INTERNATIONAL MONETARY FUND

REPUBLIC OF SERBIA

FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT

August 7, 2020

KEY ISSUES

Recent economic developments. Notwithstanding a sizeable policy response, the COVID-19 pandemic is having a significant adverse impact on Serbia's economic activity, with output in 2020 projected to contract by 3 percent, compared to a 4 percent increase expected prior to the COVID-19 shock. The shock is affecting the economy through lower external demand, weaker foreign direct investment and remittances, disruptions in regional and global supply chains, and domestic supply constraints. The government took strong actions to contain the pandemic at an early stage, but the number of infections accelerated again towards end-June. As a result, some containment measures have been re-introduced.

Program performance. The immediate policy priorities have shifted to supporting the economy through the crisis. The associated spending needs have caused deviations from the earlier budget targets under the program and the crisis has also affected progress on structural reforms. The reform agenda for the remainder of the program has been streamlined and refocused on crisis priorities. Staff recommends completion of the fourth review under the Policy Coordination Instrument and the modification of quantitative and reform targets.

Policy Recommendations

- **Crisis measures.** The large fiscal package to limit the impact of the crisis was broadly appropriate. The mission stressed the importance of containing fiscal risks and preparing contingency measures. Possible further measures will need to be targeted on specific remaining or new economic or social needs. In the absence of inflationary pressures, the accommodative monetary stance remains appropriate, along with additional liquidity support for banks and financial markets as needed.
- **The 2021 budget.** With growth projected to recover to 6 percent in 2021, budget planning should balance support to the economic recovery with a return to credible debt reduction. In the absence of large economic surprises, the fiscal deficit in 2021 should be contained to about 2 percent of GDP. Increases in public sector wages and pensions should be limited in 2021, while making room for higher public investment.
- **Structural reforms.** The near-term agenda should focus on monitoring fiscal risks and strengthening SOEs.

Risks. Risks to the outlook are substantial given the heightened uncertainty about the duration and magnitude of the COVID-19 shock and its economic impact.

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Discussions were held remotely during June 24-July 3, 2020. The staff team comprised Jan Kees Martijn (head), Pietro Dallari, Marina Marinkov (all EUR), Adrian Alter (MCM), Sandra Lizarazo Ruiz (FAD), Zsuzsa Munkacsi (SPR), Sebastian Sosa (resident representative), Desanka Obradović and Marko Paunović (local economists). Vuk Djoković (OED) attended some discussions. HQ support was provided by Piotr Kopyrski and Aniko Madaraszova (both EUR).

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APPENDIX

BACKGROUND AND RECENT DEVELOPMENTS

1. **The objectives of Serbia's Policy Coordination Instrument (PCI) need to be adjusted to reflect the COVID-19 shock**. The program is set to conclude in January 2021. Policies should continue focusing on supporting the economy through the crisis, while preserving macroeconomic and financial stability, managing risks, and protecting vulnerable groups.

2. **Economic performance in 2019 was strong.** Real GDP growth recorded 4.2 percent, driven by booming construction activity[1]. Labor market conditions continued to improve and inflation remained low. The general government registered a fiscal deficit of 0.2 percent of GDP (0.3 pp lower than expected under the program) and public debt declined to 52.8 percent of GDP. Record-high FDI inflows fueled imports, widening the current account deficit (still more than fully financed by FDI), while foreign reserves increased further.

3. **In response to the COVID-19 pandemic, the authorities adopted relatively stringent containment measures at an early stage, and deployed a large policy package.** The first round of measures, presented at end-March, aimed to provide lifelines to households, preserve jobs, boost healthcare spending, and provide sufficient liquidity in the system and relief to borrowers. The estimated fiscal cost in 2020 is 7.2 percent of GDP (Box 1). Furthermore, up to EUR 2 billion in loans granted through commercial banks to SMEs can be backed by a partial state guarantee capped at EUR 480 million (1 percent of GDP). The National Bank of Serbia (NBS) contributed to the response, including by cutting the key policy rate and injecting liquidity in the banking system, while introducing a three-month moratorium on bank loan repayments and further measures to preserve monetary and financial stability.

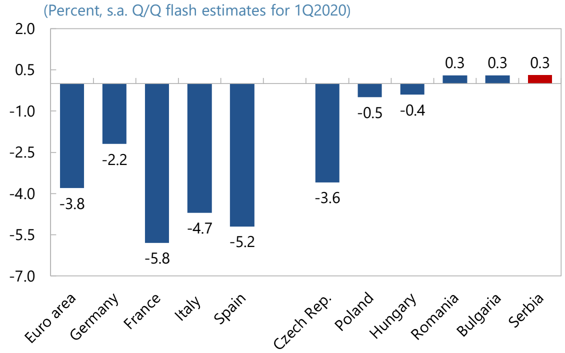
4. **A second round of policy measures was adopted in July.** After the lockdown was eased in May, the epidemic remained contained through end-June, but the number of infections picked up again in July and the authorities have re-introduced some containment measures. To help limit further the negative economic impact from the pandemic, additional temporary fiscal measures were introduced in July, with an estimated fiscal cost of 1.2 percent of GDP (Box 1). The NBS also adopted a new moratorium on bank loan repayments for August and September.

5. **After a relatively strong first quarter of 2020, economic activity contracted in the second quarter.** GDP growth registered 5 percent yoy in 1Q2020. April data for industrial production and retail sales showed double-digit contractions yoy, but both recovered in May and June (Figure 1). Other high-frequency indicators of economic activity through July show relative resilience as well (Box 2), also borne out by the 2Q2020 flash GDP estimate which, at -6.5 percent yoy, came in stronger than expected. After falling in April,

[1] Including the TurkStream gas pipeline construction project that added around 0.7 percentage points to 2019 growth.

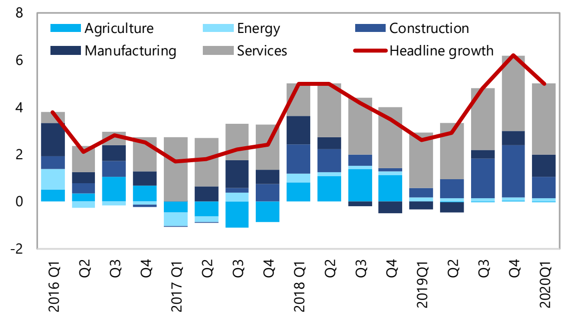
headline yoy inflation increased to 1.6 percent in June. NPLs continued to decline, registering a record-low 3.9 percent by end-May. Through May, goods and services exports fell by 8.6 percent yoy on the back of lower demand from the EU (Serbia's main trading partner), while goods and services imports dropped by 6.7 percent yoy due to lower domestic demand and oil prices.

Real GDP Growth for Selected European Economies
(Percent, s.a. Q/Q flash estimates for 1Q2020)



Sources: National Statistical Offices; and National Bank of Serbia.

Contributions to growth
(Percent, yoy)



Source: SORS, IMF staff calculations and projections.

6. **The COVID-19 pandemic has also impacted budget implementation.** The general government recorded a deficit of 4.3 percent of GDP during January-May. In this period, expenditures increased by 20.7 percent yoy on the back of the government's response to the pandemic, while revenues declined by 6.7 percent driven by a 20 percent fall in April and May. Preliminary data for June point to a rebound in collection, in particular for VAT and excises (about 12 percent higher than their 2019 level). A EUR 2 billion 7-year Eurobond was successfully issued in May, at a yield of 3.375 percent. As a result, the government's end-June liquidity buffers were broadly stable compared to end-2019, close to 4 percent of GDP.

