8	16.8	6.5	-6.0	40.1	14.2	0.9	1.0	-0.3	55.9
Expenditure	25.0	16.8	6.5	-6.0	42.3	12.5	0.8	0.7	-0.3	56.1
Expense	19.2	16.5	5.6	-6.0	35.3	10.1	0.8	0.7	-0.3	46.6
Investment in Non-financial assets	5.9	0.3	0.9	0.0	7.1	2.4	0.0	0.0	0.0	9.5
Gross operating balance	3.6	0.3	0.9	0.0	4.9	4.2	0.1	0.2	0.0	9.4
Net lending/borrowing	-2.3	0.1	0.0	0.0	-2.2	1.7	0.1	0.2	0.0	-0.2
Stocks										
Assets	80.3	15.0	22.7	-1.8	116.2	35.7	7.0	35.3	-40.1	154.1
Nonfinancial	38.4	12.0	15.1	0.0	65.5	27.7	0.5	0.3	0.0	93.9
Financial	41.9	3.0	7.6	-1.8	50.7	8.0	6.6	35.0	-40.1	60.2
Currency and Deposits	9.9	0.9	1.4	-1.8	10.4	1.0	1.3	13.5	-10.5	15.7
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.3	2.1	18.2	-2.5	18.1
Loans	2.0	0.0	0.1	0.0	2.1	0.5	2.8	0.0	-1.5	3.9
Equity	23.8	0.2	4.0	0.1	28.0	2.1	0.0	0.0	-25.2	4.9
Other Accounts Receivable	6.0	1.9	2.2	0.0	10.1	4.1	0.2	0.1	-0.4	14.1
Liabilities	54.3	1.4	1.8	-7.0	50.3	33.2	6.9	35.3	-40.1	85.6
Liabilities other than equity	49.3	1.4	0.0	-1.8	49.8	13.6	5.3	30.1	-14.9	83.9
Debt securities and loans	43.8	0.0	0.7	-0.1	44.3	8.8	0.0	0.0		49.1
Accounts payable	2.0	1.4	0.0	-0.1	3.7	4.8	0.1	0.0	-0.4	8.1
Equity	5.0	0.0	0.0	-5.2	0.5	19.6	0.9	5.2	-25.2	1.0
Net worth	26.0	13.6	20.9	5.2	65.9	2.5	0.2	0.0	0.0	68.6
Net financial worth	-12.4	1.5	20.9	0.0	0.0	-25.2	-0.3	-0.3	0.0	-25.4

Source: IMF staff estimates, based on data provided by MoF, SORS, NBS, BCRS. Public Corporations incorporate data for 15 large public nonfinancial corporations, and 5 public financial corporations.

Note: NBS and SORS data on government financial assets and liabilities, and capital stocks (nonfinancial assets) respectively, are still in development and not official statistics yet.

I. Fiscal Reporting

1. Fiscal reports should provide a comprehensive, timely, reliable, comparable, and accessible summary of the government's financial performance, financial position, and cash flows. Three main categories of fiscal reports, namely budget execution reports, consolidated financial statements, and fiscal statistics, are complementary and were reviewed in this assessment. This chapter assesses the quality of Serbia's fiscal reporting practices against the requirements set by the IMF's Fiscal Transparency Code for the following dimensions:

- Coverage of public sector institutions, stocks, and flows;
- Frequency and timeliness of reporting;
- Quality, accessibility, and comparability of fiscal reports; and
- Reliability and integrity of reported fiscal data.

2. Serbia disseminates various fiscal reports. The main fiscal reports summarized in Table 1.1, comprise:

- **Monthly Public Finance Bulletins**, which present cash-based outturns for revenue, expenditure, and financing for the budgetary central government, the four Social Security funds and public entities benefiting from the Health Insurance Fund, subnational governments and the autonomous province of Vojvodina, Roads of Serbia, Corridors of Serbia and a gradually growing number of other extrabudgetary units;
- **Monthly Macroeconomic and Fiscal Data**, which present the main tables from the Public Finance Bulletin in excel format;
- **Monthly Central Government Operations (CGO) Statistics**, with cash-based outturns for revenue, expenditure, and financing for the budgetary central government;
- **Monthly General Government Operations (GGO) Statistics** with cash-based outturns for revenue, expenditure, and financing with the same coverage as the monthly Public Finance Bulletins;
- **Monthly Public Debt Reports**, published by the Public Debt Administration (PDA) of the Ministry of Finance (MoF), which includes stocks of general government, central government and subnational government debt, broken down by currency, into domestic and external debt, and by creditor, as well as information on debt yields;
- **Quarterly Public Debt Reports**, published by the PDA, which includes more comprehensive data than the monthly report including reconciliation tables of central government debt stocks with issuance and repayments, and detailed information on government guarantee recipients;
- **Quarterly Debt Statistics**, reported by NBS to the World Bank Quarterly Public Sector Debt Database, which provide information on the stock of budgetary central government debt, by instrument at face value in line with the Government Finance Statistics Manual (GFSM) 2014; and
- **Government Finance Statistics**, reported by SORS to the IMF, with information on general government and subsector revenue and expenditure, on a cash basis, in line with the GFSM 2014 framework.

Table 1.1. Serbia: Summary List of Published Reports 1/

REPORT	Agency	COVERAGE			ACCOUNTING		PUBLICATION	
		Instit.	Flows	Stocks	Basis	Class.	Freq.	Lag
IN-YEAR REPORTS								
Public Finance Bulletin	MoF	BCG, SNG, SSF, GG	R, E, Fin	Debt, Guaran teed Debt	Cash	Nat.	Monthly	35d
Macroeconomic and Fiscal Data	Mof	BCG, LG, SSF, GG	R, E, Fin	Debt, Guaran teed Debt	Cash			35d
Central Government Operations	MoF	BCG	R, E, Fin	...	Cash	GFSM 2014	Monthly	35d
General Government Operations	MoF	BCG, LG, SSF, GG	R, E, Fin		Cash	GFSM 2014	Monthly	35d
Public Debt Monthly Reports	MoF	BCG, LG, SSF, GG		Debt, Guaran teed Debt	-	Nat.	Monthly	35d
Public Debt Quarterly Reports	MoF	BCG, LG, SSF, GG		Debt, Guaran teed Debt	-	Nat.	Quarterl y	30d m
Quarterly Debt Statistics	NBS	BCG	...	Debt	-	GFSM 2014	Quarterl y	
General government debt (Maastricht definition)	NBS	CG, LG, SSF, GG		Debt	-	MGDD 2022	Quarterl y	3m
YEAR-END REPORTS								
Final Account	MoF	BCG	R, E, Fin,	Assets, Liabiliti es	Cash	Nat.	Annual	7m
Government Finance Statistics	SORS	BCG, LG, SSF, GG	R, E		Cash	GFSM 2014	Annual	~12 m

Notes: BCG: Budgetary Central Government; CG: Central government; LG: Subnational Government; GG: General Government (which includes, BCG, SSFs, and LG); SSF: Social Security Funds; R: Revenue; E: Expenditure; Fin: Financing. Nat. National presentation.

1/ Lag measures the average time between the end of the reporting period and publication, in days (d) or months (m).

1.1. Coverage of Fiscal Reports

1.1.1. Coverage of Institutions (Good)

3. According to the Sectoral Classification of Institutional Units¹ published by SORS, Serbia's public sector comprises 11,310 separate units of various legal forms. As shown in Table 1.2, these are distributed in the following subsectors:

- **Central government**, which is comprised of budgetary central government units, ministries, agencies and extrabudgetary units including a number of entities structured as public enterprises or joint stock companies the largest of which are: (i) Roads of Serbia, (ii) Corridors of Serbia, (iii) Serbian Railways Infrastructure, and (iv) Serbiavoz (passenger rail company);
- **Social security funds**, which are comprised of 421 units, including the four main social security funds, the Pension Insurance Fund, Military Health Fund, the Unemployment Fund and the Health Fund, alongside health institutions that are beneficiaries of the Health Fund;
- **Subnational government**, which is comprised of 8,870 units including the Autonomous Province of Vojvodina, 145 municipalities, and a large number of additional entities, the majority of which are schools;
- **Public nonfinancial corporations**, which is comprised of 932 corporations, including entities controlled by central and subnational governments, the largest of which are Elektroprivreda Srbije (EPS), Serbia Telekom and Serbia Gas; and
- **Public financial corporations**, the largest of which are the central bank (National Bank of Serbia), Dunav Insurance, Banka Postanska Stedionca and Srpska Banka².

Table 1.2. Serbia: Public Sector Institutions and Finances, 2023
(Percent of GDP, unless otherwise stated)

	Number of entities	Revenue	Expenditure	Balance	Intra-PS expenditure	Net expenditure	Net expenditure (Percent)
Public Sector	11,310	55.9	56.1	-0.2	0.0	56.1	100.0
General government	10,366	40.1	42.3	-2.2		42.3	75.5
Central government	1,073	22.8	25.0	-2.3	6.0	19.1	34.0
Social Security Funds	421	16.8	16.8	0.1	0.0	16.8	29.9
Local governments	8,872	6.5	6.5	0.0	0.0	6.5	11.5
Nonfinancial public corporations	932	14.2	12.5	1.7	0.3	12.2	21.8
Central Bank	1	1.0	0.7	0.2	0.0	0.7	1.3
Other financial public corporations	11	0.9	0.8	0.1	0.0	0.8	1.5

Source: Authorities and IMF staff estimates

¹ <https://www.stat.gov.rs/en-us/istrazivanje/sektorska-klasifikacija-institucionalnih-jedinica/>

² Other public financial corporations include the Serbian Export Credit and Insurance Agency, the National Mortgage Insurance Corporation NKOSK, Belgrade Stock Exchange, Central Securities Depository and Clearing House, Securities Commission, Društvo za reosiguranje Dunav Re, Dunav društvo za upravljanje dobrovoljnim penzijskim fondom, and Dunav dobrovoljni penzijski fond. These smaller entities are mostly not included in the public sector balance sheet compiled during the mission.

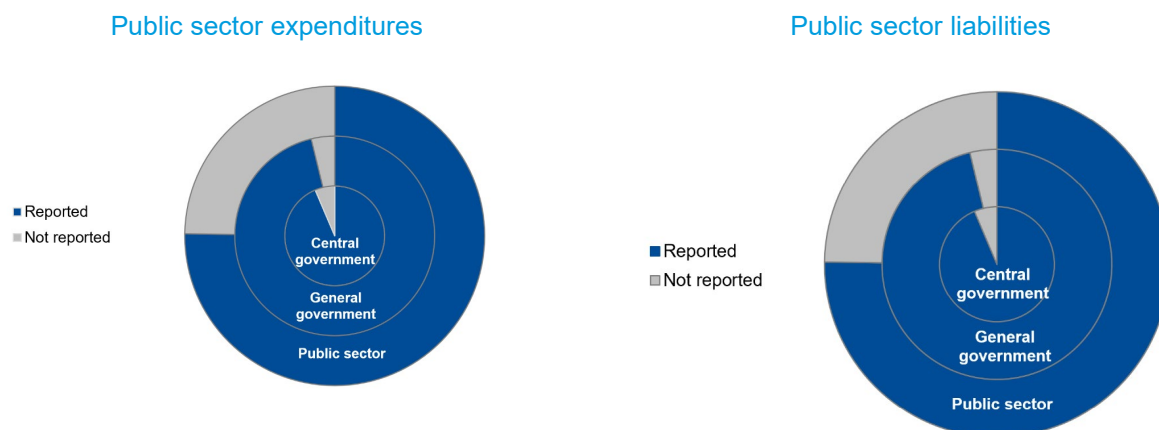
4. Serbia's public sector expenditures were equivalent to 56.1 percent of GDP in 2023. Tables 1.2 summarizes the distribution of public resources across the different subsectors of the public sector and shows that:

- General government is responsible for the vast majority of public sector net expenditures, accounting for 75.5 percent of the total net expenditure, of which around 34 percent was spent by the central government, 30 percent by social security funds and 11.5 percent was spent through subnational governments; and
- **Public corporations** are responsible for the remaining 24.5 percent of net expenditures were equivalent to, almost all of which was spent by Serbia's nonfinancial corporations.

5. While the government publishes a large volume of fiscal information, no report provides complete coverage of either general government or public sector activity, although the coverage of the general government has been steadily improving in recent years (Figure 1.1). The monthly and annual fiscal reports and statistics for central and general government present fiscal data for the budgetary central government, social security funds and subnational government sectors. These reports capture many, though not yet all of the extrabudgetary units, but coverage has expanded over the course of 2023 and 2024, with further expansions planned in 2025. That said, some extrabudgetary units remain outside of the government sector in the MOFs fiscal reports and statistics, the largest of which are Serbian Railways Infrastructure, Serbiavoz (passenger railway company), Serbia Water, and Radio Television Serbia. These entities are estimated to have total expenditures in 2023 of 1.6 percent of GDP. However, given that these entities are in receipt of substantial transfers from the budget, the impact of their exclusion from consolidated data is more limited, with missing expenditures in 2023 of around 0.9 percent.³ The authorities recognize that these units should also be included in expanded fiscal reports, and plan to do this over the course of 2025 and 2026. While the missing extrabudgetary units have a relatively minor impact on total general government expenditures or liabilities, the wider public sector has significant unreported expenditures (of 13.9 percent of GDP) and liabilities (especially in public financial corporations).

³ In 2024 MOF expanded the coverage of their data to incorporate 39 scientific institutes and 24 public agencies, further reducing the extent of missing expenditures.

**Figure 1.1. Serbia: Coverage of Public Sector Institutions in Fiscal Reports
(Percent of total at each level)**



Source: Serbian authorities, and IMF staff estimates.

Note: "Not Reported" refers to expenditures or liabilities of units not consolidated in summary fiscal reports.

6. Although core debt liabilities of most public sector units are captured by Serbia's headline debt measures, broader public sector liabilities are not captured and not all public sector units are included in the government operations data in fiscal reports. Serbia's headline debt measures in fiscal reports include liabilities of the government in the form of debt securities and loans for the general government⁴ but they also include the guaranteed debt of SOEs, which comprise a large part of the total debt of the public nonfinancial corporations, and so there is relatively little debt in the form of debt securities and loans missing from the reported debt data. However, there are substantial amounts of other kinds of liabilities that are not reported, most significantly the *currency and deposit* liabilities of NBS and other public financial corporations, and *other accounts payable* across all parts of the Serbian public sector.

7. Expanding the institutional coverage of fiscal reports to the entire public sector would have a substantial impact on many of the fiscal aggregates including the deficit. The reported general government deficit in MOF publications was 2.1 percent of GDP in 2023. Including and consolidating the remaining extrabudgetary units under the control of government would add around 0.9 percent of GDP to consolidated revenue and 1.0 percent of GDP to consolidated expenditure, which would have the effect of increasing the size of the reported deficit for the consolidated general government sector by 0.1 percent of GDP, to -2.2 percent of GDP. However, expanding the coverage to the entire public sector by including public nonfinancial and financial corporations would add 15.8 percent of GDP to revenue and 13.8 percent of GDP to expenditure, resulting in a significantly smaller deficit for the overall public sector, compared to the general government, of -0.2 percent of GDP.

1.1.2. Coverage of Stocks (Good)

8. The balance sheet for the Republican Budget, the largest single component of Serbia's public sector is published annually as part of the Final Account. This includes granular estimates of

⁴ National definition

the stocks of nonfinancial assets, financial assets and liabilities in the national presentation. However, balance sheet data for the other component parts of the general government are not published, nor do any fiscal reports present balance sheet data on the wider components of the public sector.

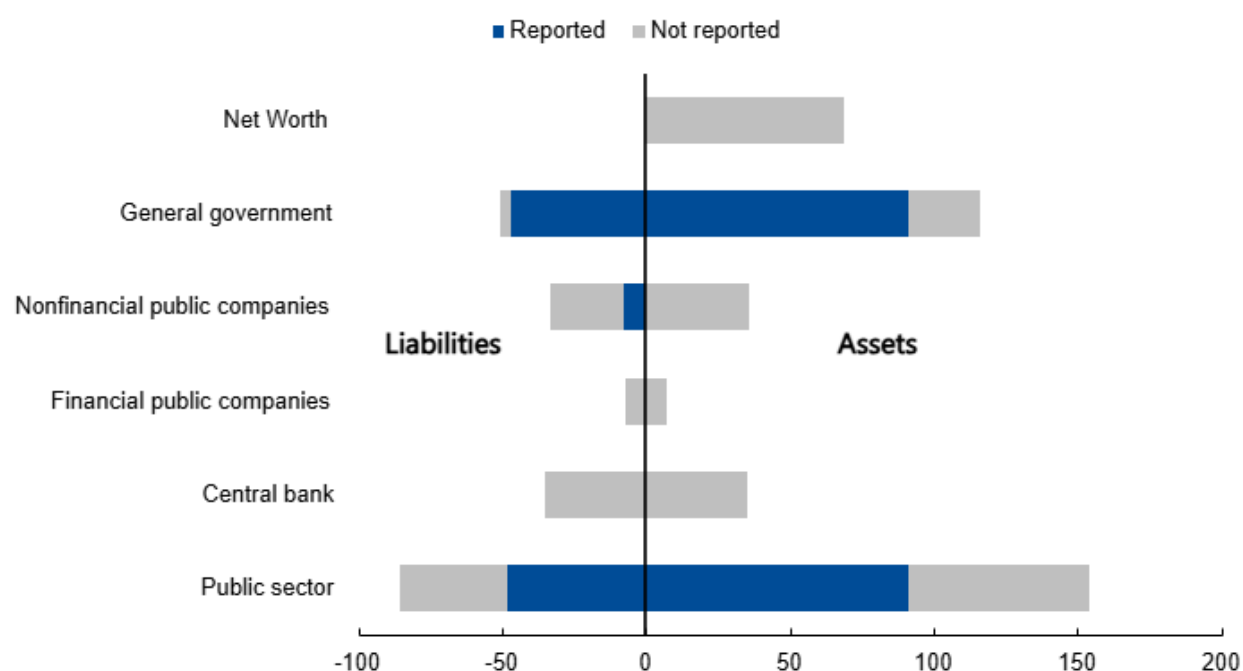
9. In-year reports include information on government debt (including guaranteed debt) and deposits, but clarity and openness of the latter could be improved. Inclusion of government data on government deposits within one or more of the sub-annual fiscal reports, perhaps alongside the debt data, would improve the transparency of the government's liquidity. This information is already available and published in the macroeconomic trends section of the Public Finance Bulletin, as well as in data published by the NBS, but not in an easily understood presentation or presented in context alongside other fiscal data in a way that would aid the reader.

10. Efforts are well underway to compile broader comprehensive financial accounts for the whole of the general government. NBS has compiled comprehensive and detailed quarterly general government and government subsector financial balance sheets, although this data is not yet published. In addition, SORS has done some preliminary work to estimate stocks of general government fixed assets though this has also not yet been published.

11. Although the coverage of public debt is broad, there are gaps in reporting of non-debt liabilities and assets (Figure 1.2). The main gaps reflect the following:

- **Non-Financial assets** of 39.9 percent of GDP. Although the Republican budget balance sheet does disclose information on nonfinancial assets, including estimates of natural resource assets, nonfinancial assets of subnational governments, extra budgetary units and public corporations are not reported.
- **Financial assets** of 23.2 percent of GDP, predominantly reflecting the financial assets of subnational governments, social security funds and public corporations (over and above the value of those assets recorded as equity in the republican budget balance sheet).
- **Liabilities** of 37.6 percent of GDP, which predominantly reflect the value of the currency and deposit liabilities of the NBS and other public financial corporations, as well as the other accounts payable liabilities of entities other than the Republican budget.

Figure 1.2. Serbia: Coverage of Stocks of Public Sector Institutions



Source: NBS Financial Accounts, SORS Capital stocks estimates, Final Account, Serbian Business Registers Agency data, Audited financial accounts and IMF staff estimates.