Serbia: General Government Fiscal Operations, RSD billion

	January - December 2019			January - March 2020			January - May 2020		
	Prog. /1	Act.	Diff.	Prog. /2	Act.	Diff.	Proj.	Act.	Diff.
Total revenue	**2,208.0**	**2,280.3**	**72.3**	**531.9**	**538.3**	**6.4**	**918.4**	**826.7**	**-91.7**
Tax revenue	1,948.7	1,993.7	45.0	482.3	481.8	-0.5	827.9	743.2	-84.7
of which: VAT	548.0	550.6	2.5	142.6	134.1	-8.5	243.1	212.2	-30.8
of which: Social security contributions	656.6	675.9	19.2	166.1	167.6	1.5	286.7	256.2	-30.5
of which: Excises	293.3	306.5	13.3	72.4	76.5	4.1	113.8	114.2	0.4
Non-tax revenue	243.9	258.8	14.9	46.9	52.0	5.2	85.8	75.8	-10.0
Capital revenue	0.0	13.0	13.0	0.0	1.6	1.6	0.0	3.1	3.1
Grants	15.4	14.9	-0.5	2.7	2.9	0.2	4.7	4.5	-0.1
Total expenditure	**2,234.2**	**2,291.4**	**57.2**	**546.9**	**591.3**	**44.4**	**938.6**	**1,062.3**	**123.7**
Current expenditure	1,986.4	2,002.6	16.2	505.1	532.0	26.8	853.0	951.0	97.9
Capital expenditure	228.0	266.3	38.3	36.4	55.6	19.2	76.2	96.0	19.8
Net lending	6.9	11.8	4.9	2.6	2.0	-0.6	6.0	12.6	6.6
Amortization of activated guarantees	13.0	10.8	-2.2	2.7	1.6	-1.0	3.4	2.8	-0.6
Fiscal balance	**-26.2**	**-11.1**	**15.1**	**-15.0**	**-52.9**	**-37.9**	**-20.2**	**-235.6**	**-215.4**
Memo:									
Wage bill	506.5	516.3	9.8	129.3	139.9	10.6	222.0	231.6	9.7
Primary current expenditure of the Republican budget	988.9	970.8	-18.1	241.5	266.3	24.8	390.8	584.1	193.3
General government debt (percent of GDP)	52.9	52.8	-0.1	49.7	53.4	3.7	---	57.2	---

Sources: Ministry of Finance, IMF staff calculations.
1/ Programmed as of the 2nd review.
2/ Programmed as of the 3rd review.

7. **The senior party in the ruling coalition won the elections held on June 21.** The SNS party retained its parliamentary majority, and a new government could be formed in August. No major policy changes affecting the program are expected.

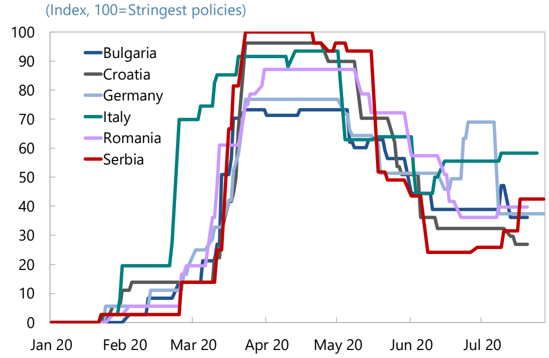
Box 1. Serbia: COVID-19 Evolution and Policy Response Measures

The state of emergency became effective March 15, and was lifted starting May 6. Serbia implemented some of the most stringent measures in Europe. By June most of these were relaxed, but some were reintroduced in July due to another upsurge in new cases,

The COVID-19 outbreak was contained through most of June. However, the number of confirmed cases has picked up again and as of July 29, stood at 24,892 with 558 fatalities.

Oxford Government Policy Response Index

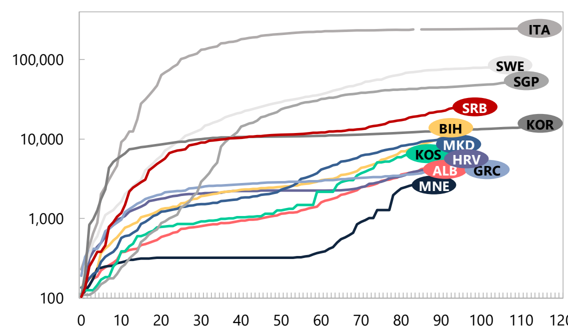
(Index, 100=Stringest policies)



Source: Blavatnik School of Government, University of Oxford.

Evolution of COVID-19 Cases, Daily

(People, cumulatively; t=0 is the first day with over 100 cases)



Source: Johns Hopkins University, COVID-19 Statistics.

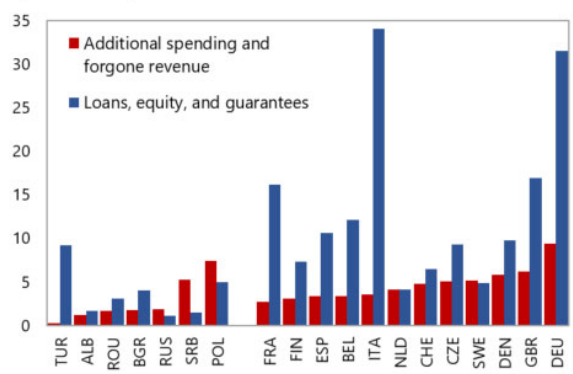
To mitigate the near-term impact of COVID-19, the government introduced a sizable initial package of fiscal measures on March 15. Additional measures were introduced in July.

Measures	Percent of GDP
Initial fiscal package	**7.2**
Wage increase for public healthcare sector	0.2
Higher healthcare spending	1.1
One off payment to pensioners	0.1
Universal cash transfer	1.3
Deferement of labor taxes and SSC	1.8
Deferement of CIT	0.4
Payment of minimum wages	1.8
New loans to SMEs	0.4
Additional fiscal measures	**1.2**
Minimum wage subsidy for SMEs	0.7
Deferment of labor taxes and SSC	0.6
Other measures, incl. state guarantee scheme for bank loans to SMEs	**1.0**

The estimated total size of the above-the-line fiscal measures is one of the largest in Emerging Europe.

Fiscal Measures in Response to the COVID-19 Pandemic

(Percent of GDP)



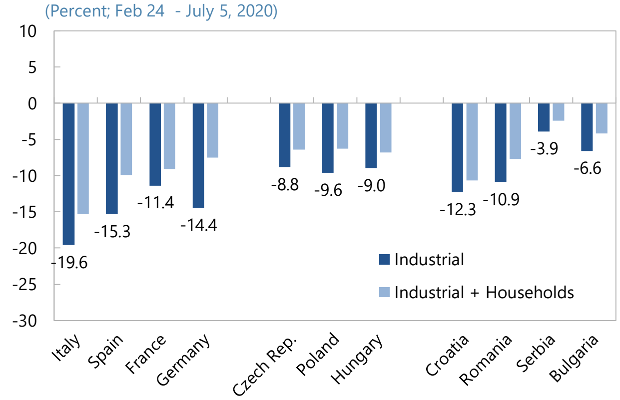
Sources: Fiscal Monitor Database; national authorities; and IMF staff estimates.
Note: Data are as of June 12, 2020. Data for Serbia includes the second round of fiscal measures. Revenue and spending measures exclude deferred taxes and advance payments. For details, see the Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic.

Box 2. High-Frequency Indicators of Economic Activity

Electricity consumption in Serbia has shown relative resilience during the crisis. Compared to the same period in 2019, industrial electricity consumption declined between February and July, although less than in most other countries in Central Europe, and significantly less than in Western Europe. This suggests a milder impact of the lockdown on industrial production.

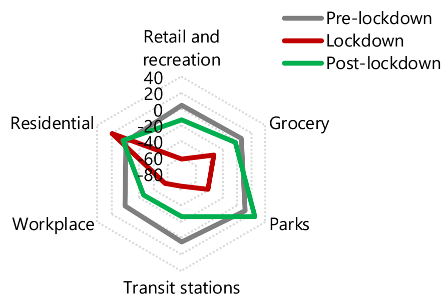
Mobility and travel indicators point toward a partial recovery in Serbia. Average visits to grocery stores and, to a lesser extent, workplaces have moved closer to pre-lockdown levels since early May. The number of flights remains limited despite some recovery since mid-May compared with peers.

Electricity Consumption: Deviations from 2019 trends
(Percent; Feb 24 - July 5, 2020)



Sources: ENTSO-E; and IMF staff calculations.

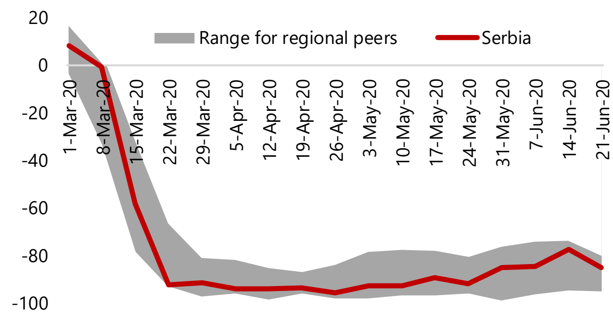
Serbia: Average Mobility
(Percent, rel. to baseline day before pandemic)



Source: Google, IMF staff calculations.

Note: Pre-lockdown period covers 2/15/2020-3/14/2020; lockdown 3/15/2020-5/6/2020 and post lockdown 5/7/2020-7/10/2020.

Number of Flights
(Change relative to the same week in 2019, percent)



Source: Flightradar24, IMF staff calculations.

Note: Regional peers are Albania, BiH, Bulgaria, Croatia, Hungary, Montenegro, N. Macedonia, Poland and Romania.

PROGRAM PERFORMANCE

8. **The authorities reiterated their commitment to the program objectives and reform targets (PS Tables 1-2).** Taking into account the crisis-related priorities and constraints, the program remains ambitious and appropriate.

- **Given the imperative of responding to the COVID-19 crisis, the policy focus and financial resources were rightly shifted to supporting the economy**. The Ministry of Finance consulted with Fund staff as the fiscal measures and crisis-related reforms such as the state-guarantee scheme were designed and put in place.

- **Most end-March quantitative targets (QTs) and all continuous targets (CTs) were observed.** The end-March fiscal deficit ceiling for the general government was met, but the ceiling on current primary expenditure of the Republican budget was exceeded with the implementation of the fiscal package. Domestic arrears by the consolidated general government decreased during 1Q2020, thus staying below the ceiling.[2] Inflation remained within the band of the inflation consultation clause (PS Table 1b).

- **While many reforms presented in the program statement have continued, the implementation of the reform targets has been delayed due to the pandemic.** The reform targets have been streamlined and refocused on crisis priorities. The reform target (RT) on the public sector wage system (**end-July 2020 RT**) was not met due to delays in the elections and negotiations with unions. With delays in technical assistance, the other two **end-July RTs** have also been missed and are proposed to be reset in line with the new technical assistance (TA) timelines: (i) the methodology to monitor fiscal risks is proposed to be **revised and reset to end-November 2020**, and (ii) the SOE ownership policy document is proposed to be **reset to end-October 2020** (see the ¶¶16 and 25). The **end-September 2020 RT** on public employment framework is proposed to be dropped as it is no longer deemed critical in the near term.

OUTLOOK AND RISKS

9. In line with the WEO assumptions, the baseline assumes a continued gradual recovery of external and domestic economic activity in 2H2020 and 2021 (Tables 1-8).

- **Real GDP** is expected to contract by 3 percent in 2020 and recover by 6 percent in 2021. The smaller projected contraction compared with other countries in the region reflects the carryover of strong growth in 2019 and 1Q2020, the structure of the economy (with modest reliance of tourism), and the relatively large crisis response. This nonetheless implies a real GDP in 2021 that is 5 percentage points below pre-COVID-19 projections. The authorities expected a somewhat smaller contraction in 2020, of about 1½ percent.

- **Inflation** for 2020 has been revised down to 1.5 percent, owing to lower oil prices and weak domestic demand. Inflation is projected to gradually increase, converging to the midpoint of the target band over the medium term, as the output gap closes and imported inflation rises.

- **The current account deficit** should remain broadly stable this year compared to 2019, on the back of weaker exports and imports. FDI inflows are expected to weaken along with remittances, both contributing to lower imports. The exchange rate has been kept stable in the face of moderate depreciation pressures (Figure 3). Serbia's external

[2] All December 2019 indicative targets (ITs) were met, with the exception of the end-December ceiling on accumulation of domestic government arrears which was missed due to arrears of Roads of Serbia.

position at end-2019 appears broadly consistent with fundamentals and desirable policy settings (Annex IV). Reserves are projected to edge down to EUR 13.2 billion euro by the end of 2020 (5.6 months of prospective imports), and increase again from 2021.

10. Risks to the outlook are substantial given the heightened uncertainty about the duration and magnitude of the COVID-19 shock. The number of new infections accelerated again since end-June. A further worsening of the outbreak could lead to a more severe contraction in 2020 and a weaker recovery in 2021, increasing fiscal and external financing needs. An extended global crisis would further negatively affect Serbia through weaker external demand, continued disruption of supply chains and tighter financing conditions. An adverse scenario illustrating this is presented in Annex I. The outlook for public debt, which already deteriorates in the baseline as a result of the crisis, would worsen further in an adverse scenario as a result of fiscal spending needs, materialization of contingent liabilities, and revenue losses due to lower growth for longer (Annex II). The higher debt and pressures on reserves would constrain policy space and responses in such a scenario. The authorities perceived risks as broadly balanced—with downward risks from the external environment and upside risks domestically. They argued that the staff's adverse scenario was highly unlikely (particularly for 2020), and pointed to Serbia's strongly established access to global financial markets.

PROGRAM POLICY DISCUSSIONS

A. Fiscal Policy

11. The mission supported the fiscal measures introduced in response to the COVID-19 pandemic, and underscored the importance of strong procurement and reporting practices. Having built fiscal buffers in the past, the authorities have chosen to put in place a very sizable fiscal response. We expect this stimulus to support growth and cushion the shock. However, this strategy will result in more limited fiscal space available to respond to a possible second wave. The fiscal package includes healthcare spending, tax deferrals, wage subsidies, and a universal cash transfer (Box 1). While the impact of the initial fiscal package was concentrated in May-July, the additional fiscal measures will apply through September. The mission welcomed that the first round of measures was channeled through a supplementary budget and assessed by the fiscal council. It also appreciated that the measures were relatively simple and that all will be subject to the regular independent ex-post audits of funds spent through the budget by the State Audit Institution, and that beneficiaries of loans granted through the Development Fund—the only fiscal measure involving administrative discretion—are made publicly available. The mission advised ex-post monitoring of the funds disbursed and strict oversight by the tax administration to prevent possible fraud under the wage subsidy scheme or tax deferrals. Importantly, new public procurement legislation became effective on July 1, prepared with EU advice to help ensure alignment with the EU acquis. The law enhances competition and transparency, and foresees publication of winning bids including the beneficiary. A separate law adopted in early 2020 for large infrastructure projects of strategic importance, however, could allow for more streamlined procedures for these projects. It is still too early to assess the new regime.