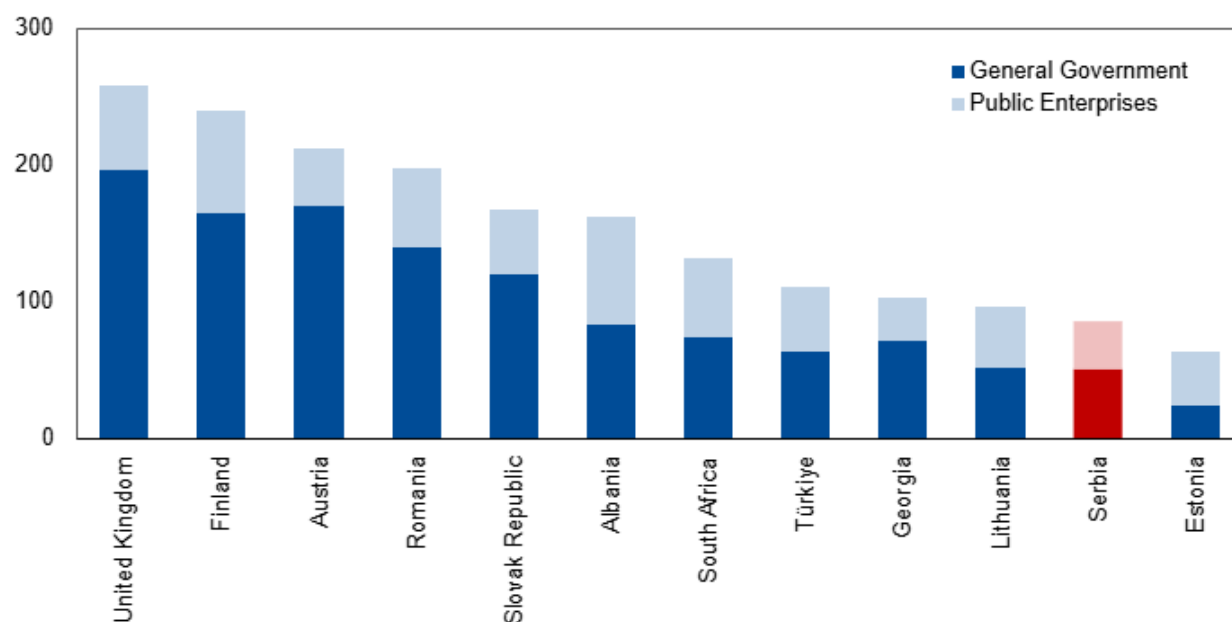
12. Addressing these gaps and expanding the balance sheet to the public sector would provide a more comprehensive view of public finances. As shown in Table 0.2 and Figure 1.3, consolidated public sector asset holdings and liabilities are estimated to have been around 154.1 percent of GDP and 85.6 percent of GDP, respectively, at end-2023. Public sector net worth and net financial worth are estimated to have been 68.6 and -25.4 percent of GDP, respectively. The main components include:

- **Nonfinancial assets** of 93.9 percent of GDP, which primarily comprises infrastructure assets (roads, railways, and utilities) but also natural resource assets of 17.1 percent of GDP.
- **Financial assets** of 60.2 percent of GDP, the bulk of which comprise assets of NBS.
- **Liabilities** of 85.6 percent of GDP, which primarily comprise government debt securities and loans, and NBS liabilities including currency in circulation and banking system reserves.

13. Serbia's net worth sits in the upper range of other countries and gross liabilities are relatively low (Figures 1.3 and 1.4). This reflects the fact that Serbia does not have any large state-owned commercial banks and does not have any employment-related pension schemes for government employees. Instead, government employees in Serbia, like other countries in the Western Balkans, are covered by the existing social security pension system. In macroeconomic statistics, according to the Systems of National Accounts (SNA) 2008, GFSM 2014, and European Systems of Accounts 2010 (ESA 2010) pension liabilities are defined narrowly, and only recorded for employment-related pensions. The obligations of social security pension schemes, like Serbia's are not recorded as liabilities. Consequently, for Serbia, the rising costs of pensions because of its aging population are reflected as long-term fiscal

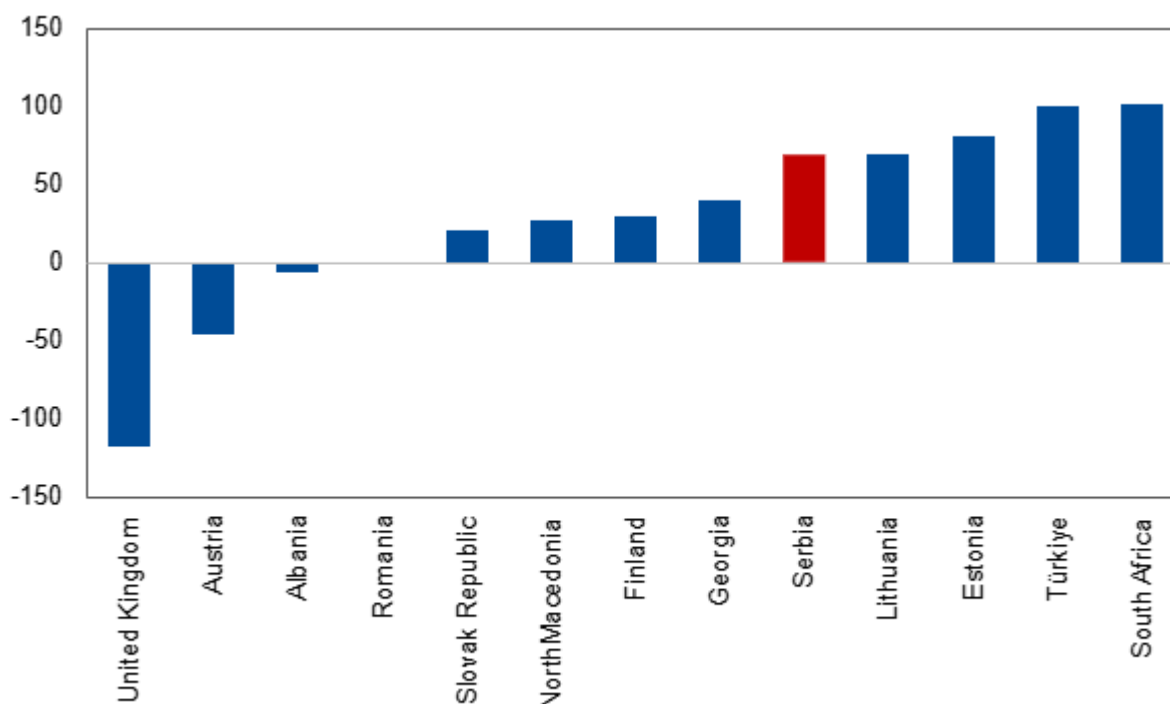
pressures rather than balance sheet liabilities, but these pressures are contained by specific fiscal rule designed to contain total pension expenditures (see principle 3.1.3).

Figure 1.3. Public Sector Gross Liabilities in the FTE Reports on Selected Countries (Percent of GDP)



Source: IMF FTEs for selected countries at different time periods (only the published FTEs have been included).

**Figure 1.4. Public Sector Net worth in the FTE Reports on Selected Countries
(Percent of GDP)**



Source: IMF FTEs for selected countries at different time periods (only the published FTEs have been included).

1.1.3. Coverage of Flows (Basic)

14. Serbia's main fiscal reports are all compiled on a cash basis, with no accrual adjustments or accrual transactions. Fiscal reports cover cash revenues, expenditures, and financing. While cash-based data for Serbia provides a good overview for most government revenues and expenditures, it does a poor job of reflecting the recording of guaranteed debt and guarantee calls in Serbia. Currently guaranteed debt calls are reflected on a cash basis, with payments of debt service by government on behalf of the principal debtor recorded as capital transfers as each installment is paid, rather than as larger capital transfers for the whole of the debt that has been called or de facto assumed at the time of the decision, in line with debt assumption rules applied in both the GFSM 2014 and Eurostat Guidance in the Manual on Government Deficit and Debt. In general, cash-based data is also poor at capturing payment arrears data, enabling governments to run seemingly balanced budgets while accruing significant accounts payable, that do not appear in the expenditure or government deficit data. While not a serious issue currently in Serbia, payment arrears in some parts of Serbia's public sector, including local governments and public health institutions have been a concern in past periods.

15. Work is well advanced at SORS to develop accrual-based estimates of general government operations in line with ESA 2010, with first estimates published at the end of 2024. This data is still under development, and not directly comparable with headline fiscal data compiled by the MOF, not just because the data includes accrual adjustments, but also because the data is unconsolidated.

Consolidated estimates are expected to be published later in 2025. For the time being, this data does not function as the main fiscal report for Serbia but should this data (as well as the below the line data being compiled by the NBS) be compiled and disseminated on a regular basis, then in the medium term it could complement, be incorporated into, or ultimately replace, fiscal reports on a cash basis enabling a higher rating for this principle.

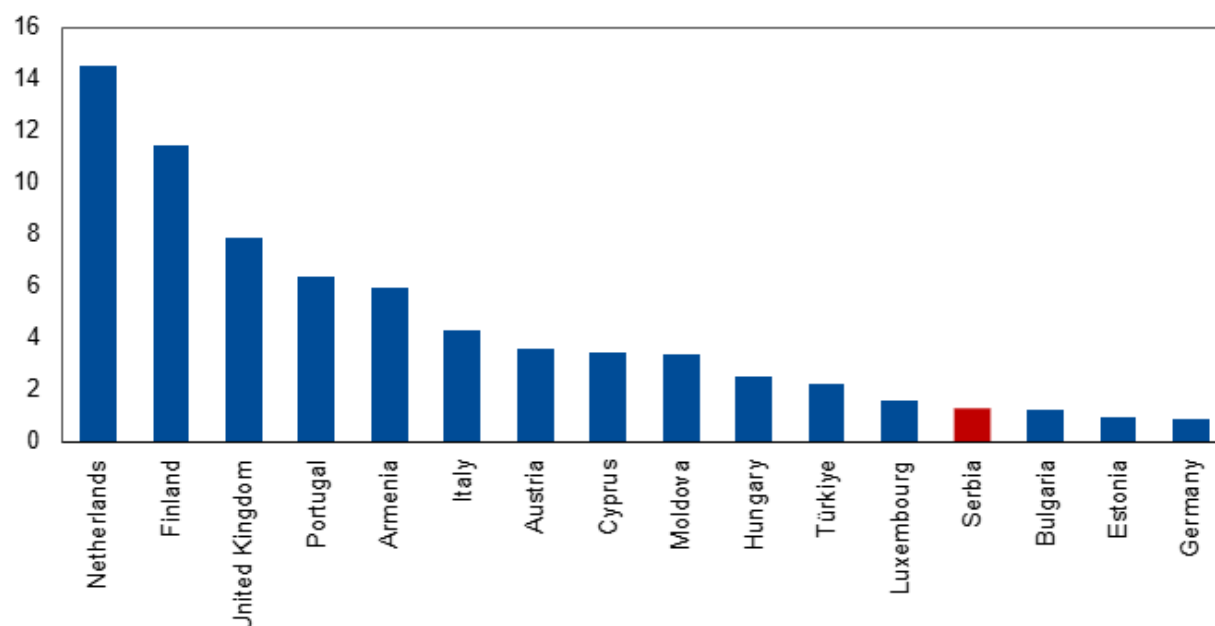
1.1.4. Coverage of Tax Expenditures (Not Met)

16. The government does not publish estimates of the revenue loss from tax expenditures.

The Budget System Law (BSL) defines tax expenditure and requires reporting revenues foregone from tax expenditures (Article 2 paragraph 22). The provision does not require a classification by policy area. Due to capacity constraints this provision has not yet been implemented. However, when proposing legislative or regulatory amendments to tax or social security legislation, budget users are required to provide estimates of their fiscal implications to the Government.

17. A comprehensive stock take has only been initiated, leaving uncertainty about the total size of tax expenditure which appears comparatively low as a result. An initial analysis of potential tax expenditure has been undertaken by the tax administration that identifies the most material revenue foregone from personal income tax (PIT), corporate income (CIT), value added tax (VAT), and social security contributions (SSC). However, there are gaps in particular for tax expenditure from reduced VAT rates. The largest tax expenditures are investment incentives in CIT (RSD 29 billion) and PIT (RSD 3.5 billion), personal allowance in PIT (RSD 56.9 billion), job creation incentives in SSC (RSD 15 billion), and relief of buyers of apartments for property transfer tax and VAT (RSD 9 billion). International comparisons suggest Serbia's use of tax expenditures is below average but including reduced or zero VAT will increase the number significantly (Figure 1.5).

Figure 1.5. Revenue Loss from Tax Expenditures in Selected Countries
(Percent of GDP) 1/



Source: Source: Global Tax Expenditure Database, staff estimates

Note: Serbia's data is based on information in the tax administration system

1/ 2023 data for Serbia and 2022 data for comparator countries

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of In-Year Fiscal Reporting (Advanced)

18. Monthly fiscal reports provide a timely and relatively comprehensive picture of unfolding fiscal developments. The monthly cash-based budget execution reports cover the Republican budget as well as the activities of Vojvodina, subnational governments, the four social security funds and the entities benefiting from the health fund, and a growing number of extrabudgetary units as well as aggregated data for the general government. These reports, which are published a little over a month after the reporting period, provide a breakdown of revenues, expenditures and financing in the national classification as and revenue source at the aggregate central government level. Monthly debt reports are also published, and provide information on the stock of debt, broken down by residence of the creditor (internal and external debt), by creditor, expressed in euros, US dollars and RSD, as well as in percentage of GDP.

1.2.2. Timeliness of Annual Financial Statements (Good)

19. Final accounts of the Republic of Serbia have to be published within 9 months after the end of the fiscal year. Article 78 of the Budget System Law defines the deadlines for the submission of annual final accounts. It requires the MoF to prepare a draft law on the final budget account of the Republic of Serbia, together with the decisions on the final accounts of social security funds to Government by June 20. By July 15, the Government has to submit the draft to the National Assembly which is made public. In 2022 and 2023, the draft of the law of final accounts were published on August

29 and July 2 when the Ministry of Finance submitted it to Government. The drafts of the final accounts are not revised based on audits by the Supreme Audit Institution (SAI) or amended by Parliament thus in substance they are final when submitted to Government. The timeliness has improved over the last five years since the Ministry of Finance aims for a discussion of the final accounts in Parliament before the budget debate even though the deadline for submitting the draft final accounts to Government in the BSL has not been met (Table 1.3).

Table 1.3. Serbia: Publication of Final Accounts for the Republican Budget, 2019-2023

	2019	2020	2021	2022	2023
Submission of Draft of Final Accounts to Government	November 10, 2020	September 30, 2021	November 14, 2022	August 29, 2023	July 2, 2024
Approval of Final Accounts by Parliament	December 10, 2020	November 26, 2021	December 9, 2022	October 26, 2023	November 27, 2024

Source: Ministry of Finance

20. The draft of the final accounts is accompanied by a set of statements and explanatory information but information is not easily accessible and presented at a later stage. The Final Accounts Law has to be presented in the format of the budget and the different statements and explanatory notes are not required to be published by the Law of Public Accounts. The draft law of the final account is accompanied by extensive information on 600 pages including a balance sheet, the income statement, a cashflow statement, statement on budget execution, and a statement on capital expenditure with a significant number of explanatory notes. These are published as part of the draft budget and can be retrieved from the Parliamentary webpage but they are not available on the webpage of the Ministry of Finance.

1.3. Quality of Fiscal Reports

1.3.1. Classification (Advanced)

21. Fiscal reports present spending by administrative, economic, and functional classification, and program information. Revenue, expenditure, and financing data in the authorities' budget and national reports are disseminated in a national economic classification that somewhat resembles a modified version of the GFSM 86 presentation, though with some departures from this older methodology. However, the MoF compiles and reports infra-annual GFS data in line with the GFSM 2014 which is published on the MoF website, and SORS compiles and disseminates more granular annual GFS to the IMF's Statistics Department (STA) in the GFSM 2014 framework.

22. The depth and visibility of information on functional expenditure could be improved. Functional expenditures are only published in the annexes of the Economic Reform Program (ERP) and would be more visible if published as part of the other high-profiler fiscal reports. In addition, while the

data is published in line with the Classification of Functions of Government (COFOG) methodology, the data is limited to the ten main COFOG divisions, rather than the more granular COFOG groups. A more granular breakdown of COFOG would provide greater transparency on government expenditure across functions.

23. The budget and fiscal tables for central government (CG) and general government (GG) are prepared and disclosed based on the same budget classification. Accounting information is comprehensively maintained in the General Treasury Ledger, reflecting the full range of budget classifications. Budget classification used in fiscal tables includes chapter (administrative classification), program classification, functional classification and economic classification as shown below in Table 1.4.

Table 1.4. Serbia: Budget Classification Structure

Chapter	Head	Program	Function	Program/activity/project	Economic Classification	Description	Total Funds
1						Ministry of Economy	xx

Source: MoF

1.3.2. Internal Consistency (Good)

24. Serbia's fiscal reports include two of the three internal consistency checks on fiscal data required under the FTC. Fiscal data within the public finance bulletins provides a full reconciliation between the above-the-line fiscal deficit and the below-the-line financing inflows and outflows, identifying how the deficit / surplus is financed in each period from a combination of privatization proceeds, receipts from repayments loans, disbursement and amortization of domestic and foreign debts, and acquisition of financial assets. Table 5 of the PDA quarterly report includes a reconciliation of the central government opening and closing stock of debt and the new issuances, repayments and other corrections due to exchange rate movements in the current year.

25. There is no published reconciliation of financing and the change in the stock of the headline measure of public debt. Over the last 8 years, debt stock has increased by 1.3 percent of GDP over what is required to fund deficit and, in some years, this discrepancy, the Stock-Flow Adjustment, has been extremely large. In 2017, the SFA was 5 percent of GDP, as debt fell by 6.3 percent of GDP, despite a surplus of only 1.1 percent of GDP. In the 2020s, debt consistently increased by 2 percent of GDP more than required to fund the deficit. The mission believes that this SFA can be mostly explained by (i) revaluations in debt denominated in foreign currency (especially in 2017 following a fall in the value of the Euro against the Denar), (ii) non-deficit debt creating flows (such as acquisitions of financial assets and especially a growing accumulation of government deposits in recent years), or (given the headline debt measure includes guaranteed debt) changes in the stock of guaranteed debt. Including a detailed reconciliation table explaining changes in the stock of debt arising from reasons other than the deficit in the Public Finance Bulletin would enhance analysis and improve transparency by facilitating better understanding of the impact of financing on government liabilities and other factors contributing to the change in the stock of debt. The mission used data from the public finance bulletin to draft an example reconciliation table to reconcile the general government consolidated balance and public debt.

Table 1.5. Serbia: Reconciliation of General Government Consolidated Balance (=Financing) and Change in Public Debt, 2016-2023 (percent of GDP)

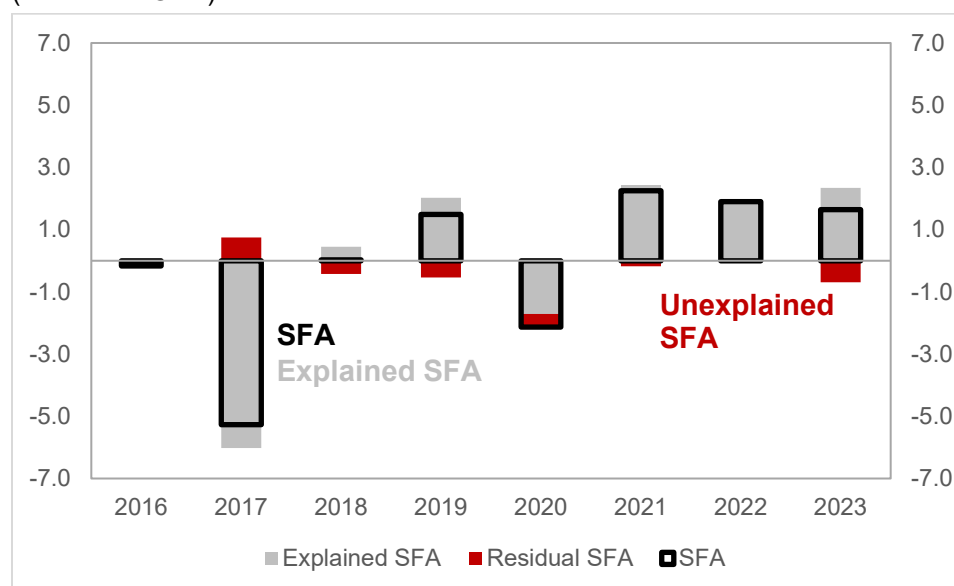
		2016	2017	2018	2019	2020	2021	2022	2023
	Opening Stock of Debt	64.2	61.9	52.0	48.0	48.8	47.7	47.5	44.3
	Closing Stock of debt	65.2	55.5	51.4	49.7	54.4	53.9	52.4	48.0
A	GG Balance*	1.1	-1.1	-0.6	0.2	7.7	3.9	3.0	2.1
B	Change in debt stock	1.0	-6.3	-0.6	1.7	5.6	6.2	4.9	3.7
C=A-B	SFA	-0.2	-5.3	0.0	1.5	-2.1	2.3	1.9	1.6
	Explanation for SFA								
D	Net Acquisition of fin assets	-1.1	-0.5	0.1	2.0	-0.9	1.4	1.0	2.1
E	Currency and deposits	-0.9	-0.4	0.4	2.7	0.1	1.6	1.3	2.1
F	Acquisition of financial assets	0.0	0.0	0.2	0.9	0.3	0.2	0.1	0.5
G	Receipts from repayment of loans	-0.1	-0.1	-0.4	-0.7	-0.4	-0.4	-0.2	-0.5
H	Privatization proceeds	-0.1	-0.1	-0.1	-0.8	-0.9	0.0	-0.1	0.0
I	Appreciation (+) / Depreciation (-) of foreign debt	1.4	-4.3	0.9	0.1	-0.7	1.1	0.6	-0.1
J	Change in stock of guaranteed debt	-0.6	-1.1	-0.5	-0.1	-0.1	-0.1	0.3	0.4
K=D+I+J	Explained SFA	-0.2	-6.0	0.4	2.0	-1.7	2.4	1.9	2.3
L=C-K	Residual	0.0	0.7	-0.4	-0.5	-0.4	-0.2	0.0	-0.7

Source: Public Finance Bulletin November 2024, GDP estimates from SORS and IMF Staff Calculations

* A positive sign indicates a deficit, and a negative sign a surplus.