12. The fiscal deficit and public debt are expected to increase in 2020 as a result of the crisis and the related fiscal measures. Staff expects the deficit to widen to 8.6 percent of GDP (from 0.5 percent of GDP in the initial budget), and debt to temporarily increase in 2020, broadly to the authorities' threshold of 60 percent of GDP. Gross financing needs are estimated at about 14 percent of GDP, of which more than three quarters has already been secured. Staff do not foresee financing gaps in 2020 or 2021, but emphasized that additional financing needs could rise suddenly should downside risks materialize. The authorities considered they were well-prepared to manage their financing challenges, and noted that they maintained a relatively large liquidity buffer, kept domestic financial markets open (including through policy coordination with the NBS and continued dialogue with commercial banks), were flexible in switching between domestic and foreign financing modalities, and had identified options for additional financing if needed. The authorities explained that thus far there had been no need to seek Fund financing.

13. Staff expects the fiscal stimulus to be largely unwound as growth recovers, but the unwinding will need to be more gradual if risks to growth materialize, and contingency planning is important in this uncertain environment. Staff noted that, following the additional fiscal package, the remaining fiscal space is limited given the rise in public debt to the authorities' threshold level as well as the agreed ceilings to public spending on wages and pensions. Staff advised that, should the outbreak be more protracted or the impact stronger than expected, additional support measures will have to be targeted to the firms most in need and/or most critical (see the adverse scenario in Annex I). Staff underscored the importance of supporting the most vulnerable households, including the informally unemployed, and suggested expanding the coverage of targeted social assistance programs.

14. The authorities agreed that close monitoring of revenue and expenditure risks will be critical going forward. At this stage only Air Serbia had been identified as in need of government support. The mission underscored that state support for troubled SOEs, including Air Serbia, should be offered in a transparent way. It suggested using Fund technical assistance to help monitor possible losses on bank loans backed by state guarantees, and advised close monitoring of the budget execution of local governments.[3] The mission stressed the need to preserve timely payments to suppliers, and monitor and resolve any possible budgetary arrears, including arrears to EPS and Srbijagas.

15. The fiscal deficit is projected to narrow to about 2 percent of GDP in 2021. This level would be appropriate in the baseline scenario, in which all one-off crisis measures

[3] A Fund TA mission on calculating and managing the risks associated with the SMEs credit guarantee scheme is planned for 3Q2020.

should be unwound. It would imply a broadly neutral fiscal stance once the cyclical downturn and crisis-related one-offs are taken into account. In addition, this deficit would ensure that the public debt-to-GDP ratio resumes a firm declining path (Annex II). The mission argued that revenue projections should be conservative, and significant contingencies should be included. Public wage increases should be strictly limited, given the sizeable increases granted in 2019 and 2020. The budget should create space for increased healthcare spending and—to support the economic recovery—growth-friendly capital expenditures, including on green infrastructure and environmental protection. The mission advised that pension increases continue to be guided by the Swiss formula, with no one-off payments or ad-hoc increases. The authorities reiterated their commitment to fiscal discipline, agreed with the proposed fiscal deficit ceiling for 2021, noting that future economic data would be critical to better inform budget discussions, and confirmed that spending should be prioritized towards capital investments, with limited wage and pension increases.

16. Fiscal-structural reforms are progressing, but not without challenges.

- **Public wage system reform.** The authorities had continued preparatory work for the introduction of the new public wage system and remained committed to adopt the decree specifying the corresponding wage coefficients (**end-July 2020 RT**). However, the mission observed that implementation of the new system in 2021 would be complicated by the limited remaining fiscal space and high fiscal risks. The authorities confirmed their intention to explore options to phase-in the new system in 2021 in a broadly fiscally neutral way.

- **Public employment framework.** The **end-September 2020 RT** to adopt a government decision on a revised public employment framework is delayed due to COVID-19 and related setbacks in TA delivery. Against this background and given the need to prioritize firm control of public employment and the wage bill through the crisis, staff is proposing that this RT be dropped.

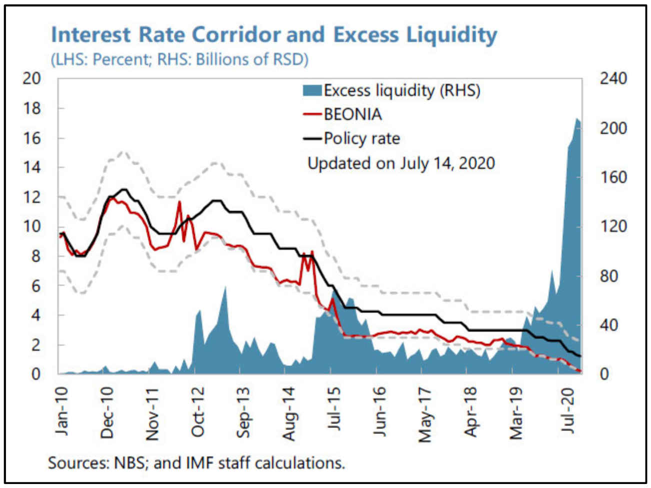
- **Fiscal risk management.** The authorities and staff agreed that after the **end-July 2020 RT** was not met, it should be **revised** to focus on crisis-related risks **and reset to end-November 2020** in line with new timelines for TA delivery. The scope of the RT has been re-focused on methodologies to properly monitor fiscal risks arising from SOEs, natural disasters and state-guarantee schemes implemented in response to COVID-19.

- **Fiscal rules.** Adoption of a new fiscal-rules framework was delayed by the pandemic. The authorities remain committed to advancing its preparation in collaboration with Fund staff (including the debt thresholds, escape clauses, correction mechanisms, and a strong accountability framework), with a view to implement it for the 2022 budget (considering that 2021 will still be a crisis year).

- **Tax administration.** The authorities reiterated their commitment to continue advancing Serbia's Tax Administration's (STA) modernization process. They noted progress in areas of active TA engagement, including data analytics, audits, unexplained wealth, and procurement of the new IT system. However, the STA is facing pressures from an aging work force. The mission underscored the importance of overcoming existing obstacles delaying the hiring process. It emphasized that monitoring and protecting the main revenue streams remain essential throughout the crisis, complemented by a strong service-oriented approach.

B. Monetary and Financial Sector Policies

17. Monetary policy has been accommodative, and the banking system has remained liquid through the crisis. The NBS explained the key principles behind its emergency policies, including that temporary shocks call for temporary measures (rather than, for example, a lowering of reserve requirements) and that there should be proportionality between the severity of the shocks and the policy response.



Sources: NBS; and IMF staff calculations.

- The authorities signaled their public commitment to a stable exchange rate relative to the Euro at the beginning of the COVID-19 outbreak. They considered that this policy had been critical to maintaining confidence in the dinar through the crisis episode, as evidenced by the return of nonresident investors to the domestic government bond market.

- In this context, and with declining interest rates across many emerging economies, the policy rate has been reduced by 100 bp since March and the interest rate corridor narrowed from ±1.25pp to ±1pp.