Figure 1.6. Explained and Unexplained Stock-Flow Adjustments 2016-2013

(Percent of GDP)



26. A reconciliation of debt and deficit is published within Serbia's ERP, which is an annual document prepared and published by EU candidate countries. The ERP includes an annex table which reports the change in the debt stock over a 5-year period (though not the headline public sector debt measure) and some of the explanatory factors. In the ERP for 2024-2026, published in December 2023, the chart covers the period from 2022-2026 and breaks down the change in debt explained by the primary balance, interest expenditure, real growth and inflation effects, but still results in a remaining unexplained stock-flow adjustment - that is, the increase (or decrease) in debt which is explained for reasons other than the components shown in the table. This remaining stock-flow discrepancy still averages 1.1 percent of GDP, with very large stock-flow discrepancies in the recent past which need to be explained.

1.3.3. Historical Revisions (Not Met)

27. Fiscal statistics published by the MOF are generally not revised. The authorities have been steadily improving the coverage of the general government sector in fiscal reports and fiscal statistics, but previous years data are not updated with the broader coverage, leading to breaks in time series. In addition, there will be further breaks as the remaining units are integrated in the next few years. Inclusion of extrabudgetary units classified inside general government should be implemented across the time series, at least back to 2019 and the impact of these reclassifications on the previously published data should be disclosed along with detailed data supporting the decision. The likely impact of including these entities would be to increase consolidated general government revenue and expenditure in past years by around 1 per cent of GDP. Going forward, MOF should develop a formal revision policy, in line with best practice elsewhere, to ensure data is revised where appropriate and materials revisions explained to users.

28. While more robust revision policies and procedures are in place at both SORS and NBS, neither institution is regularly publishing or revising fiscal statistics. The stronger procedures reflect

their status as providers of official macroeconomic statistics. However, although both institutions are compiling data for the general government sector, SORS has only recently published data for the first time on the main aggregates (above the line) of general government in line with ESA 2010, and NBS is yet to publish the general government financial accounts, such that neither have made any revisions to the data. Once regular reporting of these sets of fiscal data are routinely compiled and disseminated it is likely that these two institutions' policies could meet the requirements of at least basic or good practice against this principle.

1.4. Integrity of Fiscal Reports

1.4.1. Statistical Integrity (Basic)

29. In addition to disclosing fiscal data in the national presentation, both the MOF and SORS compile and disseminate fiscal statistics according to international standards. The most visible set of fiscal statistics are the monthly GFS compiled by the MoF on a GFSM 2014 basis and published on the MoF website. These reports are compiled by staff within the Macro-Fiscal unit, and there is currently no standalone fiscal statistics unit within the MoF. Within the European Union in particular, good practice is to ensure a more transparent delineation between the producers of source data and the users of such data, and to provide some operational independence for the compiler of fiscal statistics.

30. SORS are developing the reporting of fiscal statistics to Eurostat on an ESA 2010 basis, and they also compile and submit GFS data to the IMF Statistics Department (STA) on an annual basis in line with GFSM 2014. SORS have recently published the ESA 2010 based data on general government operations, though the data is unconsolidated and so not directly comparable to the consolidated fiscal statistics published on a monthly basis by MoF. This project remains ongoing and the initial data published at the end of 2024 will undergo further revisions over the course of 2025. To compile data, SORS takes fiscal data from MoF and supplements this with additional data for extrabudgetary units and makes a number of accrual and other adjustments to development fiscal data in line with EU requirements. SORS data is not yet fully consolidated, preventing direct comparisons between total revenue and expenditure in their data and the fiscal data published by the MOF.

31. NBS are also developing government financial accounts data, with the stocks and flows of government financial assets and liabilities for the whole of the general government and its subsectors. This data is not yet published, but work is well advanced and the data has been used as the foundation of the government balance sheet compiled within this report.

32. Regular compilation and dissemination of the fiscal data being compiled by one or both SORS and NBS could be sufficient to meet the advanced standard on this dimension of fiscal transparency. Both NBS and SORS are independent institutions, under the Official Statistics Law, and so when the SORS and NBS above- and below-the-line fiscal statistics come on stream and are being published on a regular basis, then these statistics could be considered to meet the advanced standard for statistical integrity.

1.4.2. External Audit (Basic)

33. Financial audits of final accounts are undertaken by the independent SAI in line with international standards. SAI's independence is guaranteed in the Constitution of Serbia and the Law on the State Audit Institution. Its mandate covers the audit of the Republican budget, subnational governments, social security as well as public corporations. Entities subject to audit are identified based on a risk-based methodology and all entities are audited every 3 to 5 years. The SAI conducts its financial audits based on a methodology published and in line with International Standards of Supreme Audit Institutions (ISSAI). It comprises of 334 staff and benefits from a separate budget appropriation that provides the SAI with financial autonomy.

34. The SAI publishes an audit report on the reliability of the final accounts with its audit findings but do not give a true and fair view of the financial position. The SAI starts auditing the draft final accounts already in January before the MoF formally submits them to Parliament and the SAI. The focus of the audit is on the cash-based budget for which the auditors' report several irregularities leading to a qualified opinion on the final accounts. These qualifications, however, do not justify an adverse opinion. Since the focus of the audit is on the cash-based statements, an adverse opinion or disclaimer is not expressed explicitly, and the SAI cannot state whether government's financial accounts present a true and fair view of its financial position. The main irregularities in the cash-based financial statements refer to misclassification in the economic classification or unreported amounting to around 0.2 percent of total expenditure in 2023. In addition, according to the SAI, the audit of the balance sheet already identifies more qualifications. The draft final accounts are not updated based on the audit findings but most audit findings are reflected in the final accounts of future fiscal years.

1.4.3. Comparability of Fiscal Data (Basic)

35. Fiscal reports are available on the same basis as the budget in the monthly Public Finance Bulletin, but no reconciliations are published between the fiscal data in the national / budget presentation and the GFSM 2014 fiscal statistics published by the MOF. Although the Macro-Fiscal Unit of the MOF compiles both sets of data, no bridge or reconciliation table is disseminated to explain the differences between the two data sets. While total revenue and expenditure are not significantly different across these two data sets, the *composition* of revenue and expenditure are different (see Table 1.6), and these differences should be explained.

Table 1.6. Serbia: Discrepancies in Fiscal Reports vs Fiscal Statistics (GFSM 2014) 2023
(in RSD billion)

National Presentation		GFSM 2014	
Public Revenues	3,473	Total Revenue	3,457
Tax Revenue^{1/}	3,078	Taxes	2,071
Nontax revenue	0.351	Non-Tax Revenue	0.290
Public Expenditures	3,654	Total Expenditures	3,638
Interest payment	0.149	Interest	0.140
Subsidies	0.213	Subsidies	0.185
Capital Expenditures	0.568	Net investment in nonfinancial assets	0.553

1/ In the national presentation, “taxes” include the social contributions to social security funds, while in the GFSM 2014 data these revenues are not included as part of “taxes”, but shown separately as “social contributions”.

Source: Public Finance Bulletin November 2024 and General Government Operations data, MOF.

36. In the longer term, a third set of fiscal data will be published by SORS, in the form of accrual-based data on general government operations, which should also be reconciled to the fiscal reports and fiscal statistics published by MOF. As SORS data will be accrual data, the time of recording for transactions will introduce further differences between different sets of fiscal data for Serbia. SORS also has broader coverage of the general government sector, and in addition there are conceptual and / or presentational differences between the GFSM 2014 presentation, and the ESA 2010 framework that should also be explained to users of the data.

1.5. Recommendations

37. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal reporting:

Recommendation 1.1. Further expand the coverage of institutional units and stocks in fiscal reports.

- Continue to expand the coverage of the general government sector and incorporate the remaining extra budgetary units⁵ into fiscal reports;
- Publish stocks of government deposits alongside the debt stock data, in in-year fiscal reports; and
- Publish the annual estimates of government financial assets and liabilities for the general government and its subsectors that are being developed to meet EU reporting requirement.

Recommendation 1.2. Publish a tax expenditure report in an annex to budget as required in the Budget System Law.

- Identify the different tax expenditures in the tax laws;
- Assess the available information in the tax administration system;

⁵ Including Serbian Railways Infrastructure, Serbiavoz, Radio Television Serbia, Resavica and Serbia Water.

- Classify according to the different policy areas; and
- Calculate the revenue loss by using available information and develop appropriate estimations.

Recommendation 1.3. Improve the reconciliation of data within and between fiscal reports.

- Publish reconciliation tables between the fiscal data compiled by the MOF in the national presentation and in the GFSM 2014 data (and with the accrual data published by SORS in due course), outlining the main sources of difference between key aggregates; and
- Publish a stock-flow reconciliation table to clearly identify changes in the stock of debt that are not a result of the fiscal balance.

Recommendation 1.4. Introduce a revisions policy for fiscal data and improve the consistency of data over time.

- Develop and publish a revisions policy for fiscal statistics produced by the MOF and introduce revisions to previously reported data to strengthen consistency of time series of fiscal statistics.

Table 1.7. Serbia: Summary Assessment of Fiscal Reporting

	Principle	Assessment	Priority	Recs
1.1.1	Coverage of Institutions	Good: Fiscal reports cover most GG units, including social security funds with work underway to expand coverage to incorporate remaining GG entities	Medium: Revenues and expenditures of public corporations of 16 and 14 percent of GDP were excluded from fiscal reports in 2023	1.1
1.1.2	Coverage of Stocks	Good: Annual balance sheet data, with stocks of nonfinancial assets, financial assets, and liabilities are reported for the Republican Budget in the Final Account	Medium: Unreported public sector assets and liabilities of 63.1 and 37.6 percent of GDP	1.1
1.1.3	Coverage of Flows	Basic: Fiscal reports are presented on a cash basis	Medium: Accrual basis would more accurately reflect current practices on granting and recording of guaranteed debt	
1.1.4	Coverage of Tax Expenditures	Not met: Neither budget documents nor fiscal reports include a presentation of tax expenditures	High: A comprehensive stock take has been initiated, with total size of tax expenditure still unknown	1.2
1.2.1	Frequency of In-Year Reporting	Advanced: Monthly fiscal reports, covering the operations of the general government and government debt are published 35 days after the end of the period	Low: Monthly reports already meet advanced requirements, but could be expanded to include information on government deposits	
1.2.2	Timeliness of Annual Financial Statements	Good: Final accounts have to be submitted to Parliament by July 15 and were submitted for the 2022 and 2023 final accounts in July or August.	Medium: Timely submission of final accounts has improved in the last few years ensuring they are available for the budget debate.	
1.3.1	Classification	Advanced: Fiscal reports include administrative, program, functional and economic classifications	Low: Expenditure on a functional basis , covering COFOG groups and divisions, could be more visible if integrated into main fiscal reports	
1.3.2	Internal Consistency	Good: Fiscal reports include reconciliations of the budget balance and financing and stocks and flows of central government debt	High: Stock-flow discrepancies of ~2 percent of GDP or more should be explained	1.3
1.3.3	Historical Revisions	Not met: With some limited exceptions, fiscal statistics prepared by the Ministry of Finance are not revised, and no revision policy exists	Medium: Changes in coverage should be reflected through changes to historic data and clear explanations to users of the basis of revisions	1.4
1.4.1	Statistical Integrity	Basic: Headline fiscal data are compiled by the Ministry of Finance rather than an independent statistical agency	Medium: In the long term, complement MOF data with independent estimates from SORS and NBS	
1.4.2	External Audit	Basic: SAI publishes audit reports on the reliability of the cash-based final accounts but no audit opinion on balance sheet due to major qualifications concerning assets.	Low: Financial audits are conducted based on international standards and cash-based final accounts are not subject to an adverse audit opinion.	
1.4.3	Comparability of Fiscal Data	Basic: Budget execution reports are prepared on the same basis as the annual budget. Differences between fiscal reports and GFSM 2014 or ESA 2010 data are not explained	Medium: Discrepancies between national presentation and GFSM 2014 basis fiscal data should be explained	1.3

II. Fiscal Forecasting and Budgeting

38. Fiscal forecasts and budgets should provide a clear statement of the government’s budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances. This chapter assesses the quality of Serbia’s fiscal forecasting and budgeting practices against the standards set by the IMF’s Fiscal Transparency Code. In doing so, it considers four key dimensions of fiscal forecasting and budget:

- The comprehensiveness of the budget and associated documentation;
- The orderliness and timeliness of the budget process;
- The policy orientation of budget documentation; and
- The credibility of the fiscal forecasts and budget proposals.

39. Macroeconomic indicators and budget information are available and accessible in various reports (Table 2.1). The main fiscal forecasting and budgeting reports are as follows:

Table 2.1. Serbia: Fiscal Forecasting and Budgeting Documents

REPORT	PREPARING AGENCY	COVERAGE			ACCOUNTING		PUBLICATION DATE
		Institutions	Flows	Stocks	Class.		
Annual Budget Law	MoF	BCG, SNG, SSF, GG	R, E, Fin Annual limits on guarantees and loans	-	Cash	Nat.	November
Annex Performance Information	MoF	BCG	-	-	-	-	November
Citizen Budget	MoF	BCG	R, E, Fin	Debt incl. Guaranteed Debt	Cash	Nat.	November
Fiscal Strategies and revised Fiscal Strategies	MoF	GG	R, E, Fin	Debt incl. guaranteed debt	Cash	Nat.	July, October
Economic Reform Program	MoF	GG	R, E, Fin	Debt incl. guaranteed debt	Cash	Nat.	January

Source: Mission

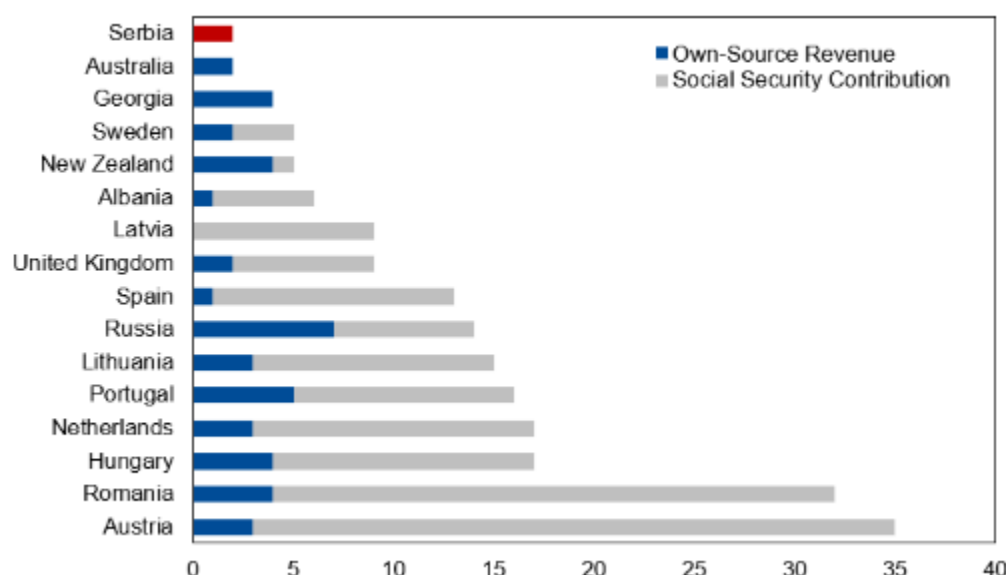
Notes: BCG: Budgetary Central Government; SNG: Subnational Government; GG: General Government (which includes, BCG, SSFs, and SNG); SSF: Social Security Funds; R: Revenue; E: Expenditure; Fin: Financing. Nat. National presentation.

2.1 Comprehensiveness of Budget Documentation

2.1.1. Budget Unity (Good)

40. Budget documentation incorporates all gross revenues, expenditures and financing of budgetary central government (Republican budget), but not all extrabudgetary units (EBUs) within central government. The Republican budget (RB) covers 65 direct budget users (“chapters”) including ministries, departments, and agencies; EBU’s own source of revenues were not included in the budget documentation in 2023 and are equivalent to 2 percent of total central government revenues, which is comparatively low (Figure 2.1).⁶ Own source revenues in 2024 will be significantly lower as agencies and institutions have been included in the RB in 2024. In addition, the EBU’s, which are not included in central government, are disclosed in the Public Finance Bulletin. They include the Roads of Serbia, the Corridors of Serbia, 39 scientific institutions and 24 public agencies such as Serbia Water, Railway (See Principle 1.1.1). Presenting the budget together with the remaining EBU’s would support better informed fiscal policy decisions.

Figure 2.1. Own-Source Revenue and Social Security Contribution (percent of total revenue)



Source: IMF staff estimates

41. In addition to the RB, the budget documentation covers subnational governments’ (SNGs) budgets and social security funds (SSF) financial plans. SNG budgets are reviewed by the MoF prior to their enactment and after the SNG assemblies approve their budget. While Republican budget is subject to approval of the Parliament, the financial plan of SSF is approved by the competent body of the organizations based on their relevant laws and presented in the budget documents. There are four social security and health funds included in central government. These funds include: (i) Pension Insurance Fund; (ii) Health Fund; (iii) Unemployment Insurance; and (iii) Military Health Fund. Together with the SNGs budget, the SSFs’ financial plans are presented for information to Parliament which corresponds to

⁶ Table 2. Consolidated General Government, by Levels of Government, in Jan-November 2024 in the Public Finance Bulletin.

an advanced practice. The Budget also includes external financing and the corresponding expenditure they finance, which is essential for presenting the overall picture of government finances.

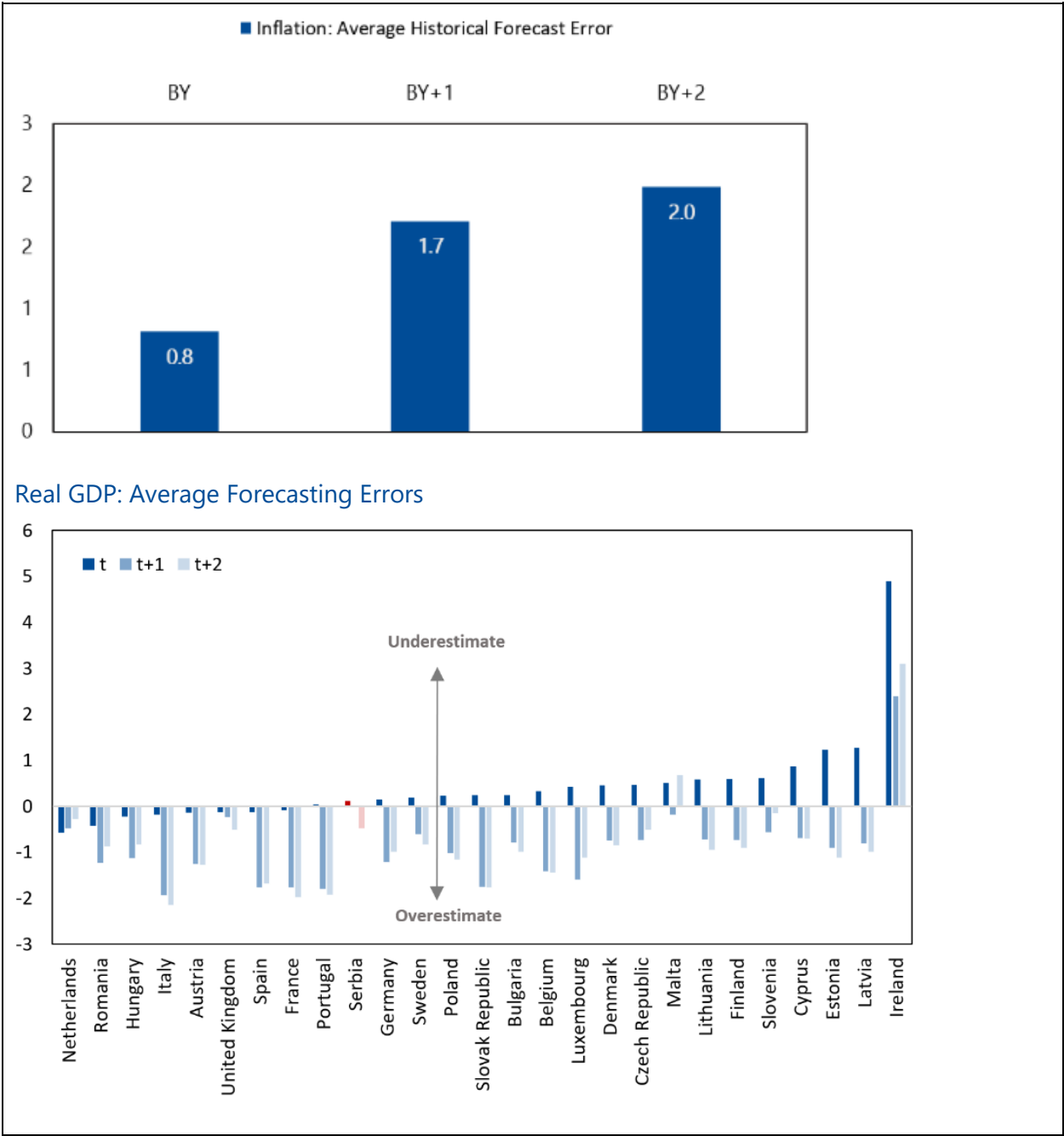
2.1.2. Macroeconomic Forecasts (Advanced)

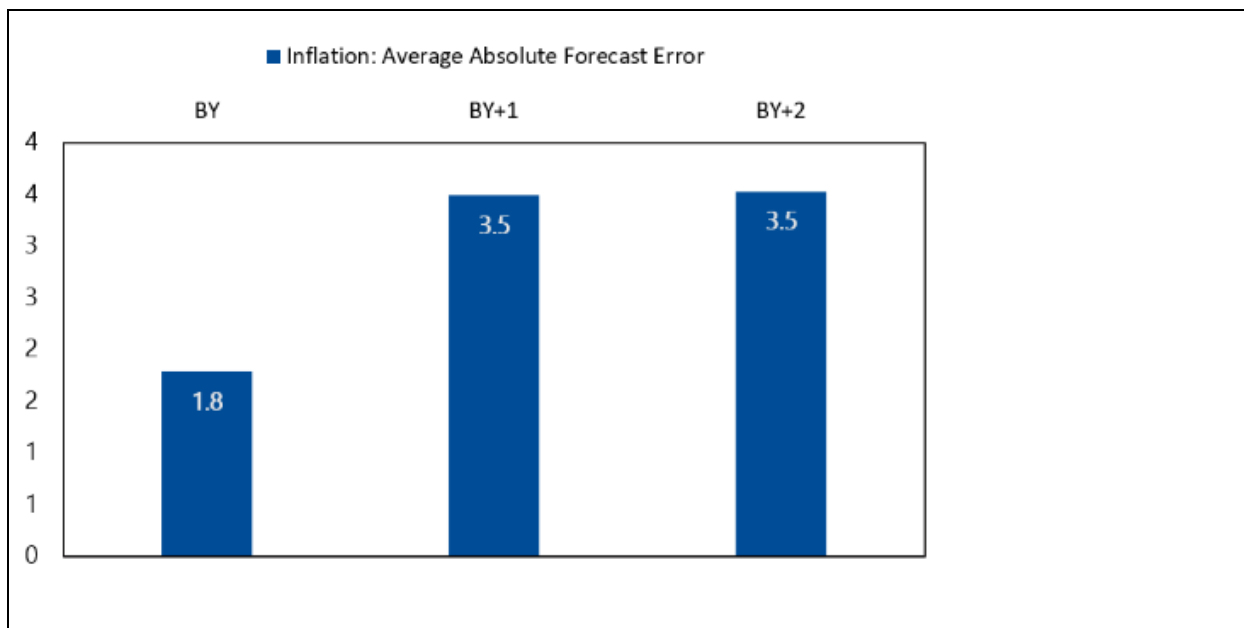
42. Budget documentation includes forecasts and explanations for key macroeconomic variables, their components, and underlying assumptions. The Fiscal Strategy (FS), which is listed in the budget documentation in Article 32 of the BSL, includes macroeconomic forecasts. It provides forecasts for GDP growth and its components, inflation, unemployment, and foreign trade following a description of the international environment based on the IMF's World Economic Outlook and the European Central Banks' macroeconomic forecasts for the euro area. The FS provides a discussion of GDP growth baseline, optimistic and pessimistic scenarios. This document also contains medium-term projections of consolidated revenues and expenditures (for the RB and SNGs), and an analysis of fiscal risks and a debt management strategy. It presents cyclically-adjusted fiscal balance calculations. In addition to the FS, macroeconomic developments and forecasts are also covered by the Budget Justification (Obrazložjenje) in the annual budget documents.

43. The FS includes a medium-term fiscal strategy to guide fiscal policy for the coming three years. It sets the government's fiscal policy objectives and debt management strategy over the medium term, analyses of macroeconomic and fiscal variables, and stress tests and forecasts scenarios for these variables. The draft FS is provided to the Fiscal Council for their comments before finalization. The government submits the finalized draft to Parliament for their comments.

44. Serbia's macroeconomic forecasts have been accurate for the year ahead but show a slight optimistic bias over the medium-term. As shown in Figure 2.2, Serbia's average forecasting errors for real GDP growth of 0.1 percentage point over the period 2015-23 was below the 0.4 percentage point average for EU countries for the year ahead. Serbia's two and three years ahead forecasting errors of 0.03 percent and 0.5 percent were also below the EU country average of 0.9 and 0.8 respectively. A similar slight optimistic bias is observed in inflation forecasts.

Figure 2.2. Real Growth and Inflation Forecasts





Source: IMF staff calculations based on authorities' data

2.1.3. Medium-Term Budget Framework (Not Met)

45. **Serbia has a well-established medium-term budget framework (MTBF); however, it does not fully meet the FTC principles due to the format in which revenue, expenditure, and financing data are disclosed in budget documentation.** Budget documentation includes the outturns of two preceding years for expenditures in a detailed format, but not on the same basis as the medium-term projections presented in the Budget Law. Specifically:

- **Revenues and financing outturns** are only presented in final accounts and not within the main budget documentation, and **medium-term revenue and financing projections** are not included in the table presenting medium-term expenditure projections.
- **Expenditure outturns for the two preceding years** are presented in detail and on the same basis as the annual budget (program, functional, chapter, and economic classification) in Annexes 2 and 3 of the draft budget law, and **medium-term expenditure projections for the two outer years** are presented by budget chapter level in Article 49 since 2024, but these are not on the same basis.

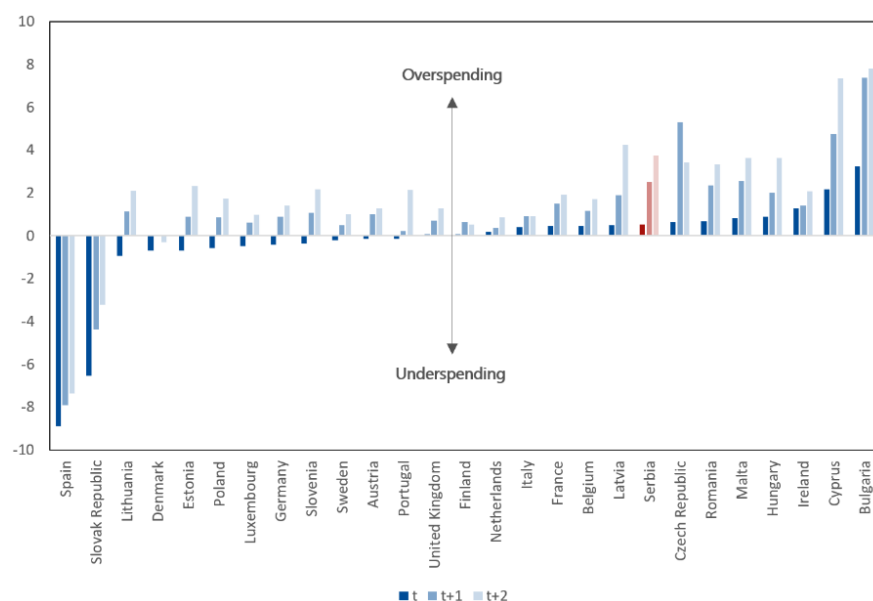
46. **To fully meet FTC standards, Serbia's budget documentation should present outturns and medium-term projections for revenues, expenditures, and financing on a consistent basis with the annual budget, ensuring comprehensive and comparable fiscal planning.**

47. **While fiscal forecasts for the next year are relatively accurate, they tend to underestimate revenue and especially expenditure over the period of 2015–23.** The average medium-term expenditure forecasting error was 1.1 percent for year t (budget year), 2.3 percent for year t+1 and 3.5 percent for year t+2 (Figure 2.3a). The average medium-term revenue forecasting error (using the FS's GG revenue forecasts since no revenue estimates for the RB are provided in the budget documents) was 1.0 percent for year t, 1.8 percent for t+1, and 2.4 percent of GDP for year t+2 (Figure 2.3b). Given the advanced macroeconomic forecast practice, conservative approach to budget projections could be

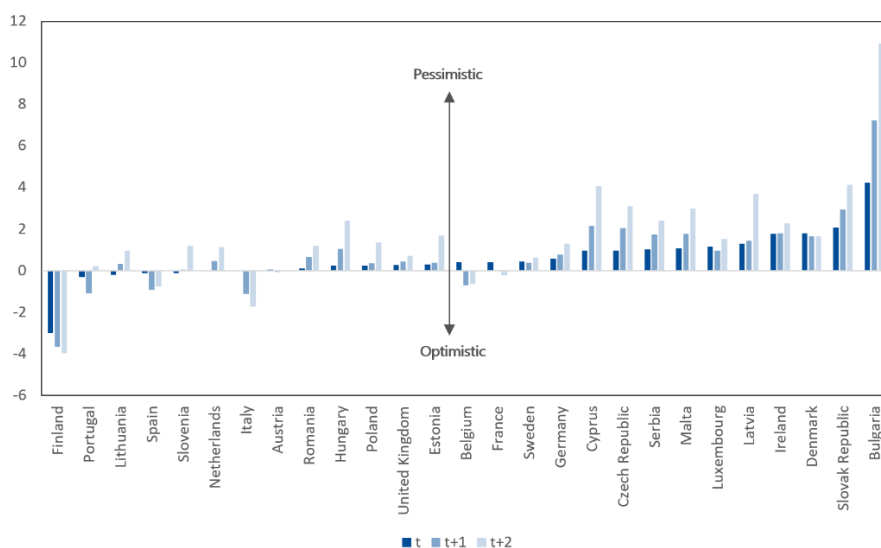
fiscally prudent but the relatively large deviations in projections for the outer years, particularly for expenditure, may reflect lack of comprehensiveness in forward planning and uses of fiscal space efficiently. Figure 2.3c shows the credibility of medium-term expenditure ceilings over the period of 2015-2022, which was relatively strong prior to the COVID-19 shock.

Figure 2.3. Medium-Term General Government Forecast Bias

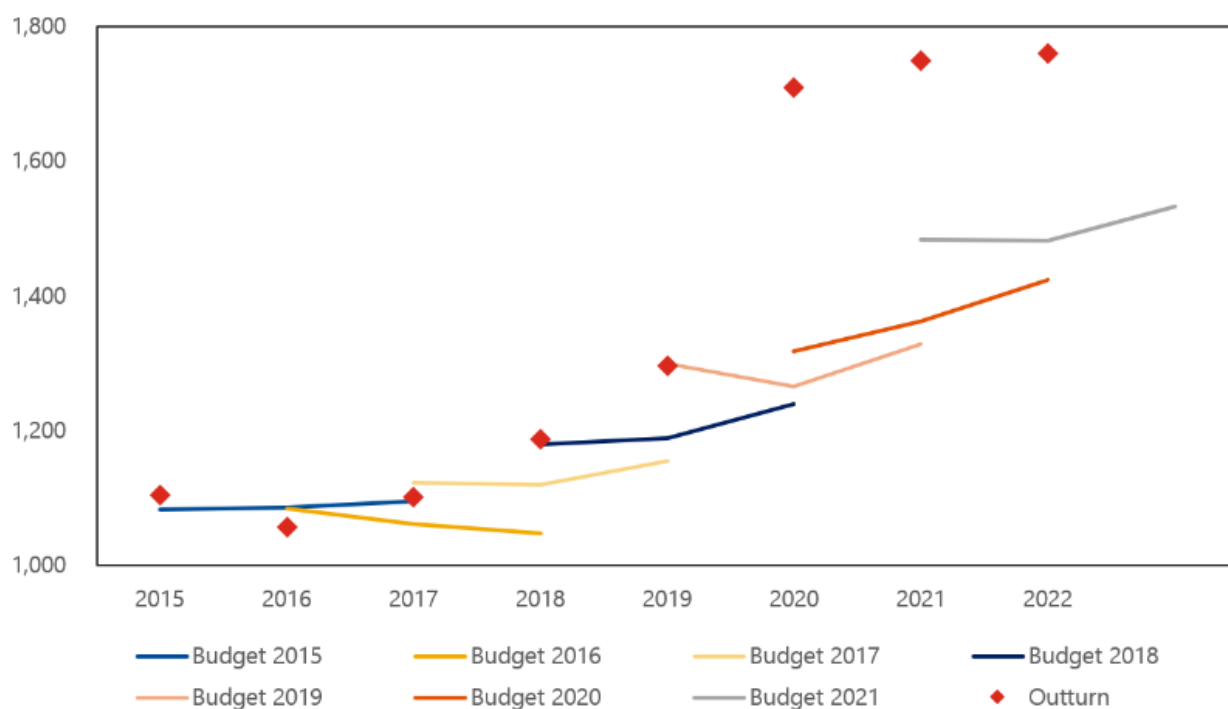
2.3.a General Government Expenditure Forecast Bias



2.3.b General Government Revenue Forecast Bias



2.3.c Serbia. Credibility of medium-term expenditure ceilings (2015-2022) billion RSD



Source: IMF staff calculations and MoF data (For 2.2.c, the ceiling and realization data are sourced from the Annual Budget Laws and the Final Accounts.)

48. Presentation of budget outturns and medium-term projections in the same format would strengthen transparency and improve fiscal policy decision-making. Serbia has a well-established MTBF and MoF could easily address MTBF presentation issues in line with FTC by disclosing revenues, expenditures, and financing of the Republican budget. The report should include data for outturns for the past two years, revised estimates for the current budget year, and estimates for the coming budget year and the two outer years for revenues, expenditures and financing similar to the example given in Table 2.2.

Table 2.2. South Africa: Good Practice Example of Medium-term Budget Presentations

Table 1. Main budget framework: 2018/19 to 2024/25							
R million	Audited outcome			Revised estimate	Medium-term estimates		
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue (National Revenue Fund)							
Tax revenue (gross)	1 287 690.2	1 355 766.3	1 249 711.2	1 547 070.5	1 598 447.5	1 694 259.5	1 807 613.8
Departmental and other receipts, and repayments	35 869.0	40 384.0	52 053.5	47 963.9	33 279.6	32 505.1	32 013.2
Less: Southern African Customs Union payments ¹	48 288.6	50 280.3	63 395.2	45 966.2	43 683.4	66 541.6	65 452.6
Total revenue	1 275 270.6	1 345 869.9	1 238 369.5	1 549 068.2	1 588 043.7	1 660 223.0	1 774 174.4
<i>Percentage of GDP</i>	<i>23.5%</i>	<i>23.7%</i>	<i>22.2%</i>	<i>24.8%</i>	<i>24.7%</i>	<i>24.4%</i>	<i>24.5%</i>
Expenditure							
Debt-service costs	181 849.1	204 769.3	232 595.7	268 306.2	301 806.3	334 979.2	363 514.8
<i>Percentage of GDP</i>	<i>3.4%</i>	<i>3.6%</i>	<i>4.2%</i>	<i>4.3%</i>	<i>4.7%</i>	<i>4.9%</i>	<i>5.0%</i>
Current payments ²	233 300.0	248 686.0	241 746.5	268 020.0	264 764.7	259 006.2	271 581.3
Transfers and subsidies	1 062 572.2	1 160 376.7	1 213 047.9	1 275 181.2	1 351 977.8	1 321 686.1	1 377 469.3
Payments for capital assets ²	14 357.9	12 107.9	11 959.5	15 317.8	15 505.5	16 123.6	16 052.7
Payments for financial assets	14 526.0	65 040.1	89 646.6	73 392.2	25 632.8	1 917.1	863.1
Provisional allocations not assigned to votes	—	—	—	—	1 372.1	1 852.1	2 208.6
Provisional allocation for Eskom restructuring	—	—	—	—	—	21 015.1	22 000.0
Infrastructure Fund not assigned to votes	—	—	—	—	4 197.4	5 427.7	7 869.4
Unallocated reserve	—	—	—	—	—	25 000.0	30 000.0
Total	1 506 605.2	1 690 980.0	1 788 996.2	1 900 217.4	1 965 256.5	1 987 007.0	2 091 559.1
Contingency reserve	—	—	—	—	10 000.0	5 000.0	5 000.0
National government projected underspending	—	—	—	-4 263.0	—	—	—
Total expenditure	1 506 605.2	1 690 980.0	1 788 996.2	1 895 954.4	1 975 256.5	1 992 007.0	2 096 559.1
<i>Percentage of GDP</i>	<i>27.8%</i>	<i>29.7%</i>	<i>32.1%</i>	<i>30.3%</i>	<i>30.7%</i>	<i>29.3%</i>	<i>29.0%</i>
Main budget balance³	-231 334.6	-345 110.0	-550 626.7	-346 886.2	-387 212.8	-331 784.0	-322 384.7
<i>Percentage of GDP</i>	<i>-4.3%</i>	<i>-6.1%</i>	<i>-9.9%</i>	<i>-5.5%</i>	<i>-6.0%</i>	<i>-4.9%</i>	<i>-4.5%</i>
GDP	5 418 317.0	5 686 660.0	5 566 177.0	6 251 494.4	6 441 287.8	6 805 311.6	7 233 716.2

1. Payments in terms of Southern African Customs Union agreements.

2. Excludes conditional grants to provinces and local government. These are included in transfers and subsidies.

3. A positive number reflects a surplus and a negative number reflects a deficit.

Source: 2022/23 Estimates of National Expenditures, National Treasury, Government of South Africa

<https://www.treasury.gov.za/documents/national%20budget/2022/ene/FullENE.pdf>

Note: South Africa prepares cash-based budgets.

2.1.4. Investment projects (Basic)

49. Despite recent improvements, Serbia only meets one of the three dimensions of public investment transparency requirements under the FTC. There were recently two major advances on the disclosure of public investment spending. First, Annex 3 of the Updated 2025 FS (October 2024) published for the first time actual spending, planned multi-annual spending for 2025- 2027 and total project cost (with no cost overrun information) for individual projects greater than EUR 20 million (projects regulated by the 2023 PIM Decree). The 2025 Budget expanded disclosure for public investment spending for the RB⁷ (about 6 percent GDP in 2025), for which an estimation of fiscal space under indicative multi-year limits is published. This comprises projects listed in Article 5 of the Budget,⁸ and includes: (i) projects greater than 20 EUR million (PIM Decree), (ii) projects smaller than EUR 20 million, and (iii) projects completed within a budget year.

50. Cost-Benefit Analysis (CBA) is not systematically carried out for large projects and results are not published before approval. The 2023 PIM Decree contains a comprehensive framework for project preparation, including explicit steps of pre-feasibility and feasibility assessments. Since the approval of Decree, a few large projects have been prepared, for some of which CBA is applied.

⁷ Public investment is also carried out by entities belonging to the general government, which together are estimated to spend about 1 percent GDP in 2025: This includes local governments (including Vojvodina); the Pension Fund; the Health Fund; the Unemployment Fund; as well as the Road agency and the Corridor agency.

⁸ Article 8 of the Budget Law presents the budget by functional classification (per entity) and includes public investment spending (economic classification “5” for public investment) of the Republican Budget. Annex 1 of the 2025 Budget contains the “Green Budget” which was developed for first time, which also contains public investment projects.