- In addition, the NBS has provided banks with liquidity (both in dinars and euros) via additional EUR/RSD swap auctions, a reduction of the stock of sold repo securities, as well as through repo purchase auctions (fine tuning and longer maturities), and outright purchases of government securities through bilateral transactions with banks.[4] The NBS argued that the latter interventions, in particular, had been key to restoring secondary market liquidity, increasing the demand for longer-term government securities by local banks and foreign investors. After a temporary tightening in mid-March, excess dinar

[4] In addition, local-currency denominated corporate bonds have been made eligible for open market operations and as collateral for banks to receive daily liquidity loans and short-term liquidity from the NBS.

liquidity returned to elevated levels with BEONIA at the lower bound of the interest rate corridor.

- The NBS also underscored that they had sufficient policy space to respond to further pressures if needed, including through the prolongued and stepped-up use of the measures implemented so far. In July, the ECB and NBS set up a repo line arrangement to address potential euro liquidity needs in light of the COVID-19 shock.
- Staff agreed with a continued accommodative monetary stance to support the economy, as well as additional liquidity support for banks and financial markets as needed.

18. Pressures on the exchange rate have been contained. While interventions to support the currency amounted to EUR 960 million from March through June, reserves rose to EUR 14.3 billion at end-June, boosted by the Eurobond issuance (Annex IV). Staff pointed out that in a conjectural scenario with mounting external pressures, policy choices would likely become more difficult and the authorities would need to consider a broad range of options to preserve macroeconomic and financial stability, including a possible tightening of the policy stance.

19. While the uptake of emergency measures has been strong and financial stabiliy has been maintained, staff foresees an increase in NPLs. The authorities confirmed that most companies and individuals have opted to make use of the initial bank loan repayment moratorium through early July, and argued that it had been critical to maintain credit, avoid liquidity pressures for the corporates and households, and limit credit risk. The state guarantee scheme for bank loans to SMEs had been designed in collaboration with banks, and utilization of this scheme has been strong. Staff considered that the partial guarantee scheme was broadly aligned with good practices, balancing effective support to firms and mitigating credit risk faced by banks while ensuring risk sharing, capping the potential costs for the state, and limiting the administrative burden. Boosted by these policies, credit growth reached 12.5 percent yoy at end-May. Staff expects that NPLs will gradually increase in the second half of 2020 after the loan repayment moratorium and the fiscal measures to support firms and employment have expired (see Box 3), whereas the authorities foresaw that the measures that were implemented would likely prevent an increase in NPLs in the near term.

20. To help support credit growth, the authorities have rightly adjusted the macroprudential stance. They have delayed the implementation of announced macroprudential measures aimed at limiting corporate FX borrowing and reduced the regulatory minimum down-payment for first-time home buyers from 20 to 10 percent. The authorities noted that the results of their macroprudential stress tests confirmed that the domestic banking sector will remain adequately capitalized, highly liquid and with low levels of systemic risk even in the face of the COVID-19 shock. Deposit dinarization continued to rise gradually through mid-2020 along with dinarization of credit to households, but the dinarization of credit to corporates has not.

21. The implementation of the reform agenda for state-owned financial institutions is progressing gradually:

- **Komercijalna Banka.** Staff welcomed the authorities' expectation that the sale of the largest state-owned bank will be finalized by end-2020.

- **Banka Poštanska Štedionica (BPS).** The government conclusion on BPS was recently amended to allow lending through the state guarantee scheme introduced in response to the COVID-19 crisis and to eliminate or relax limits on lending to private enterprises, municipalities and local governments, and SOEs. The authorities noted that the bank had performed well and that the Ministry of Finance would monitor its operations carefully. Staff was concerned that the rapid relaxation could enable a resurgence of NPLs and fiscal risks.

22. The crisis has also affected the operations of the Deposit Insurance Agency (DIA). While the DIA remained committed to resolving its second portfolio of bad assets, the deadline for binding bids had been moved to mid-July. Nonetheless, these assets are still expected to be resolved within 2020. Changes in the DIA's investment policy in the context of the crisis had allowed an increase in the share of government bonds in its portfolio from 25 to about 46 percent (about 1 percent of total government bonds outstanding). The authorities did not foresee problems in unwinding the portfolio. The mission advised reversing the increase as soon as feasible within the one-year legal deadline.

23. The preparation of a reform strategy and action plan for capital market development has been delayed to the end of 2020. Staff reiterated its support for this project, and for the project to strengthen the provision of development finance. Regarding the latter, the mission encouraged addressing the various market distortions that limit firms' access to finance but cautioned about the serious pitfalls of the possible creation of a development bank.

Box 3. Serbia: Corporate Sector Analysis

A simulation-based stress test of corporate balance sheets shows that debt-at-risk (DaR) could increase from 23 percent in 2019 to 33 percent by end-2020, cushioned by the monetary and fiscal policies undertaken by the Serbian authorities. Banks should be able to withstand the expected temporary rise in corporate NPLs given the solid bank balance sheets at the onset of the COVID-19 pandemic.

The analysis of firms' financial resilience uses corporate balance sheet information combined with earnings expectations at the sector level.[1] Debt is considered at risk if a company's net earnings (EBIT) do not cover its interest costs fully and its current liabilities exceed current assets.

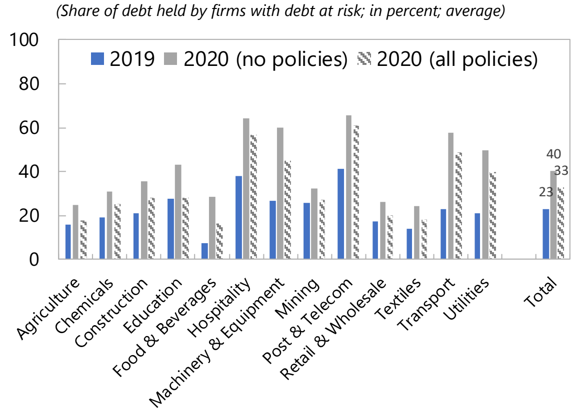
The share of risky debt declined in recent years. It reached 23 percent of total debt at end-2019, reflecting lower interest rates and improved profitability. However, there is substantial heterogeneity across sectors, with hospitality, telecommunications, and other services bucking this trend.

DaR is expected to climb to about 33 percent in 2020. Hospitality, machinery and equipment, and transportation are the hardest hit. Without mitigating policies, DaR would have surged to over 40 percent. Sectors that are more capital intensive such as utilities, hospitality, and construction are expected to greatly benefit from monetary and financial sector policies (e.g., interest rate cuts and moratorium. In contrast, firms in labor-intensive sectors such as education, food and beverages are expected to benefit more from fiscal policies (e.g. wage subsidies).

The highly-affected companies employ about 110,000 workers, whose jobs could thus be at risk. About 150,000 employees of the "troubled" firms (with low interest expense coverage and lack of liquid assets) would have been at risk of losing their jobs in the absence of mitigating policies, primarily in vulnerable sectors such as machinery & equipment, retail, and transportation.