However, CBA results are not published before projects are sent to the Capital Commission for their consideration and inclusion in the list of priority projects.

51. While Serbia has a public procurement law, there are significant exemptions from open competition, including for large infrastructure projects. In addition to 13 categories of negotiated procedures without public tendering, the procurement law authorizes 24 types of exemptions, including for government-to-government agreements for public investment. In addition, Special Laws grant exemptions to public tendering, including for the forthcoming large investment under EXPO Belgrade 2027.⁹ The National Procurement Office annual reports show low level of transparency and competitiveness for tendering processes across all spending categories: (i) a very large share of tenders are exempted from competition, not taking into account exemptions granted through Special Laws which are not accounted for in these reports;¹⁰ (ii) public investment tenders receive on average 2.7 bids, slightly above average of 2.6 for all bids in Serbia, and lower than some Eastern European countries¹¹; (iii) only one bid was submitted in 51 percent of public procurement procedures, which is below some of the peer countries in Eastern Europe.¹²

52. Public investment spending in Serbia his comparatively high, making it important that it is efficient and transparent. Since 2015, public investment has nearly tripled, from 2.5 percent to 7.3 percent GDP in 2024, and is expected to gradually rise to 8.3 percent in 2027. This investment surge is related to the "Leap into the Future – Serbia EXPO 2027" program, which spans from 2024–2027, and comprises large infrastructure investment.¹³ The institutional framework for appraisal, budgeting, and monitoring is only gradually being rolled out, following the enactment of several rulebooks that were approved as part of the 2023 PIM Decree. Information and data in the Public Investment Management System (PIMIS) and the Information System for Budget Execution Planning and Financial Reporting (SPIRI) are not yet fully aligned. The area of public investment management requires increasing transparency and oversight, addressing significant weaknesses in public procurement to reduce exemptions from competitive tendering and ensuring strong project appraisal to manage risks of cost overruns.

2.2. Orderliness of Budget Documentation

2.2.1. Fiscal Legislation (Advanced)

53. The BSL is a comprehensive legal framework and ensures an orderly budget process. Article 31 of the BSL defines the timetable for budget preparation and approval. Article 31 covers the timetable for subnational budgets. Article 32 of the BSL indicates the key content requirements for

⁹ "Official Gazette of the RS", no. 8/2024, adopted February 6, 2024.

¹⁰ The 2023 Annual Report mentions that the value of public procurement contracts was DNR 860 billion, while the value of exemptions amounted were DNR 824 billion dinars under the public procurement law.

¹¹ The report "Information about the level of competition in public procurement procedures in some EU countries" (published by the Republic of Serbia, EU PFM Facility, and UNDP) states that in 2023, in the Czech Republic 4.3 bids per tender on public works were received.

¹² In Slovak Republic in 2023, for 32.9 percent of all procurements, only one tender was submitted; in Slovenia in 2022, this value was 27.7 percent; in Sweden in 2023, this value was 21 percent. Source: "Information about the level of competition in public procurement procedures in some EU countries" (Republic of Serbia, EU Public Finance Management Facility, UNDP).

¹³ IMF Staff Report Country Report No. 24/202, Box 1, from July 2024.

government's budget proposals. Government is required to submit the FS, draft Law on the Budget of the Republic of Serbia to the National Assembly, as well as the financial plans of the social security funds. Subnational governments' budget should be submitted by the subnational government's executive body to the subnational government assembly. Article 44 of the BSL defines the procedures for discussing, amending, and approving government's budget proposal in parliament. Parliament can only introduce expenditure or revenue neutral amendments to the government's budget proposal.

54. The powers to amend the budget after it was approved are stipulated in the BSL. In-year changes to the budget by government include virements (Article 61), contingency reserves (Articles 69 and 70), and supplementary budget (Article 63) and are discussed in relevant dimensions in this report (See 3.2.1 and 2.4.2).

2.2.2. Timeliness of Budget Documents (Basic)

55. Article 31 of the BSL requires that the draft budget is submitted to parliament by November 15, one and a half month before the start of the coming fiscal year. The budget calendar and submission deadlines are clearly indicated for both the RB and SNGs in Article 31 of the BSL. Draft budgets have become available to the public one day after its submission to Parliament.

56. The timing of budget submission is in line with the legal requirements and has been respected over the last five years. During this period, only the 2024 draft budget was submitted to Parliament in October in 2023, two months before the fiscal years starts, as required by the good practice rather than the basic practice of the FTC (Table 2.3).

Table 2.3. Serbia: Dates of Budget Submission, Approval and Publication for the past Five years

Budget Year	Date draft budget submitted to Parliament	Date draft budget made available to the public	Date final budget law approved by Parliament	Date final budget law published
2021	November 20, 2020	November 20, 2020	December 10, 2020	December 11, 2020
2022	November 03, 2021	November 4, 2021	November 23, 2021	November 24, 2021
2023	November 17, 2022	November 18, 2022	December 9, 2022	December 12, 2022
2024	October 5, 2023	October 6, 2023	October 26, 2023	October 27, 2023
2025	November 7, 2024	November 8, 2024	November 27, 2024	November 28, 2024

Source: MoF

57. Budgets have always been approved by Parliament before the fiscal year starts for the last five years. In 2024, the BSL was amended to set a specific deadline requiring Parliament's approval of budget law by 20 December.

2.3. Policy Orientation

2.3.1. Fiscal Policy Objectives (Good)

58. In Serbia, fiscal policy is guided by a combination of general and specific fiscal rules, which are embedded in the BSL but were recently modified. These rules encompass a debt rule articulated with a deficit rule, as well as specific limits to public wage and pension spending. However, the implementation of the deficit rule has been postponed until 2029, following an amendment to the BSL in December 2022.¹⁴

59. Despite this postponement, the government is committed to adhering to the deficit target outlined in the FS, which is both precise and timebound. The FS sets a deficit target of 3 percent of GDP for the 2025-2027 period, which contrasts with a more stringent fiscal rule of 1.5 percent of GDP. The government explained that the postponement is due to the investment cycle related to the “Leap to the Future” policy reflecting the strategic choice of the government’s to balancing fiscal prudence with the need to boost economic growth. Despite the increase in deficit projections, the FS projects the debt-to-GDP ratio to stabilize at 46.5 percent by 2027, below the 60 percent rule.

60. The authorities have included information in the FS on performance and realizations relative to the forecasts, supported by numerical data and explanatory notes. In line with its statutory responsibilities and deadlines, the Fiscal Council prepares and submits its opinion to the government and the National Assembly, as required by the regular budget procedure and publishes the opinion and assessment on their website.

2.3.2. Performance Information (Good)

61. Objectives defined for each program are broadly operationalized by output indicators. Some objectives and performance indicators in the annex to the draft budget are well defined and relevant, but in many sectors, input or output indicators still predominate, thus providing limited performance information. Box 2.1 illustrates the MoF template for presenting objectives and indicators in annex to the draft budget. The quality of performance information varies a lot between different budget users. Objectives mainly concentrate on the different programs with a narrow scope and sector; While performance information appears to have limited impact on budget negotiations, line ministries report that performance information, especially on capital projects, supports in-year reallocation decisions.

62. A report on achievement of performance targets is presented as part of the final accounts. An annex in the draft final accounts reports on the achievement of performance objectives and indicators. It presents the actual performance against the performance targets in a similar presentation to what is presented in the budget and it includes comments. This report could benefit from reporting on high-level sector or cross cutting objectives and performance indicators.

63. Initial steps for green and gender budgeting are integrated into the existing performance information and disclosed in budget documentation. Gender objectives are set for each budget chapter; there are also gender specific indicators as part of the performance information. For green budgeting, annexes (Annex 1 and Annex 1A listing climate relevant projects) presenting the tagging

methodology and results have been included for the first time in the 2025 Republican Budget. The respective indicators are an integral part of the general performance information.

Box 2.1. Serbia: Example of performance information for a program

Chapter 34: MINISTRY OF FAMILY WELFARE AND DEMOGRAPHY

PROGRAM: 0903 - Family and legal protection of citizens

Description: Transfers based on the Law on Financial Support to Families with Children: allowance for maternity leave, leave from work for childcare, other benefits based on birth and care of the child and special care of the child, parental allowance. Reimbursement of the costs of stay in preschool institutions for children without parental care,

Objective 1: Improving the basic needs of children in materially disadvantaged families

Name of the indicator	Unit of Measure	Base year	Base value	Target value in 2024	Target value in 2025	Target value in 2026
Number of child allowances granted for children in poverty Source: Ministry Report	Number	2021	272042	290000	290000	30000
Number of newborn children -parental allowance Source: Ministry report	Number	2021	85297	98000	105000	110000

Source: 2024 Budget Annex on Performance Information.

2.3.3. Public Participation (Basic)

64. A citizen's budget explaining the key elements of the budget for a typical citizen and budget process is published on the webpage of the MoF. It contains (i) an introduction by the Minister of Finance, (iii) the composition of revenues, expenditures, and sources of financing, (iii) recent development for pension spending, (iv) implications of the budget for different sectors, (v) a summary of the medium-term fiscal framework, (vi) breakdown of subsidies and capital expenditure, (vii) key elements of program-based budgeting, and (viii) green budgeting. In addition, it explains the budget process and includes a glossary. The information is only given through the webpage but could be complemented by other methods such as videos or workshops.

65. Citizens do not have a formal voice in the budget process in Serbia at the national level. There are no mechanisms for participation of citizens established but the MoF plans to introduce an online platform allowing citizens to comment on the budget in June this year (Bo 2.2 summarizes some international good practice on public participation). It requires passing a quiz on budget which will

increase citizens' budget literacy so that participating citizens have a minimum level of knowledge on this topic; once operating, the level of difficulty still needs to be calibrated so that it does not provide an undesirable obstacle for their participation. Public hearings in Parliament mainly include government organizations such as the Fiscal Council, Statistics Office, and SAI; in addition, non-governmental organizations (NGOs) with focus in fiscal policy are also invited. The short period between the hearings and voting reduces the impact on decision making though.

66. International comparisons score Serbia at the lower level of public accountability. In the Open Budget Survey 2023 on public participation, Serbia is among the lowest scoring countries worldwide reaching a score of only 2 (out of 100). Serbian government scores lower in 2023 with 46 percent compared to 2013 with 57 in the World Bank's voice and accountability index, which measures whether governments are responsive to the demands of citizens. Serbia also scores lower than the 'European and Central Asian' average (67 percent).

Box 2.2. Public Participation in the Budget: Good International Practice

The International Budget Partnership includes an indicator on Public Participation in its Open Budget Survey. Unfortunately, most countries, advanced or developing, including EU Member States, perform poorly against this indicator. The global average score is only 16/100.

The world leader (with a score of 65/100 in the 2023 Survey) is South Korea. The South Korean Ministry of Finance holds participatory meetings with citizens and NGOs during budget preparation to review expenditure ceilings and program priorities for 12 sectors, and e-consultations during budget execution. The discussions are held in a publicly accessible meeting hall and are televised nationally. The Ministry of Finance also actively engages with vulnerable and underprivileged communities directly or through NGOs. In addition, the National Assembly holds public hearings on the annual budget as well as to review the Board of Audit and Inspection's report on the audited annual financial statements. Any member of the public or NGOs may testify to parliament during these hearings.

The UK government also invites public comments on its draft budget plans from citizens and advocacy groups. It publishes summaries of the responses. <https://www.gov.uk/government/publications/budget-representations-guidance/guidance-for-submitting-your-budget-or-autumn-statement-representation>

Useful sources of information:

- IMF, Fiscal Transparency Handbook, 2018, pages 81-84 (includes country examples). Fiscal Transparency Handbook (2018) | <https://www.elibrary.imf.org/display/book/9781484331859/9781484331859.xml?cid=va-com-compd-ftb>
- Global Initiative on Fiscal Transparency, Guide to the Principles and Mechanisms of Public Participation in Fiscal Policy. March 2016. Public Participation Principles and Guide – GIFT (fiscaltransparency.net)
- International Budget Partnership. Guide on Citizens Budget. 2013. <https://www.internationalbudget.org/>

Source: Mission.

2.4 Credibility

2.4.1. Independent Evaluation (Advanced)

67. The fiscal council's independence is guaranteed in the BSL. The fiscal council has the status of an independent legal entity and is accountable to the National Assembly. The three members of the fiscal council are proposed by the following institutions: the President of the Republic (nominating the President of the Fiscal Council), the Minister of Finance, and the Governor of NBS. It has a separate budget line but no specific legal safeguard for its budget. The fiscal council's draft budget is submitted to the MoF and has not been subject to budget cuts. Resources remained stable over recent years with 5 professional and 4 supportive staff members.

68. The mandate of the fiscal council covers a broad oversight function of public finances. By law, its functions include: (i) examining the macroeconomic and fiscal assumptions; (ii) assessing economic policies proposed by the Government to comply with the fiscal objectives of the Government; (iii) assessing fiscal risks and the likelihood that the Government complied with the fiscal rules it; (iv) assessing the rationale for activating the escape clause of the fiscal rule, and the likelihood of government's plan to return to compliance with fiscal rules; and (v) reviewing the adequacy of economic classifications, including for capital expenditure, to ensure the correct measurement of the quantitative fiscal targets goals.

69. The fiscal council evaluates the credibility of the government's economic and fiscal forecasts and its performance against its fiscal objectives and proactively discloses topical reports. It evaluates the quality of and assumptions underlying macroeconomic forecasts but does not present its own forecast. Regarding the fiscal framework, it also assesses compliance with the fiscal rule. Over the recent period, the fiscal council opposed the suspension of the fiscal rule, raised concerns on fiscal sustainability of the supplementary budget despite its compliance with fiscal rules, and commented on positive growth impacts of the fiscal policy while raising concerns about the adequacy of the fiscal measures. For revenues, it evaluates consistency and assumptions based on the macroeconomic scenario. For expenditure, the focus is mainly on assessing the proposed policies and the quality of estimates for specific spending categories (e.g., social spending, subsidies). In some reports they found the forecasts credible but highlighted some inaccuracies of some spending categories. Costings are only conducted for laws with significant fiscal impact such as tax or pension reforms. The assessments are presented in public hearings taking place in November/early December in Parliament. If resources allow, the Fiscal Council conducts special analysis such as for budgetary reserves or public corporations.

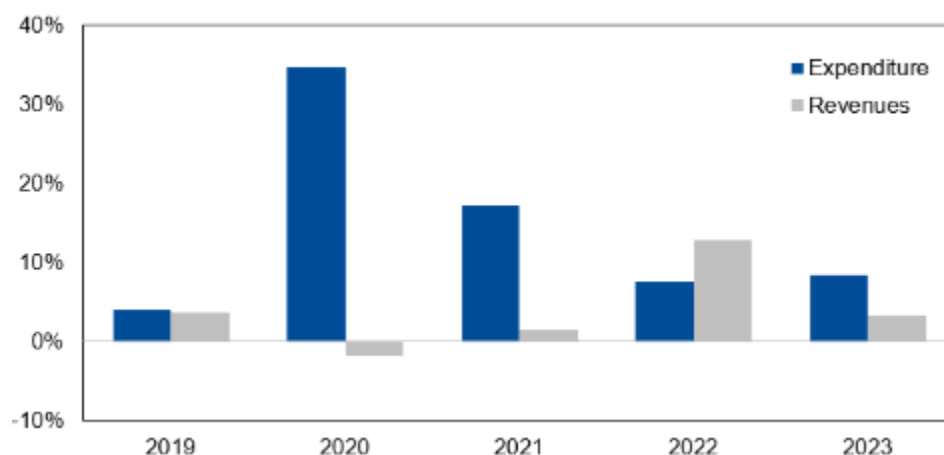
70. A Parliamentary Budget Office (PBO) was established to support members of parliament but discontinued after COVID-19. With international grants, a Parliamentary Budget Office was established in 2015 with four staff but after COVID-19 and the end of the funding period, its was discontinued. Members of Parliament benefited from the PBO's explanation of the budget documents, procedures, rules and processes. Currently there are discussions to reestablish a Parliamentary Budget Office on a permanent basis.

2.4.2. Supplementary Budget (Basic)

71. The BSL and the annual Budget Law gives the MoF broad authority to carry out budget adjustments altering the composition of the budget partially and increasing total expenditure above approved budget. The MoF may approve virements within a budget chapter of a line ministry up to 10 percent and approve the use of budget reserve which is amounting up to 4 percent of revenues (see 3.1.2). From 2019 to 2023, the approved virements amounted to 6.7 percent of the original budget on average with the highest in 2020 with 8.4 percent due to COVID-19 interventions. In certain circumstances defined in the BSL, expenditure can increase due to higher own revenue or revenues from grants which do not require authorization by a supplementary budget. However, incremental revenues from grants amounted to only 0.3 percent of GDP in 2023 but not the full amount was used to increase spending. According to the BSL, these mechanisms should be primarily used to accommodate expenditure overruns.

72. **Supplementary budgets approved significant expenditure increases in recent years (Figure 2.5).** Supplementary budget laws are presented in the same format of the annual budget law and provide a detailed presentation of the updated appropriations. Although a significant part of budgetary changes was made in line with budget flexibility mechanisms mentioned above, supplementary budgets were required to approve budget overruns. On average, total budget expenditures were increased by 14.3 percent through supplementary budget (also including 2020 to accommodate COVID-19 related spending). Actual spending, however, was lower than supplementary budget by about 12 percent. Expenditure increases were higher than revenue increases in supplementary budget with the exception of 2022 due to catch-up of revenues after COVID-19.

Figure 2.4. Deviation of Supplementary Budgets and Actuals to Initial Budget, 2019-2023 (in percent of total expenditure)



Source: Annual Budget Laws and Supplementary Budget Laws

2.4.3. Forecast Reconciliation (Basic)

73. The ERP reconciles differences for aggregate revenues and expenditure between successive ERPs accompanied by a qualitative explanation of sources of deviation, including new policies. The ERP covers general government spending without a breakdown by effects and sectors. In addition, the FS and the ERP include explanations for deviations between the outturn projection for 2024 and the original budget expenditure and revenues for 2024 with a breakdown by economic category. Table 2.4 presents an indicative reconciliation table for expenditure.

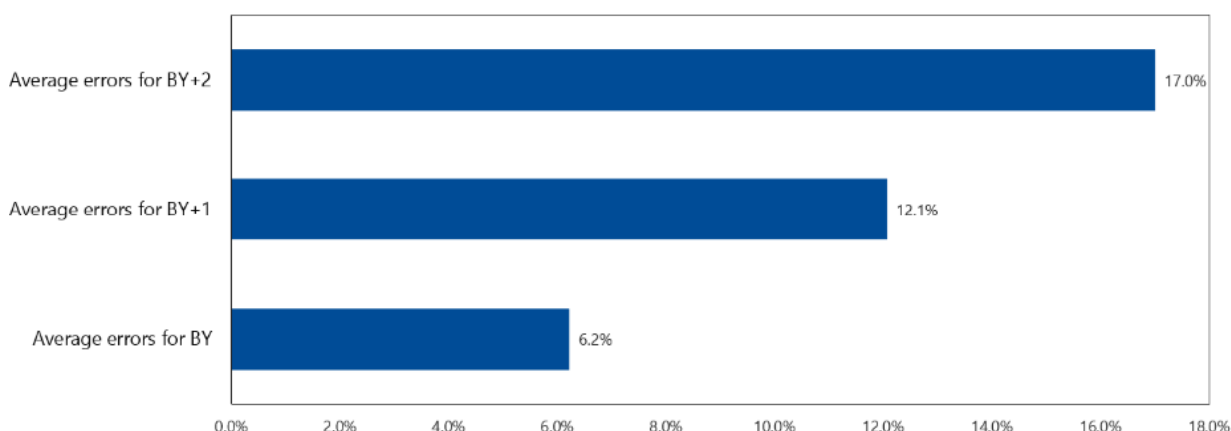
Table 2.4. Indicative Reconciliation Table for Expenditure

2024 Budget	2024 Budget Year	2025 (BY+1)	2026 (BY+2)	2027	2028
Total expenditure	100	110	120		
Reconciliation in terms of					
- Accounting or one-off	-5	-6	-8		
- Macroeconomic Factors	3	4	6		
- Policy Measures	0	5	3		
Total Variation	-2	3	1		
2025 Budget	Estimated Actual	Budget Year	BY+1	BY+2	
Total expenditure	98	113	121	130	
Reconciliation in terms of					
- Accounting or one-off		2	13	15	
- Macroeconomic Factors		-2	-2	-3	
- Policy Measures		0	-11	-12	
Total Variation		0	0	0	
2026 Budget		Estimated Actual	Budget Year	BY+1	BY+2
Total Expenditure		113	121	130	139

Source: *Fiscal Transparency Handbook*, IMF, 2018

74. Revisions of the outer years of the MTBF are significant, underlining the importance of understanding the causes for fiscal policy making (Figure 2.6). The average forecasting deviation between plan for the budget year and actuals is 6 percent but increases to 12 percent for the deviation of the plan for first outer year with actuals and 17 percent for the second outer year. This leads to significant revisions of the successive medium-term budget estimates. For policy makers it is important to understand the causes for these changes, in particular whether they result from new policies, macro-economic changes, changes in parameters, or statistical or model reasons.

Figure 2.5. Deviation between Medium-Term Projections and Outcome



Source: Medium-Term Budget Framework, Annual Final Accounts, staff estimates

2.5. Recommendations

75. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal forecasting and budgeting:

Recommendation 2.1. Introduce enhanced summary tables in budget documents to enable full assessment of medium-term projections' credibility.

- Disclose revenues, expenditures and financing of the RB, including data for outturns for past two years, revised estimates for current budget year, and estimates for the coming budget year and two outer years by economic category; and
- Disclose the consolidated general government data in Tables 9, 10, 11 of the FS on a nominal basis; and
- Prepare a reconciliation table (see Table 2.4) for updating the medium-term estimates by describing the impact of new policies measures, macroeconomic factors, as well accounting and one-off measures.

Recommendation 2.2. Present all documents published by the MoF in a systematic and accessible form on the website.

- Publish the draft budget and all annexes permanently; and
- Publish all annexes prepared as part of the financial statements (year-end report).

Recommendation 2.3. Strengthen use of performance information and participation in the budget process.

- Improve the strategic performance information by introducing sectoral strategic outcomes, operationalize outcome objectives with outcome indicators;
- Implement the plan to establish a budget participation portal for citizens;
- Publish the annex on performance information of the financial statements;
- Establish a performance dialogue with line ministries (e.g. in the budget committee);

- Reestablish a parliamentary budget office to support members of Parliament in scrutinizing the budget; and
- Disseminate information about the citizen budget in different formats (e.g., videos, discussions in municipalities).

Recommendation 2.4. Strengthen transparency for public investment budgeting, project appraisal and tendering.

- Increase competitive tendering in public works by reducing exemptions, including those contained in Special Laws, and improve reporting on all exemptions through the public procurement agency;
- Monitor and disclose cost overruns for large multi-year projects (over Euro 20 million); and
- Publish cost-benefit analyses for projects (over Euro 20 million) before submitting them to the Capital Commission.

Table 2.5 Serbia: Summary Evaluation: Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec
2.1.1	Budget Unity	Good: Budgetary CG, social security/health fund, and SNGs covered in budget documents, but not all EBUs.	Medium: Own source revenues of EBUs not included in budget documents equivalent to 1.4 percent of GDP in 2023.	
2.1.2	Macro Forecasts	Advanced: Key economic indicators' forecasts, their key components and underlying assumptions are included in the FS and the revised FS twice a year	Low: Macroeconomic forecasts are accurate for the year ahead but show a slight optimistic bias for real GDP and inflation over the medium-term	
2.1.3	Medium-Term Budget Framework	Not met: Outturn and projections for the RB revenues and funding are not included in Annex 2, 3 of the budget documents for outturn and in Article 49 for projections	High: Fragmentation in the presentation of outturns, revised budget, and projections prevents full assessment of credibility of medium-term projections	2.1, 2.2
2.1.4	Investment Projects	Basic: Multi-annual budgets of central government's individual projects disclosed; CBAs not published; significant exemptions to competitive procurement	High: Scaling up of public investment (7.3 percent GDP in 2024, relative to 2.5 percent in 2015) with large exemptions from open tender	2.4
2.2.1	Fiscal Legislation	Advanced: The BSL covers the budget calendar, key contents of budget documentation as well as powers to amend the budget	Low: Relevant provisions of the legal framework have been followed	
2.2.2	Timeliness of Budget Documents	Basic: Draft budget submitted and published by November 15, one and half month before the fiscal year starts	Low: Budgets have been submitted to Parliament and publicly available in a timely manner for the last five years	
2.3.1	Fiscal Policy Objectives	Good: Serbia has numerical fiscal rules for debt, deficit, salaries, and pensions. The government is committed to adhering to the deficit targets outlined in the FS	Medium: Deficit rule was postponed in December 2022, but the FS sets targets guide fiscal policy	
2.3.2	Performance Information	Good: Objectives defined for each program are broadly operationalized by output indicators	Medium: Performance information has limited impact on budget negotiations but used in-year reallocation decisions	2.2, 2.3
2.3.3	Public Participation	Basic: A citizen budget is published with implications for citizens of the different sectors, but citizens do not have a formal voice in the budget process.	Medium: International comparisons score Serbia at the lower level of public accountability.	2.3
2.4.1	Independent Evaluation	Advanced: The independent fiscal council assesses fiscal strategies, budgets and budget execution including compliance with fiscal rules.	Low: The fiscal council is well established, but important for monitoring fiscal rules in the context of their suspension.	
2.4.2	Supplementary Budget	Basic: The BSL and annual budget law give the MoF broad authority for adjustments and supplementary budgets regularize expenditure exceeding approved budget.	Medium: Supplementary budgets approved significant expenditure increases (14.3 percent on average).	
2.4.3	Forecast Reconciliation	Basic: The ERP reconciles aggregate revenues/expenditure between successive ERPs with qualitative comments.	Medium: Revisions of the outer years of the medium-term budget framework are significant (18 percent for n+2).	2.1

III. Fiscal Risks

76. This section assesses the government’s analysis, reporting, and management of fiscal risks against the practices of the FTC. It looks at three dimensions of the issue:

- General arrangements for the disclosure and analysis of fiscal risks;
- Reporting and management of risks arising from specific sources, such as government guarantees, public-private partnerships (PPPs), and the financial sector; and
- Coordination of fiscal decision-making between central government, SNGs, and public corporations.

77. The government prepares a number of fiscal reports that include information on fiscal risks, some of which are published. Table 3.1 lists the main fiscal risk relevant documents, the main one’s being the ERP and the FS. The Department of Fiscal Risk Monitoring is actively engaged in fiscal risk analysis, including with international support.

Table 3.1. Serbia: Selected Government Reports Relevant to Fiscal Risks

Report	Related Risks and Issues	Author
Economic Reform Program (ERP) 2024-2026 (published)	Section 4.6: Sensitivity analysis of the fiscal result and debt stock	Macroeconomic and Fiscal Analysis and Projections Division of the MoF, published by the Public Policy Secretariat
Fiscal Strategy (published)	Fiscal Risk Chapter (II. Chapter 5), 15 pages	Department for Fiscal Risk Monitoring, Budget Department
Fiscal Strategy (published)	Simulation of the trajectory of Public Debt (II. Chapter 7)	Public Debt Administration
Fiscal Risk Report (internal to MoF, not published)	All main risks (30 pages)	Department for Fiscal Risk Monitoring, Budget Department
Financial analyses of the operations of public corporations, 2024 (not published)	Fiscal risk arising from operations of individual public companies (ad-hoc report; 7 pages)	Department for Fiscal Risk Monitoring, Budget Department
Fiscal risk report on Natural Disasters and Court Proceedings, 2024 (not published)	Ad-hoc report (7 pages)	Department for Fiscal Risk Monitoring, Budget Department

Source: Mission, and Serbia responses to the Fiscal Risk Management Survey, FAD Programme for Fiscal Reforms in South-East Europe (EU, SECO funded), January 2025.

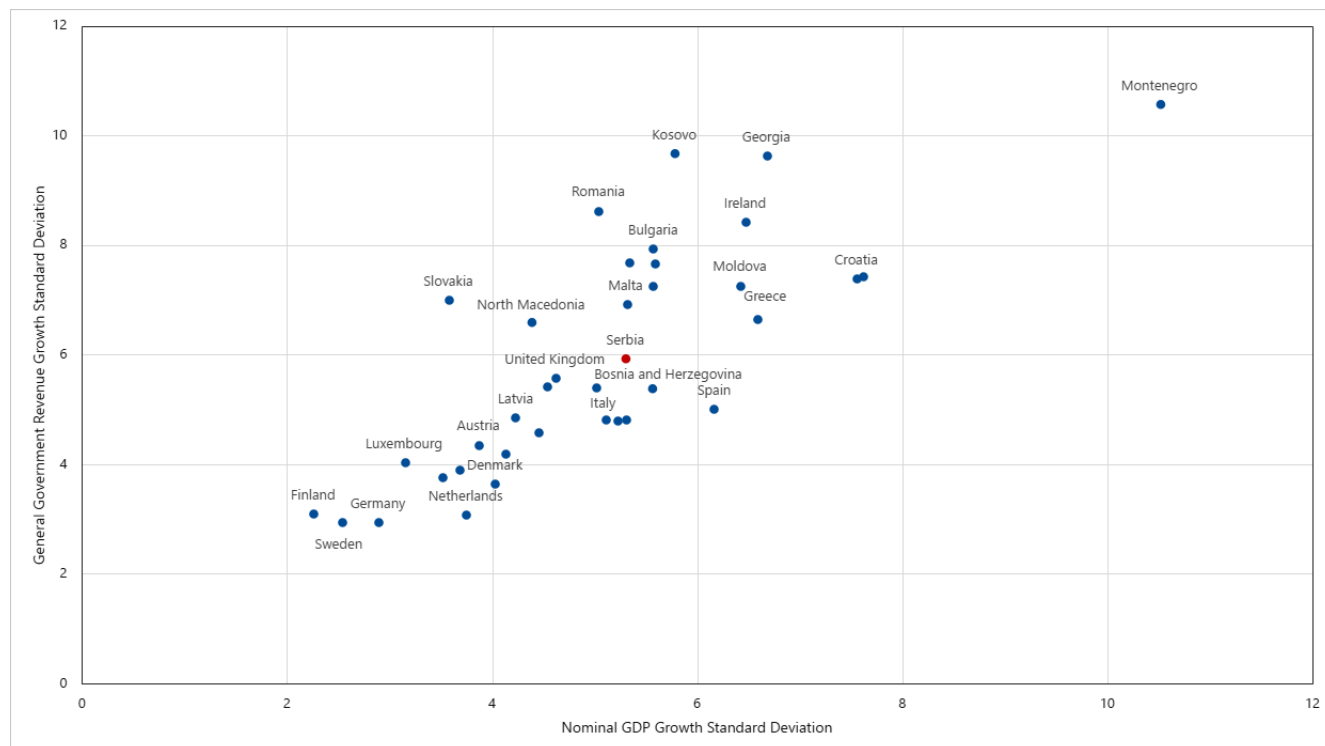
3.1. Disclosure and Analysis

3.1.1. Macroeconomic Risks (Good)

78. The budget documentation includes both sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios. The 2024-2026 ERP develops a lower growth scenario and compares it with its baseline to gauge impact on deficit and public debt. The 2025 FS also presents the results of different fiscal shocks and a stress test on public debt, including different growth scenarios. Probabilistic forecasts (based on past outturn) are not currently prepared.

79. The Serbian economy has been subject to some volatility over recent years creating uncertainty for public finances. With the COVID-19 pandemic and geopolitical tensions over the war in Ukraine, countries in Europe have been recently exposed to multiple shocks, with Serbia being no exception. Nominal GDP and revenue growth volatility over the period 2016–24 has been higher than most advanced European countries but is comparable to that of several other Southeast European countries (Figure 3.1). This volatility implies a fiscal risk which can impact also several specific risks.

Figure 3.1. Nominal GDP and Revenue Growth Volatility, 2016–24
(Standard deviation)



Source: Mission, based on WEO and MoF data (for Serbia).

3.1.2. Specific Fiscal Risks (Good)

80. The main specific risks to the fiscal forecasts are disclosed in several key budget documents, along with estimates of their magnitude, although a forward-looking approach is needed. Summaries of fiscal risks are contained in the 2024-2026 ERP and in Chapter 5 of the 2025 FS, which cover risks from repayment of guarantees, financial sector, SOEs, subnational governments, as well as environmental risks and litigation risks. The MoF is also starting to prepare an annual Fiscal Risk Statement (FRS), which is not yet published and would need to be aligned with the FS to avoid duplication. The MoF is considering publishing it as a self-standing FRS. The likelihood of fiscal risks materializing is mainly assessed for litigations (presenting aggregate numbers and not referring to individual cases) and environmental risks. The key risks currently mentioned are listed in Box 3.1.

Box 3.1. Serbia: Disclosure of Specific Fiscal Risks

The following fiscal risks are disclosed, but not always quantified:

- Repayment of guaranteed debt during 2020-2024 Q1, which includes guarantees issued by the government for state-owned enterprises (SOEs) as well as guaranteed debt to creditors (EBRD, EIB, Japan, among others) planned guarantees for 2024 are disclosed, but not the probability of guarantees to be called.
- Explicit liabilities to the financial sector risks include the insured deposits (refer to further analysis under financial sector risks, FTC 3.2.5).
- Fiscal risks related to 36 state-owned enterprises (SOEs) are assessed through statistical techniques using the adjusted “Altman Z Score”, which assesses likelihood of risks – albeit not the potential costs; three risk categories (low, medium, high) are developed, however without disclosing neither (i) the risk calibration and (ii) individual SOE names.
- Subnational governments, the risk is mentioned, however it is not specified and quantified; a methodology and approach to disclosing risks related to subnational governments is still under development. Quasi-fiscal activities (QFAs) are not quantified and disclosed.
- Environmental risks, for which scenario analysis with an assessment on the likelihood (probabilistic outcomes) is prepared for large-scale floods and earthquakes; in both cases, this involves an assessment on the impact on the fiscal deficit and debt stock in GDP terms. However, climate change fiscal risks are currently not being assessed. These changes can adversely impact productivity growth and public finances.
- Fiscal risks of litigations, which entail court proceedings against the Republic of Serbia, state authorities and other beneficiaries of public funds. Using a record of all court proceedings from the State Attorney’s Office, which is updated at least annually, disclosure includes risks that have materialized during 2018-2024, and an assessment of risks for the upcoming three years. The maximum exposure 2024 is estimated at 3.1 percent GDP, with MoF estimating that over the next three years, each year about 0.2 percent GDP could materialize.

Source: Mission, based on 2025 Fiscal Strategy.

81. The government budget continues to be exposed to various sources of fiscal risks. The budget was affected by several fiscal risk materializations in recent years. This includes, inter alia, litigations and natural disasters. Risk mitigation measures as well as risk transfer mechanisms are only starting to be developed; these could be further applied and rolled out in key risk areas. An assessment of past (2021-2024), and anticipated materializations (2025) is contained in Table 3.2 below.

Table 3.2. Serbia: Selected Specific Fiscal Risks (percent of GDP)

	Last Available Data	2025 Forecast
One-off guarantees:, including to non-financial public corporations and subnational governments (stock)		2
Standardized Loans guarantees Of which called	5 0.1	
On-lending (stock)	1	
Called guarantees (paid out)	0.1	
Public-Private Partnerships, investment cost	3.7	
Bank liabilities: Insured deposits (net of Deposit Insurance Assets)	21.7	

Total liabilities (excluding equity) of the publicly owned insurance company Dunav	0.6	
Total liabilities (excluding equity) of the Housing Loan Insurance	0.1	
Financial liabilities (excluding equity liabilities) of financial and non-financial public corporations	18.9	
Natural disasters (budget spending)	0.1	
Litigations		0.2
Public expenditure on pensions	9.7	10.1
Public expenditure on the health fund	5.2	

Source: MoF, IMF Staff estimates.

3.1.3. Long-Term Sustainability of Public Finances (Not Met)

82. The government regularly publishes medium-term projections of key fiscal aggregates.

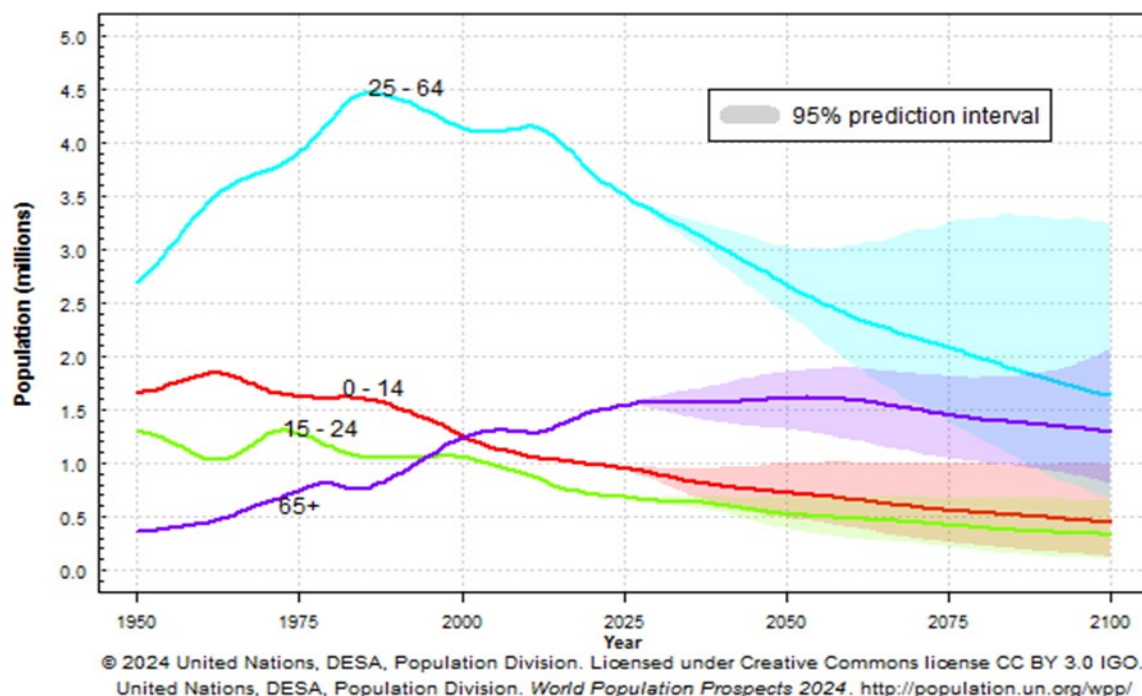
Time horizons of long-term projections for key fiscal aggregates vary according to the time required to reach the debt-to-GDP ratio underlying the fiscal rule. The 2025 FS presents 10-year projection (2024-2033) for revenue, expenditures, deficit, and public debt in percent of GDP, applying shock scenarios (natural disaster, health crisis, economic shock). In the Revised 2025 FS (October 2024), this time horizon is shortened to seven years.

83. The authorities do not disclose long-term projections for the pension and health funds.

There is no long-term projection to assess pension fund sustainability, but the fiscal council has started to prepare a report on pension sustainability. Pension expenditures have declined from 12.5 percent of GDP in 2015 to 10.4 percent GDP in 2023, due to the effects of parametric reforms legislated in 2014 (introduction of actuarial penalties, gradual increase of retirement age for women to equate it with the one for men), but also through under indexation. In addition, there is no long-term study on health fund sustainability, whose expenditures have been increasing from 4.5 percent GDP in 2015 to 5.2 percent GDP in 2022. The health fund is monitoring changing epidemiological trends to identify cost drivers (including, among others, for cancer treatments), which need to be further quantified to inform fiscal sustainability analysis. Spending for health and pension will rise as population aging and shrinking continues according to SORS' projections,¹⁴ following also similar projections by the United Nations (Figure 3.2). The specific effects on the long-term sustainability of pension and health funds have yet to be assessed.

¹⁴ Following long-term estimates by the Statistical Office of the Republic of Serbia, the population in 2052 will be 5.2 million, a decline of about 1.5 million people compared to 2022. [Population Projections for the Republic of Serbia 2022–2052 | Statistical Office of the Republic of Serbia](#).

Figure 3.2. Serbia: Population by Age Groups, 1950-2100
(Millions of inhabitants)



3.2. Risk Management

3.2.1. Budgetary contingencies (Basic)

84. The budget includes an allocation for contingencies but there are no transparent criteria for using current budget reserves and no in-year reporting. There are two contingency reserves, the current budget reserve and the permanent budget reserve as indicated Articles 69 and 70 of the BSL, respectively. The limits for the current budget reserve and permanent budget reserves are defined as 4 percent and 0.5 percent of revenues and receipts from the sales of non-financial assets, respectively. However, it is not clear which revenues and receipts will be used for the calculation of the limit. It should be clearly indicated if the planned revenue and receipts numbers or rebalanced ones will be used in the calculations. While the utilization of the permanent budget reserve is restricted to emergencies and natural disasters, there are no specific and transparent criteria for using the current budget reserve. Current budget reserve has been utilized mainly due to difficulties in accurately planning spending at a very detailed level.