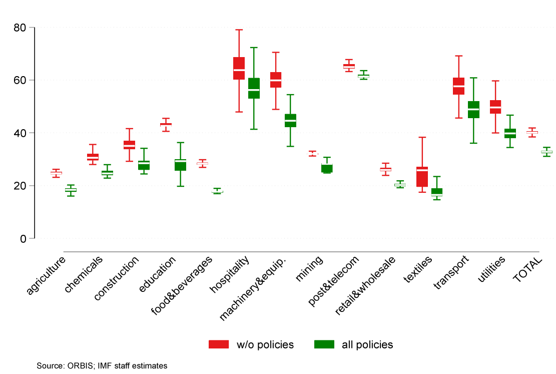
The role of policies

(Share of debt held by firms with debt at risk; in percent; average)



Simulations: Debt-at-Risk (2020)

(Share of debt held by firms with debt at risk; in percent)

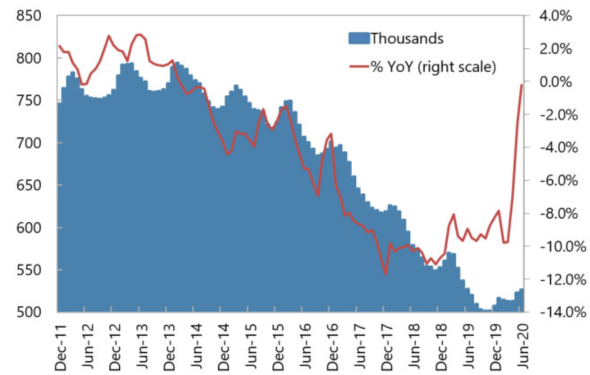


[1] The corporate sector analysis relies on ORBIS data with almost 22,000 firms, including primarily SMEs (93 percent). These firms cover more than 53 percent of total employment (as reported by SORS, the Statistical Office). The sectoral shocks were calibrated based on analysts' end-2020 earnings expectations for listed firms in several peer countries. For more details see Annex V.

C. Structural Policies

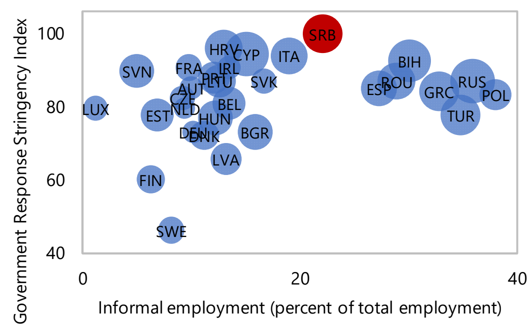
24. The pandemic's impact on the labor market will likely manifest with a lag. Staff expects unemployment to rise later in the year once temporary government wage subsidies expire and noted that registered unemployment does not cover informal employment, which might be disproportionately affected. The authorities argued that they had implemented measures precisely aimed to prevent permanent negative effects on the labor market, and that they would reevaluate the situation once the statistics are available for 2Q2020. They noted that further measures may be needed to support vulnerable sectors such as hospitality and transport. They viewed the recent spike in return migrants from the EU as an opportunity to meet labor shortages in certain industries.

Registered unemployed



Sources: National employment service, IMF staff calculations.

Informal Workers and COVID-19 Containment Measures



Sources: *Women and Men in the Informal Economy: A Statistical Picture* (ILO 2018); University of Oxford; *Shadow Economies Around the World* (IMF 2018); and IMF Staff calculations.

Note: The size of the bubble is the size of the shadow economy as percent of GDP (see IMF 2018).

25. Given the heightened risks, staff urged the authorities to press ahead with SOE reforms within the limited remaining time under the PCI. The authorities noted that despite delays, they remained commited to this agenda.

- **Petrohemija.** The authorities explained that negotiations for a strategic partnership were ongoing and launching a tender in 2020 was possible. Staff reiterated the risks surrounding the firm's long-term viability and encouraged a tender as soon as possible (**end-February 2019 RT**).

- **Elektroprivreda Srbije (EPS).** The authorities considered the adverse impact of the COVID-19 shock on EPS liquidity position as temporary, noting relatively strong collection despite allowing for delayed electricity bill payment during the state of emergency. They also confirmed that launching the tender for the valuation of EPS' property and assets (**end-December 2019 RT**), which is the next step for making EPS a joint stock company, was still achievable by end-2020. Staff encouraged the authorities to complete the planned assessment of electricity tariffs as soon as possible during 2020 to ensure full cost recovery, incorporating the cost of increased reliance on renewable energy sources and investment needs to safeguard adequate generation capacity. The assessment should also take into account the possible impact on vulnerable households. The authorities were planning to complete the assessment by July, allowing for a possible tariff adjustment by end-September 2020.

- **Others.** The authorities noted that they continued to explore options for potential strategic investments for the chemical company MSK, and that the privatization tender for the bus company Lasta has been postponed.
- **Strategy for SOEs.** The authorities reiterated their commitment to the preparation of the SOE ownership policy document (covering ownership objectives, financial and public policy targets, reporting guidelines, and guidelines for boards of directors) and a time-bound action plan to implement it. However, the **end-July 2020 RT** was not met and this target should be **reset to end-October 2020** in line with the revised timeline for EBRD technical assistance. Staff underscored the growing fiscal risks from SOEs, and the importance of improving corporate governance and reducing opportunities for corruption.

26. As the economy recovers from the crisis, it will be important to adopt a strategy to boost and improve the quality of medium-term growth. The authorities noted that they continued implementing economic policies that stimulate innovation and research and development. They also suggested that policy priorities for the next government could include full digitization of social assistance and the healthcare sector, continued improvements in the efficiency of SOEs (including EPS), and transition towards a green economy.

PROGRAM MODALITIES

27. The program will continue to be monitored on a semi-annual basis, with the final review scheduled for December 2020. Serbia is not seeking financial assistance from the Fund and the program is fully financed. Given the high uncertainty, staff stands ready to consult with the authorities on possible policy modifications. Policy implementation will be evaluated through review-based monitoring, taking into account evolving circumstances and policy needs. Reviews are set out in Table 11. QTs for the key set of macroeconomic variables monitored under the PCI are set out in PS Table 1a. RTs are reflected in PS Table 2.

28. Program conditionality is to be updated to adapt to the rapidly changing circumstances surrounding COVID-19 (PS Tables 1-2):

- An additional adjustor is set (equivalent to a maximum of EUR 170 million, or 0.4 percent of GDP) for the general government deficit and the current primary spending at the Republic level on one-off expenditures associated with the state-owned enterprise recapitalization (TMU, ¶3).

- QTs for the remainder of 2020 have been set in line with the revised 2020 budget.

- The end-July 2020 RT on the methodology to monitor fiscal risks (¶¶8, 16) is proposed to be revised and reset to end-November 2020.

- The end-July 2020 RT on SOE ownership policy document is proposed to be reset to end-October 2020 (¶¶8, 25).

- The end-September 2020 RT on public employment framework (¶¶8, 16) is proposed to be dropped.

29. Serbia has small sovereign arrears outstanding. The authorities have been in contact with their Libyan counterparts to resolve Serbia's arrears to Libya, which arose in 1981 due to unsettled government obligations related to a loan for importing crude oil. Staff urged the authorities to persist with efforts to resolve these arrears as soon as possible.

STAFF APPRAISAL

30. The COVID-19 pandemic is having a significant adverse impact on Serbia's economic activity. Recent strong economic performance has been interrupted. The shock is affecting the economy through lower external demand, weaker foreign direct investment and remittances, disruptions in regional and global supply chains, and domestic supply constraints.

31. The authorities responded promptly and strongly. The implemented policy measures were generally well-designed, and appropriately aimed to provide lifelines to households, preserve jobs, boost healthcare spending, and provide sufficient liquidity in the system and relief to borrowers.

32. Given the highly uncertain economic outlook, the authorities should focus on containing fiscal risks and preparing contingency measures. Fiscal risks stemming from troubled SOEs, local governments and state-guaranteed loans merit close monitoring. Infection rates have once again accelerated since end-June, increasing the possibility of a more protracted economic impact. At the same time, firms, and households have smaller buffers than prior to the crisis. Given that another general and long lockdown is unlikely and with less fiscal space to implement another sizeable policy package, the authorities should target possible further measures to companies and individuals most in need.