85. There is no regular in-year reporting on current budget reserve. The only information on the contingency reserve could be found in the final accounts. There are also classified utilizations related to government secrecy that are not disclosed in the final accounts. In 2023, there were 83 government decisions on the uses from the current budget reserve. The table covering the government decisions and submitted by the MoF (*Report on the Use of Funds from Current and Ongoing Budget Reserves in 2022*) does not include the total amount. Table 3.3 shows the calculation considering the revenues and receipts from the sales of nonfinancial assets based on Article 1 of the relevant ABLs. Using the planned revenues

and receipts, the 2022 contingency reserve numbers has been significantly higher than the 4 percent limit indicated in the BSL.

Table 3.3. Serbia: Use of Contingency Reserves, 2021-2023 (*)

million RSD	Contingency reserve (I)	Planned revenues (*) (II)	(I) / (II)
2021	55,713	1,336,324	4.2%
2022	113,829	1,516,851	7.5%
2023	72,298	1,843,364	3.9%

(*) Contingency reserve (I) numbers are calculated from the final accounts and show the actual uses from contingency reserve. Planned revenues (II) are the revenues and receipts from sales of nonfinancial asset based on Article 1 of the relevant ABLs.

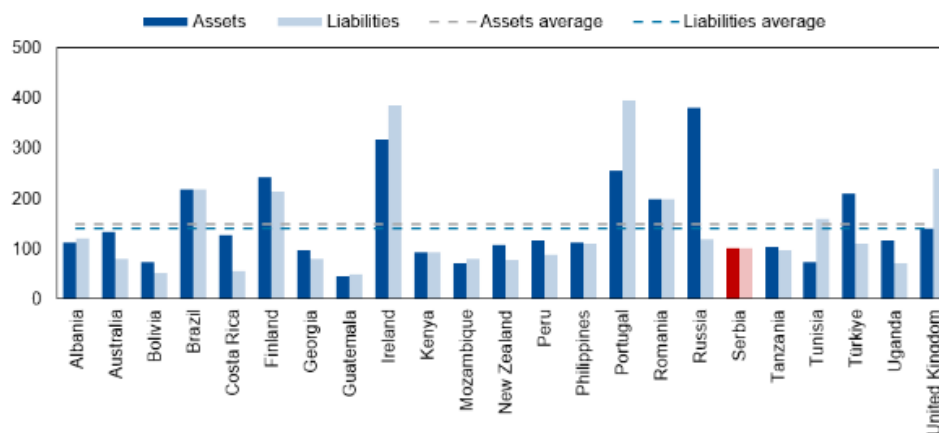
Source: IMF staff calculations, MoF data

3.2.2. Management of assets and liabilities (Basic)

86. The Law on Public Debt regulates sovereign borrowing and guarantees, covering central government, subnational governments, and four social security and health funds included in the general government. Article 5 of the Law on Public Debt clearly assigns authority to borrow to Parliament and the MoF. Also, Article 73 of the BSL requires that the budget of the RS sets a limit on the total amount of debt, as well as a limit on the total amount of guarantees issued during the budget year. Article 3A includes a nominal limit and lists the projects that could benefit from the guarantee. Article 3B covers the limit on project loans.

87. The FS discloses risks surrounding public debt, but there is no analysis or disclosure of risks to the overall balance sheet. The FS includes the public debt management strategy as a separate chapter, which discusses refinancing risks, interest rate risks, and exchange rate risks. Alternative scenarios for the relevant risks and stress tests are also included and disclosed in the FS. Since December 2020, the Public Debt Administration has conducted hedging transactions, i.e., the use of financial derivatives for the purpose of hedging against foreign exchange and interest rate risk. Latest swap operation was in June 2024 and aimed to converting dollar liabilities to euro at a fixed interest rate.

Figure 3.3. Public Sector Assets and Liabilities, percent of GDP, Latest Available Data

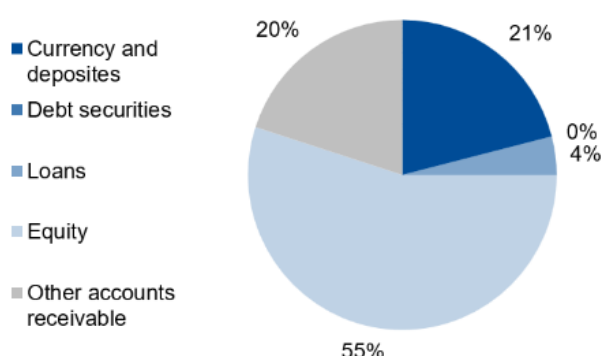


Source: IMF staff data.

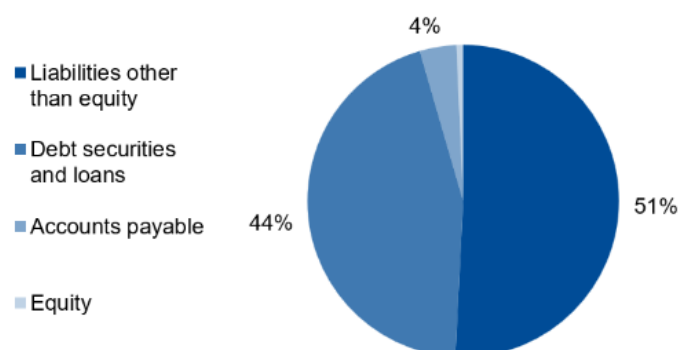
88. On the financial asset side, there is no risk analysis and asset management based on a published strategy. General government financial assets and liabilities were 50.7 percent and 50.3 percent of GDP in 2023, respectively (Figure 3.3). Figure 3.4 also presents an international comparison of countries' financial assets and liabilities. On the financial asset side, equities, and currency and deposits are the largest items. Even though the government has a balance sheet including not only its financial asset and liabilities but non-financial asset and liabilities, there is no holistic approach to managing risks surrounding both sides of the balance sheet. The government holds large government cash balances, has claims against public corporations or subnational self-government units from called guarantees and/or onlending, and has equity due to its shares in public corporations. Government cash balances in EUR and USD are deposited (and remunerated) in the NBS. The Deposit Insurance Fund (DIF) has also financial assets and an investment strategy but it is not published. Overall, there is no risk analysis around these financial assets, or a comprehensive asset management strategy related to the government cash position (both RSD and FX), lending, guarantees, and others financial assets.

Figure 3.4. Composition of Consolidated General Government Financial Asset and Liabilities, 2023 (Percent)

3.4a Financial Assets



3.3b Financial Liabilities



Source: IMF team

89. Gradually adopting a sovereign asset and liability management (SALM) approach, publishing risk assessment around financial assets, and integrating cash and debt management could improve the management of government's financial balance sheet and allow analysis of cost and risk drivers. Before actively managing financial risks through SALM, a gradual approach should be taken—starting with assessing the risks associated with financial assets and liabilities and understanding their interlinkages. This foundational step is essential for informed and effective risk management through SALM entailing monitoring and quantifying the impact of movements in exchange rates, interest rates, inflation, and commodity prices on both sovereign assets and liabilities in a coordinated way. On the liability side, the aim is to minimize debt service costs subject to a prudent level of risk. On the asset side, the aim is to accumulate an adequate level of net foreign assets, including foreign exchange reserves, to conduct effective monetary and foreign exchange policies, and provide a buffer against external shocks. Uncoordinated management of sovereign assets and liabilities may cause significant mismatches on the government's balance sheet.

3.2.3. Guarantees (Good)

90. While there is a solid disclosure and issuance framework for government guarantees, the probability of these guarantees being called is not published. Information on government one-off and standardized guarantees is published annually in the FS.¹⁵ Exposure from these guarantees and their beneficiaries are also disclosed in the FS and in the quarterly debt management reports in more detail. While one-off guarantees are discussed under debt management, credit guarantee schemes are discussed under the financial system risks and there is no overall picture of exposure to both guarantees disclosed in the FS. Total guarantees on issue are equivalent to 7 percent of GDP:

- **One-off guarantees:** According to the Law on Public Debt, public debt consists of all direct liabilities as well as guarantees. Guarantees are issued for borrowing of public companies and subnational government. According to the Law on Public Debt, guarantees can only be issued for investment needs. There is an annual limit on new guarantees set in Article 3A of annual budget laws. The limit for 2025 is RSD 365 billion (0.4 percent of GDP) for investment projects listed in Article 3A. The revised 2025 FS indicates that guaranteed debt stock is 2 percent of GDP, a sharp decline relative to 2012, where the stock of guarantees was 7.5 percent of GDP (non-guaranteed debt decreased from 2.2 percent of GDP to 0.3 percent in the same period). EPS (Electricity company), Srbijagas and Road Company are the main beneficiaries of guarantees. One-off guarantees are managed by the PDA.
- **Standardized guarantees:** The FS also includes information about the two standardized guarantee schemes introduced during COVID-19 along with related actual and expected budget payments.¹⁶ Unlike one-off guarantees, no quarterly information is disclosed. Disbursement under both schemes ended on July 31, 2022, and outstanding amounts have since declined. As of September 30, 2024, €2.5 billion (5% of GDP) in loans were issued under both schemes, with €66.9 million (0.1% of GDP) paid out for called guarantees and €6 million recovered. During the FTE mission, the government was in the process of issuing another credit guarantee scheme for the first-time home buyers' mortgage, and the related law was adopted in March 2025, after the mission.

91. The current recording of guarantees blurs the line between a contingent liability of the government and an actual liability. In some cases, the government is aware that the full amount of the guaranteed debt will have to be serviced by the government or that the debt has been de facto called. However, in Serbia, the guarantee calls are recorded on a cash basis, with capital transfers recorded as each installment of guaranteed debt is repaid, rather than reflecting the full amount of debt as government debt. Consequently, a portion of the current stock of guaranteed debt should no longer be treated as a contingent liability, but an actual one. Serbia should apply the principles and guidance in both GFSM 2014 and ESA MGDD on guarantees and debt assumptions.

92. Similar to government guarantees, governments' lending and onlending operations give rise to credit risk. Serbia's stock of on-lending debt is around EUR 800 million (1 percent of GDP) at end-2024. Lending does not create a contingent liability for government, but the risks to government

¹⁵ Credit guaranteed scheme in the form of standardized guarantees aimed to support Small and Medium-Sized Enterprises (SMEs) that were affected by the economic conditions during COVID-19.

¹⁶ Under the first scheme during COVID-19, commercial banks drew €2.5 billion (5% of GDP) in loans with a 3-year term. Fiscal costs are capped at €600 million (1.2% of GDP). The second scheme was totaling €500 million (1% of GDP), with a 5-year loan term and a fiscal cost cap of €128 million (0.3% of GDP).

finances are similar to those arising from loan guarantees.¹⁷ If there is no expectation that the borrowers would pay their liabilities related to guarantees and onlending, the government should record these amounts as expenditures (as was done for recent loans to Serbiagas).

3.2.4. Public-Private Partnerships (Not Met)

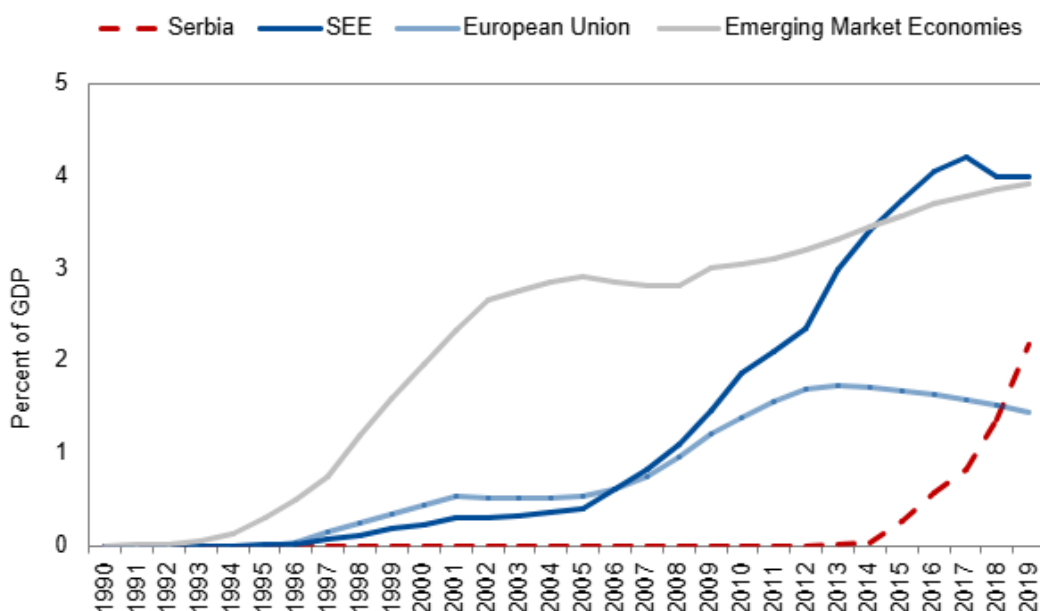
93. The government does not publish its total rights, obligations and other exposure under PPP contracts. Annual reports of the PPP Commission provide an account of projects that were approved, but do not disclose total investment cost, nor annual obligations. Many of the projects seem to be concession arrangements. A thorough review of long-term fiscal implications has not been carried out and contingent liabilities associated with PPPs are not assessed. The fiscal risk chapter of the 2025 FS does not contain an analysis of PPP fiscal risks.

94. Exposure to risks from PPPs may increase as part of government plans to expand investment in infrastructure. PPPs can create long-term (15-20 years or more) commitments that may take the form of budget payments and fiscal risks, especially if or when governments provide some forms of minimum revenue guarantees. Serbia has been investing into PPPs since 2012 in green energy (wind generators; hydropower), waste treatment, and the Belgrade airport concession,¹⁸ with a surge during 2017-2019, following similar trends in other SEE countries. As a result, Serbia's PPP capital stock rose to 2 percent GDP (Figure 3.5). Since then, three projects with an investment cost of 0.7 percent GDP were added, for a total investment cost of 3.7 percent GDP during 2021-2023 (WB PPI Database). Currently, according to information by the MoE, there is no approved pipeline of PPP projects. The PPP institutional framework is not fully unified with the PIM framework (2023 PIM Decree), as the PPP Commission meets separately and the criteria for the choice over the investment modality (traditional procurement vs. PPP) is not fully defined.

¹⁷ Lending or onlending by the government creates an asset on the government's balance sheet. The inability or unwillingness of a borrower to service an (on-) lent loan impairs the government's assets, reduces net worth, and lowers cash inflows compared to full repayment of loans. In both onlending and the issuance of a guarantee, the impact on the government's balance is driven by the borrower's credit quality or credit risk and needs to be analyzed and monitored.

¹⁸ The 25-year concession contract with Vinci for the Nikola Tesla Airport in Belgrade is the largest single PPP, with estimated capital investment worth 1.3 percent of GDP.

Figure 3.5. Public-Private Partnerships Capital Stock (Nominal, percent of GDP)



Source: FAD Public Investment database.

3.2.5. Financial Sector (Advanced)

95. The government's potential fiscal exposure to the financial sector is analyzed and disclosed. Financial sector risks are disclosed in the fiscal risk chapter of the 2025 FS, and focused on the Deposit Insurance Scheme, Non-Performing Loans (NPLs), the two state-owned banks, two public insurance companies; and standardized guarantees (COVID-19 credit schemes). National Bank of Serbia (NBS) publishes its annual Financial Stability Report (last edition from 2023), including a detailed analysis of financial sector risks and stress test results under adverse macroeconomic scenarios. NBS applies, and the FSR discloses, the results of a series of macroprudential stress tests.¹⁹ An international comparison of Serbia with other economies on indicators of banking sector stability is contained in Table 3.4.

Table 3.4. Indicators of Banking Sector Stability, 2023

	Capital	Asset Quality	Liquidity		Profitability
	Tier 1 capital to assets, (Core FSI), Percent	Nonperforming loans to total gross loans (Core FSI), Percent	Customer deposits to total (non interbank) loans (Additional FSI), Percent	Liquid assets to total assets, Liquid assets to total assets, Percent	Return on assets (Core FSI), Percent
Serbia	10.9	3.2	132.1	41.0	2.5
Albania	8.7	4.6	211.5	30.1	2.0

¹⁹ Financial Stress Test Index; the Banking Sector Stability Index; and the Systemic Stress Indicator; and exposure of the financial sector to climate change risks.

Croatia, Republic of	9.3	3.6	128.7	37.8	2.1
France	5.5	2.1	70.9	16.9	0.5
Greece	7.8	6.0	133.5	28.3	1.6
Luxembourg	8.5	1.9	73.1	31.8	1.1
Netherlands	6.0	1.5	74.7	19.1	0.9
Slovenia, Republic of	9.6	1.5	98.8	31.7	2.1
Türkiye, Republic of	7.2	1.5	118.7	56.5	3.9

96. Public sector exposure to financial sector risks in Serbia are considered low. Financial stability risks, including those that come along with the changing global interest level environment, are regularly monitored and disclosed by NBS. A summary is contained in Box 3.2. The explicit exposure of government to the financial sector is contained (Table 3.4 and Figure 3.6) but needs to be monitored.

Table 3.5. Serbia: Public Sector Financial Sector Exposure, 2023 (in percent GDP)

Position	Liabilities	In percent of GDP
1	Total bank liabilities	89.5
2	Of which eligible deposits	38.8
3	Of which insured	22.9
4	Total Deposit Insurance Agency assets	1.2
5	Net exposure (Position 3 minus 4)	21.7

Source: Deposit Insurance Agency; NBS; PSBS data.

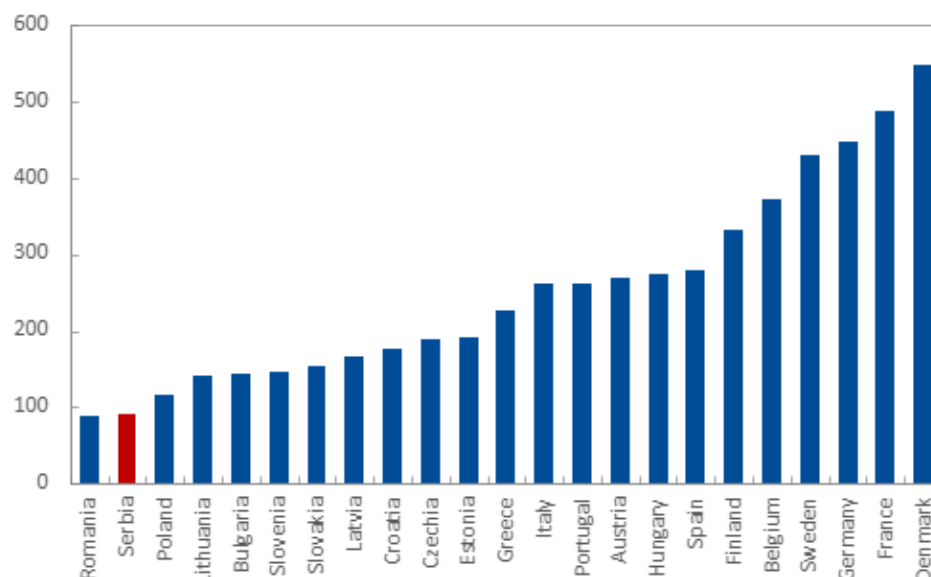
Notes: Serbia data from Financial Stability Report 2023 (Table II.1.2., Key Macroprudential Indicators). All other data from the IMF Financial Stability Indicator (FSI) dataset.

Box. 3.2. Financial sector risks

- Serbia's banking sector follows Basel III capital buffers and liquidity requirements. Total financial sector liabilities (consolidated) stand at 89 percent GDP in 2023, below the regional average (Figure 3.7). The indicator "Regulatory Capital to Risk-Weighted Assets" is stable and has been ranging from 20.2 to 23.4 percent during 2015-2023, which is above the SEE average but below the EU average (Figure 3.6).
- From 2021, banks have become more profitable with key indicators (Return on Assets/ROA; Return on Equity/ROE) above the EU average. Banks are adequately capitalized, with buffers well above regulatory requirements; NBS stress tests indicate a very low risk that increased nonperforming loan (NPL) ratios would bring the Capital Adequacy Ratio (CAR) down to the threshold (Financial Stability Report 2023, page 59). Compared to the high levels of NPLs in 2018 (around 16 percent of NPLs to gross loans), this risk is assessed as low and stable; NPLs were 2.6 percent at Q3-2024 (NBS data).
- The government has direct exposure to the financial system through the Deposit Guarantee Scheme created in 2018, which insures deposits of individual accounts up to a cap of EUR 50,000. It has a target funding level of 7.5 percent of total covered deposits in 2030. It currently applies flat fees for premiums, but the Deposit Insurance Law also allows risk-based premiums. Recently, the level of capitalization has peaked at 1.2 percent of GDP in 2024, with assets in both EUR and DNR. Since its inception, no payouts were required. The Scheme discloses information on the total amount of deposits and the share of insured deposits.
- Direct exposure is also created through the two COVID guarantee schemes; the outstanding amounts are assessed as small (0.1 percent of GDP).
- The government maintains two state-owned banks (Postanska, Srpska), which are fairly small in terms of the size of their total liabilities (jointly 5.3 percent of GDP in 2023).
- Total liabilities (excluding equity) of the publicly owned insurance company Dunav were 0.6 percent of GDP in 2023; and was 0.1 percent of GDP for the Housing Loan Insurance (Data source: MoF, staff calculations).