33. Transparency and accountability of COVID-related spending are critical. This is needed to maintain public support, build institutional legitimacy and ensure the effectiveness of the package. In this regard, the authorities' commitment to relatively simple and transparent measures and to ex-post audits has been welcome.

34. Absent large economic surprises, the fiscal deficit in 2021 should be contained to about 2 percent of GDP, given the projected economic rebound and the temporary nature of the fiscal measures. Public investment should be scaled up in 2021, while strictly limiting increases in public sector wages and pensions. It will be important to ensure that the public sector wage bill as a share of GDP returns to more sustainable levels, after increasing sharply in the last two years. Ad-hoc pension increases, or one-off payments should be avoided. Public debt should resume a clear downward trajectory in 2021.

35. Staff welcomes the authorities' commitment to the remaining structural reform agenda. Reforms to strengthen tax administration, public sector wage and employment systems, corporate governance of public enterprises, and to develop Serbia's capital market remain vital. A thorough assessment of electricity tariffs is warranted to ensure full-cost recovery. Progress made towards completing the privatization of Komercijalna Banka and further efforts to privatize Petrohemija are welcome.

36. Staff supports the completion of the fourth review under the Policy Coordination Instrument and the modification of quantitative and reform targets.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Pursuant to paragraph 7 of Decision No. 16230-(17/62), adopted July 14, 2017, and paragraph 1 of the Policy Coordination Instrument for the Republic of Serbia ("PCI") EBS/18/67, the Fund has conducted a review to assess program implementation.

2. The Program Statement dated August 6, 2020 (the "August 2020 Program Statement") and its attached Technical Memorandum of Understanding ("August 2020 TMU") shall be attached to the PCI, and the Program Statement dated June 29, 2018, together with all of its attachments, shall be read as supplemented and modified by the August 2020 Program Statement and August 2020 TMU.

3. Accordingly, the end-September 2020 quantitative targets, the standard continuous targets and the reform targets under the PCI shall be as specified in Tables 1a and 1b and Table 2 attached to the August 2020 Program Statement and as further specified in the August 2020 TMU.

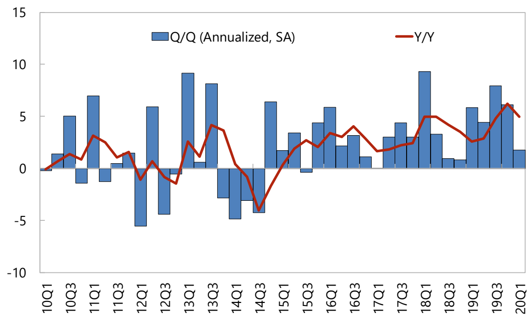
4. The Fund completes the fourth review specified in paragraph 1 of the PCI on the condition that the information provided by the Republic of Serbia on its performance under the quantitative targets related to this review and standard continuous targets is accurate.

(EBS/20/●, 8/●/20).

Figure 1. Serbia: Real Sector Developments

Economic performance held up in 1Q2020….

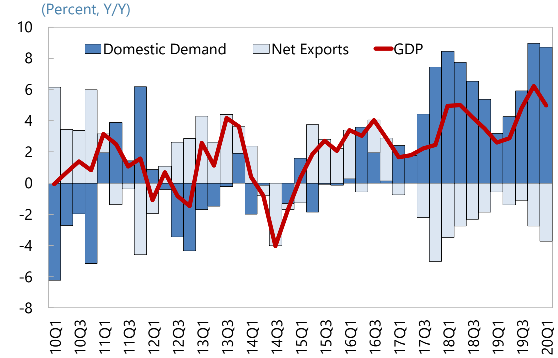
Gross Domestic Product
(Percent)



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

….supported by domestic demand.

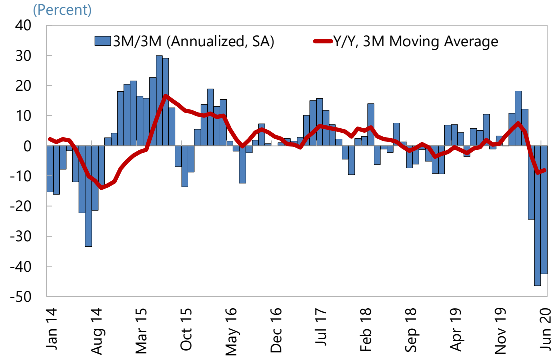
Contribution to Growth
(Percent, Y/Y)



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

After declining in April, industrial production recovered in May and June …

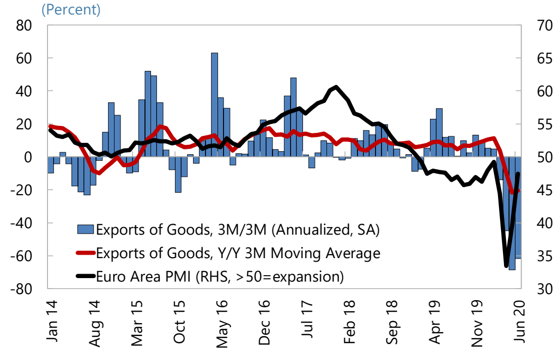
Industrial Production
(Percent)



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

… along with export growth.

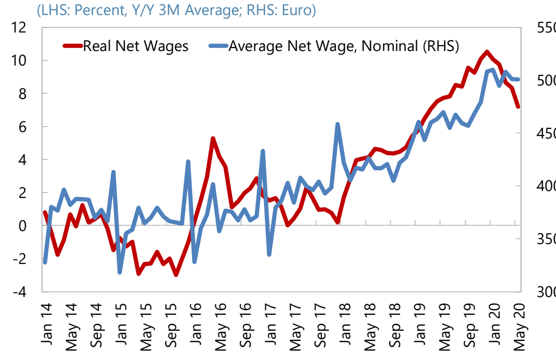
Exports of Goods and Euro Area PMI
(Percent)



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

Similarly, net wages growth declined….

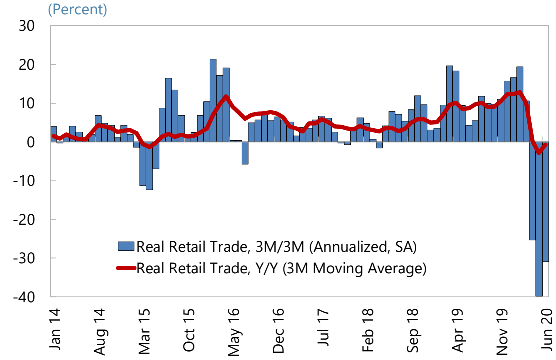
Net Wages
(LHS: Percent, Y/Y 3M Average; RHS: Euro)



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

….but retail trade growth showed a recovery in May and June.

Retail Turnover
(Percent)



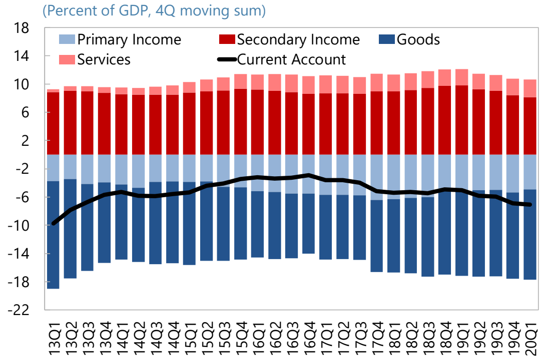
Sources: Haver Analytics; SORS; and IMF staff calculations.

Figure 2. Serbia: Balance of Payments and NIR

The current account deficit continued to rise in 1Q2020....