Source: Mission, based on MoF and CBS information.

Figure 3.6. Liabilities of Financial Corporations in Selected Countries, 2023
(percent GDP)



Source: Eurostat, and National Bank of Serbia.

3.2.6. Natural Resources (Not met)

97. Natural resource stocks and flows are not disclosed. Companies licensed for the “use of mineral resources and deposits” pay a fee on the royalties,²⁰ which varies (from 1 to 7 percent) depending on type of natural resources.²¹ Revenues collected from these fees are not published; however, based on quarterly reports from licensed companies, the MoF monitors on annual basis the gross collected revenue and the distribution (based on a formula) both to central government and about 100 subnational governments. At the subnational level, these revenues are recorded as “own revenue”, while they should be recorded as transfer from central government. Forward-looking annual estimates for these revenues are currently not produced; this could be done using exploitation plans that are being sent by licensed companies to the Ministry of Mining and Energy. International standards on natural resource transparency (such as the Extractive Industries Transparency Initiative/EITI) are currently not being followed.

98. To date, natural resources have a limited fiscal impact in Serbia. During 2015 and 2021, natural resource revenues for the government have not exceeded 0.1 percent GDP annually, recording a slight increase to 0.2 percent GDP in 2022 and 2023. This is in line with other SEE countries²² and significantly below the level of revenues collected by natural resource economies²³. The Ministry of

²⁰ The state of resources and reserves of mineral raw materials in the Republic of Serbia is divided into groups, namely: (i) Energy mineral raw materials; (ii) Non-metallic mineral raw materials; (iii) Metallic mineral raw materials.

²¹ <https://gras.org.rs/wp-content/uploads/2017/10/law-on-mining-and-geological-explorations-of-serbia-2015.pdf>

²² None of Albania, Bosnia, Bulgaria, Greece, Hungary, Romania, or Turkey had natural resource revenue of more than 0.5 percent of GDP.

²³ Examples: Kazakhstan (3.7 percent of GDP) and Azerbaijan (15.5 percent of GDP).

Mining and Energy is preparing a strategy on mineral resources, which is planned to include 20-year forecast including also price and extraction scenarios.

3.2.7. Environmental Risks (Basic)

99. Fiscal costs from past natural disasters are disclosed but estimates of potential fiscal impact of future disasters are not published. Total contingencies used for natural disasters during 2018-2023 is published (0.1 percent of GDP).²⁴ In addition to a qualitative discussion in the FS, the authorities prepare probabilistic and shock scenarios. This includes a probabilistic assessment of earthquakes and floods, which has not been disclosed. The 2023-2030 Disaster Risk Reduction and Emergency Management Strategy notes that by 2041-2060 the temperature will further increase in the range of +2.5 and more likely +3.1°C. Climate change risks are monitored through the Ministry of Environment, however the specific fiscal risk impact is not assessed.²⁵

100. Serbia is exposed to environmental risks, which have materialized in recent years. In May 2014, Serbia experienced its most severe flooding and landslides in 120 years, affecting over 1.6 million citizens and causing damages of nearly 4.4 percent of GDP. Recent assessments show that large-scale floods can cause a fiscal deficit increase in the range of 0.1 percent to 2.1 percent of GDP (2024); and public debt increase between 0.1 percent to 7.7 percent of GDP in the years after the shock.²⁶ Fiscal risk materialization may imply the further use of the Contingency Reserve for Natural Disasters, which is currently limited to 0.5 percent of budget revenues.

3.3. Fiscal Coordination

3.3.1. Subnational Governments (Not Met)

101. Monthly consolidated summary data on SNGs finances are published, but do not contain data by individual entities (except for the autonomous province of Vojvodina), nor fiscal performance indicators. Although each SNG sends monthly statements to the Ministry of Finance, the data is aggregated in the Public Finance Bulletin without differentiating by individual entities (except for Vojvodina). Revenue and expenditures are disclosed but not the deficit and debt or other financial performance information on subnational finances.²⁷ The law requires the financial statements of all SNG units to be audited and published locally; in addition, each year, the SAI audits a sample of SNGs and the

²⁴ Following the FS, the paid amounts were (all in RSD) 2.0 billion in 2018; 4.2 billion in 2019; about 3 billion in 2020; 0.5 billion in 2021; 0.2 billion in 2022 (only figure showing spent amount, which is close to the allocation); and 0.8 billion in 2023.

²⁵ The Climate Change Adaptation Program for the period 2023-2030, together with the Action Plan for the period 2024 - 2026, can be accessed through the UNFCCC NAP portal: <https://napcentral.org/submitted-naps>. The Digital Atlas on climate change can be found on: <https://atlas-klime.eko.gov.rs/lat/map?dataType=obs&visualization=pro&area=regions>.

²⁶ MoF's probabilistic assessments on earthquakes (not disclosed), indicate that the fiscal deficit may increase in the range of 0.1 percent to 2.7 percent of GDP (2024), and public debt can increase in the range of 0.1 percent to 10.3 percent of GDP.

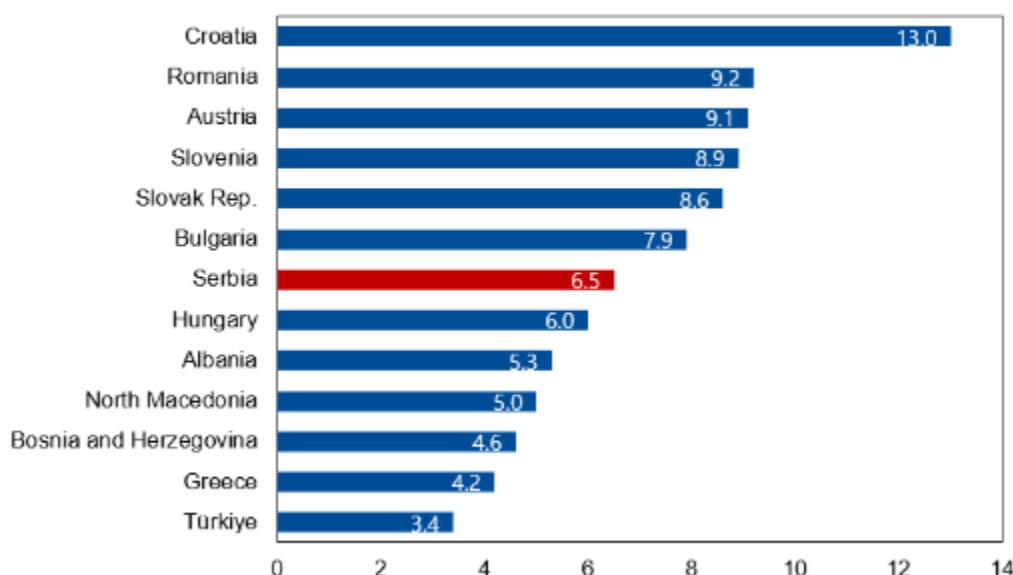
²⁷ As of January 2025, local governments are using the national information system SPIRI, which is expected to overcome some of the reporting challenges. The MoF, is identifying relevant performance indicators local finances.

reports are published. There is a legal limit on liabilities, both for investment²⁸ and for short-term borrowing for recurrent²⁹ expenditures by subnational governments.

102. Government should strengthen monitoring of SNGs finances. Their fiscal importance in terms of share of GDP has been stable during 2015-2023, with total revenues around 5 percent GDP and spending around 7 percent of GDP.³⁰ Revenue growth is controlled by the Ministry of Finance by setting an annual cap. On the expenditure side, their fiscal importance is comparable to other Southeastern European countries (Figure 3.7).

103. Fiscal risks from subnational governments should be monitored and mitigated. In particular, financial relations with their subnational government-owned public corporations can create fiscal risks and should be better reported; this is particularly relevant in large cities like Belgrade. While subnational governments are not allowed to issue guarantees, some have circumvented this restriction by providing de facto guarantees to local banks to facilitate borrowing by locally-owned SOEs.³¹ This risk holds particularly for large cities, where investment needs are significant.

Figure 3.7. Subnational Government Expenditures in Selected Countries, 2023
(percent GDP)



Source: IMF GFS database

²⁸ Borrowing for investment includes both a limit on: (i) the stock of debt (up to 50 percent of the local government budget's current revenues, including own revenues and central government transfers, from the previous year); and (ii) for debt service (below 15 percent of the budget's current revenue of the previous year) (Law on Public Debt, Articles 33, 35 and 36).

²⁹ Short-term borrowing (paid out and to be repaid within a current budget year) is allowed to cover financing needs for recurrent expenditure, with a limit of 5 percent of current revenues (taxes and central government transfers) from the previous year.

³⁰ Following the Law of Local Financing, Official Gazette of RS, no. 62 of 19 July 2006, and later amendments.

³¹ The Belgrade local transport company GSP (with an extensive fleet renewal program) is being supported by the City of Belgrade through the provision of letters of comfort to the banks, and annual capital transfers to enable the company to service its debt. These letters serve as a de facto guarantee, however amounts are not captured in the stock of guaranteed debt at present.

3.3.2. Public Corporations (Not Met)

104. Only some financial transactions between the RS and public corporations are disclosed in the annual reports. The FS presents dividend payments and subsidies for those enterprises classified as public enterprises according to the law of public enterprises and do not include all public corporations. It does not cover joint stock companies and limited liability companies. Loan payments, onlending, write-offs of debt, QFAs and indirect support are not covered. Three public corporations regularly receive budget subsidies: (i) Railways (around RSN 20 billion per year); (ii) Roads of Serbia, (around RSN 15 billion per year); and (iii) Resavica (underground coal exploitation) (around RSN 5 billion per year). Also, the loans of Railways and the Roads of Serbia are serviced by Government, as are the loans of Srbijagas, PE in the gas sector and government guaranteed debt of public corporations are included in government debt. During the recent energy crisis, Srbijagas and EPS (electricity company) were recipients of subsidies.

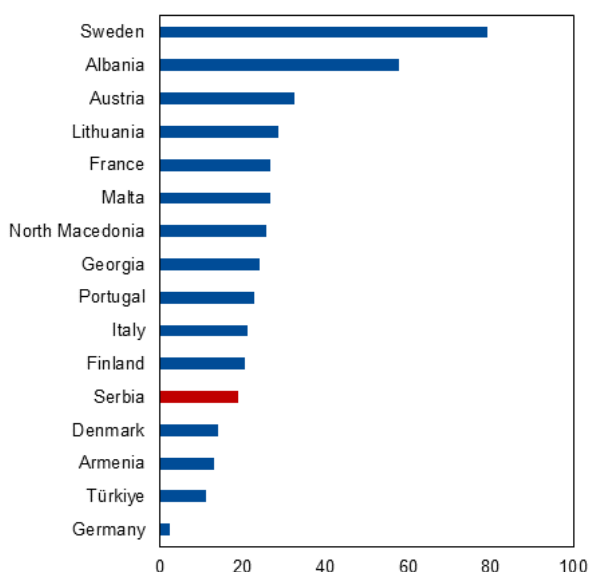
105. The State-owned Enterprise (SOE) Governance Law provides the legal basis for an ownership policy but it will be implemented gradually and is dependent on forthcoming by-laws. The new law was adopted in September 2023 as part of reforms of the SOE sector in Serbia. It is envisaged that it will become fully effective in 2026 following a transition period. It aims to provide uniform management of all public corporations independent of their legal form. The law does not cover public corporations in the insurance, military, banking sector, and that are institutes or non-profit, operating in innovative sectors, and subject to privatization or bankruptcy. The law regulates governance structure, reporting requirements, annual performance plans, audit, transparency, and remuneration of managers. Many sections require implementing bylaws such as reporting, classification of SOEs. Dividend policy is not included and regulated in the annual budget law.

106. The FS reports on the financial performance of some public corporations. This report includes among the 36 companies many large SOEs such as Elektroprivreda Srbije (EPS), Elektrodistribucija Srbije (EDS), Serbia Gas and Railways Infrastructure. However, it excludes large public corporations, such as Serbia Telecom. It shows total revenues, expenses and net profit, number of employees, total assets and liabilities. Out of 36 companies, 14 enterprises were making losses in 2023. The Ministry of Economy plans to report based on the Law on SOEs as of 2026 which will be more comprehensive than the current one.

107. Public corporations create important fiscal risks and are subject to multiple quasi-fiscal activities. Major financial and non-financial public corporations' financial liabilities (excluding equity liabilities) amount to 18.9 percent of GDP with Serbia Telecom (4.9 percent of GDP) and EPS (3.6 percent of GDP) being the largest (see Figure 3.8). Serbia's public corporations' liabilities are lower than countries in the region such as Albania or North Macedonia (Figure 3.9). The biggest loss-making companies were Putevi and Railway Infrastructure, amounting to around 0.1 percent of GDP. They undertake significant quasi-fiscal activities which are not yet quantified, e.g. regulated electricity prices which are non cost-recovering or costs for collecting other fees by EPS which are not compensated by other entities. A draft bylaw on public sector obligations has been prepared to improve transparency on the costing and disclosure of these quasi-fiscal activities.³²

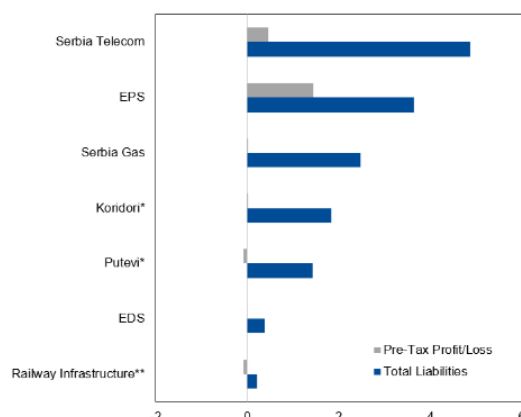
³² This activity was supported by FAD technical assistance.

Figure 3.8. Liabilities of Non-financial Public Corporations
(percent of GDP, latest year available)



Source: IMF PSBS Database, Serbia staff estimates

Figure 3.9. Serbia: SOE with Largest Liabilities
(percent of GDP)



Source: Business Register, staff estimates (*compiled by authorities, ** compiled by staff)

3.4. Recommendations

108. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal risks:

Recommendation 3.1. Improve reporting arrangements and risk management related to guarantees.

- Publish more frequent data for standardized guarantees related to the COVID-19 credit schemes and the new scheme created by the draft Law on Mortgages;
- Improve reporting and classification of guarantees in debt reports based on the guarantee call expectations (GFSM 2014 and ESA MGDD); and
- Consider introducing a credit risk analysis based on analytical tools to provide one-off guarantees.

Recommendation 3.2. Strengthen the BSL provisions concerning contingency reserve.

- Clarify which revenues and receipts from sales of non-financial items are taken into account when calculating the 4 percent rule in contingency reserve;
- Introduce more transparent allocation criteria for the main contingency reserve; and
- Introduce in-year reporting on the utilization from the contingent reserve.

Recommendation 3.3. Improve the analyses and disclosure of risks both on asset and liability management (initially financial asset and liabilities).

- Develop an asset and liability management strategy considering the drivers of costs and risks for both financial liabilities and assets; and
- Publish data on receivables related to guarantees and on-lending and start managing these financial assets actively.

Recommendation 3.4. Improve disclosure of Public-Private Partnership contracts and operations

- Disclose total obligations and other exposures under public-private partnership contracts.

Recommendation 3.5. Improve reporting and fiscal risk management of SOEs.

- Report on all budget transactions as an annex to the annual budget (including write-offs, guarantees and on-lending);
- Publish a report on financial performance based on the Law on SOEs to cover all SOEs, irrespective of their legal form; and
- Identify and quantify the quasi-fiscal activities and report on them.

Recommendation 3.6. Strengthen transparency on subnational finances and fiscal risks.

- Publish key headline data of individual subnational governments;
- Publish aggregate analysis on key performance indicator (fiscal balance; debt levels and repayment capacity; expenditure arrears); and
- Control and closely monitor debt issuances by subnational public corporations.

Recommendation 3.7. Strengthen the analysis and disclosure of long-term sustainability, including in key expenditure areas (pensions, health fund).

- Forecast key fiscal aggregates for at least a ten-year horizon both in the Fiscal Strategy and the Revised Fiscal Strategy, and thirty-year horizon in the medium term, covering also demographically sensitive spending categories;
- Finalize and publish a long-term sustainability report for the pension fund and incorporate projections into long-term fiscal sustainability analysis; and
- Prepare long-term sustainability analysis for the health fund, incorporate findings into long-term fiscal sustainability analysis.

Table 3.6 Serbia: Summary Evaluation: Fiscal Risks

	Principle	Rating	Priority	Recs
3.1.1	Macroeconomic Risks	Good: Budget documentation includes macroeconomic and fiscal forecast sensitivity and scenario analysis. Probabilistic forecasts not done.	Medium: Nominal GDP and revenue growth volatility over the period 2015–23 has been higher than in other European countries.	
3.1.2	Specific Fiscal Risks	Good: Main specific risks disclosed with estimates of magnitude, although not sufficiently risk based. Selective assessments of likelihood not disclosed.	Medium: Key specific fiscal risks (among others guarantees, SOEs, PPPs, financial sector, subnational governments, litigations, natural disasters) only partially captured; risk mitigation not fully developed.	3.4.3.1. 3)
3.1.3	Long-term Fiscal Sustainability	Not met: Varied forecast horizon of long-term fiscal projections; no sustainability analysis of pension and health fund.	High: pension and health fund expenditures are 15.5 percent GDP, with growing long-term pressures due to changing demographics (ageing).	3.6.
3.2.1	Budgetary Contingencies	Basic: Budget includes 4 percent allocation; no transparent criteria for utilization and no in-year reporting related to the utilization	High: 4 percent rule is not clear. 2021 and 2022 utilizations are 4.2 and 7.5, respectively.	
3.2.2	Asset & Liability Management	Basic: Government borrowing is authorized by law. FS discloses the risks surrounding debt but no analysis or disclosure of the overall risks related to financial assets and liabilities	Medium: Risk analysis for financial assets is limited despite the high currency and deposits (10 percent of GDP) and equities (10 percent of GDP)	3.2.
3.2.3	Guarantees	Good: FS discloses data for both on one-off and standardized guarantees. No publication on probability of being called	Low: Debt stock includes guarantees and guaranteed debt stock decreased from 7.5 percent of GDP in 2012 to 2.2 percent in 2024.	3.1.
3.2.4	Public Private Partnerships	Not met: Total obligations and other exposures under public-private partnership (PPP) contracts not published.	Medium: existing PPPs create long-term commitments (15-20 yrs.) which are not accounted for; PPP relevance increasing as part of infrastructure scale up (among others, "Leap into the Future/EXPO 2027").	
3.2.5	Financial Sector Exposure	Advanced: Government's potential fiscal exposure to financial sector disclosed, including scenarios and stress tests.	Low: Basel III requirements followed; key macroprudential indicators stable; NBS stress tests disclosed; explicit government liabilities monitored.	
3.2.6	Natural Resources	Not met: Collected and projected fiscal revenues from natural resources not published; no long-term forecasts.	Low: natural resource revenues small (0.2 percent GDP in 2022), with no significant increase expected in the medium-term.	
3.2.7	Environmental Risks	Basic: Fiscal risk materialization from natural disasters disclosed; probabilistic and shock scenarios not published.	Medium: natural disaster shock scenario of flooding may increase (2024 data): (i) fiscal deficit by 0.1% to 2.1% GDP; (ii) public debt by 0.1% to 7.7% of GDP.	

3.3.1	Sub-national Governments	Not met: Monthly subnational revenue and expenditure data published without disaggregation for individual entities and performance indicators.	Medium: subnational self-government units spend 6.5 percent GDP being involved in infrastructure scale up; medium-sized and large cities face investment needs with subnational borrowing.	3.5.
3.3.2	Public Corporations	Not met: Only some financial transactions between the Republican budget and SOEs are disclosed in the annual reports.	Medium: Major financial and non-financial public corporations' financial liabilities (excluding equity liabilities) amount to 18.9 percent of GDP	3.3.