Current Account Balance

(Percent of GDP, 4Q moving sum)

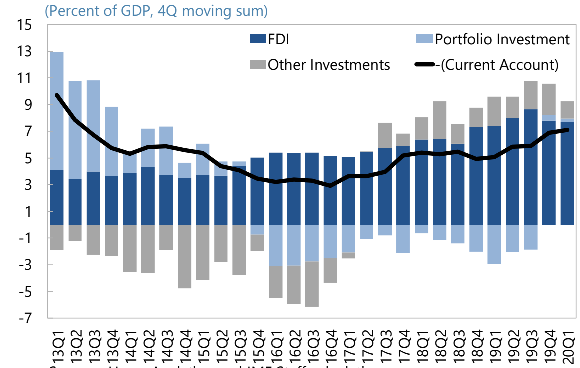


Sources: Haver Analytics; and IMF Staff calculations.

....but was more than covered by FDI.

Financial Account Composition

(Percent of GDP, 4Q moving sum)

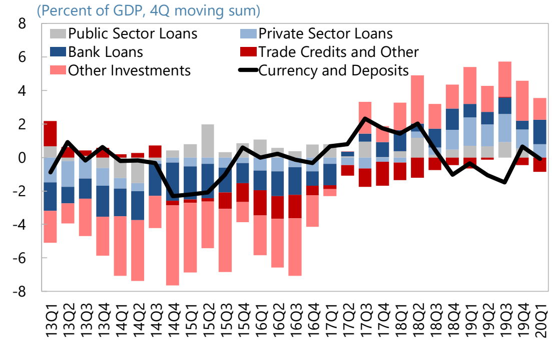


Sources: Haver Analytics; and IMF Staff calculations.

Inflows of other investments in 1Q2020 were driven by private sector and bank loans.

Other Investments 1/

(Percent of GDP, 4Q moving sum)



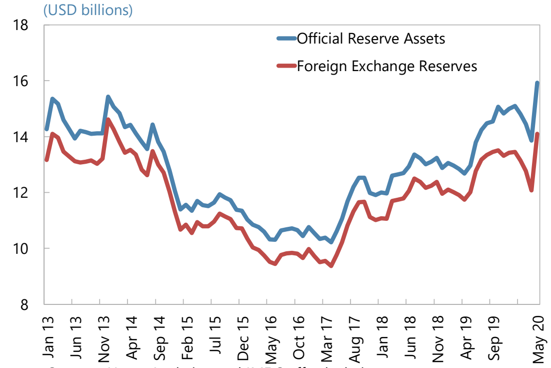
Sources: Haver Analytics; and IMF Staff calculations.

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

International reserves started to decline in early 2020, but picked up in May boosted by the Eurobond issuance.

Reserves

(USD billions)

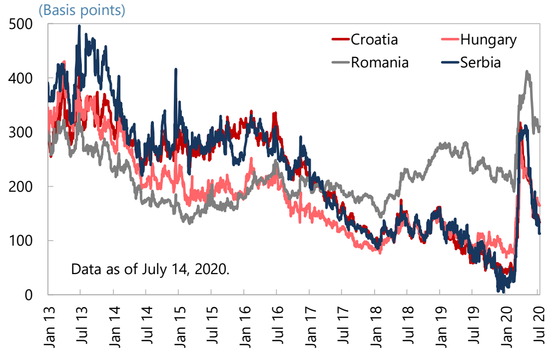


Sources: Haver Analytics; and IMF Staff calculations.

Figure 3. Serbia: Financial and Exchange Rate Developments

After rising sharply in March, EMBI spreads have stabilized….

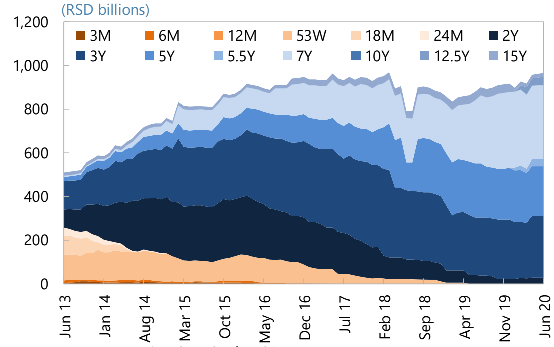
Sovereign Risk - EMBI Spreads
(Basis points)



Source: Bloomberg.

….and efforts to lengthen the maturity of domestic securities continued until the COVID-19 shock hit.

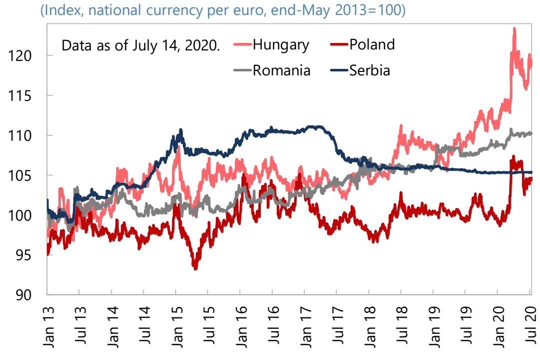
Domestic Debt Stock 1/
(RSD billions)



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

The exchange rate against the euro remains stable….

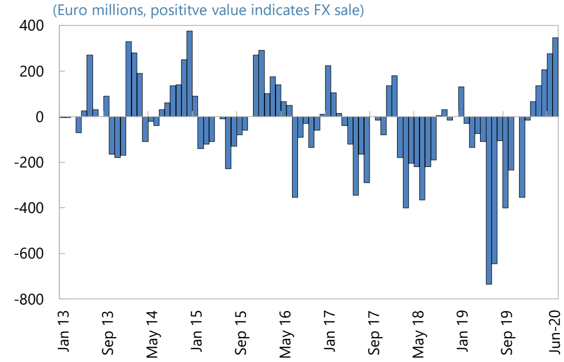
Exchange Rates in the Region
(Index, national currency per euro, end-May 2013=100)



Sources: Bloomberg.

….while the NBS foreign exchange interventions have switched to FX sales in 2020.

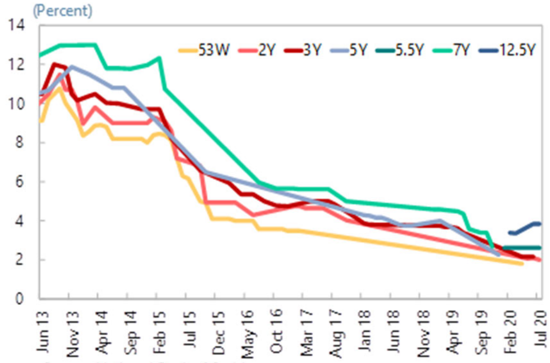
FX Interventions by NBS
(Euro millions, posititve value indicates FX sale)



Sources: National Bank of Serbia.

Yields for dinar-denominated securities remain low….

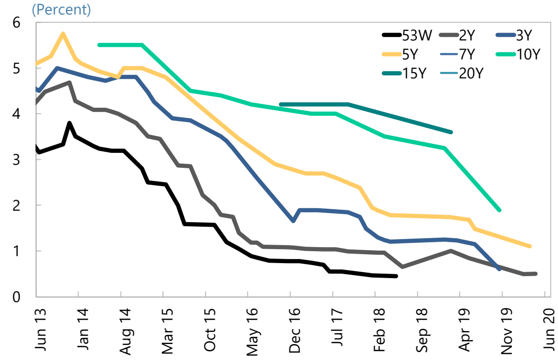
Yields on Dinar-Denominated Domestic Securities
(Percent)



Source: National Bank of Serbia.

….similar to the yields for euro-denominated securities

Yields on Euro-Denominated Domestic Securities
(Percent)

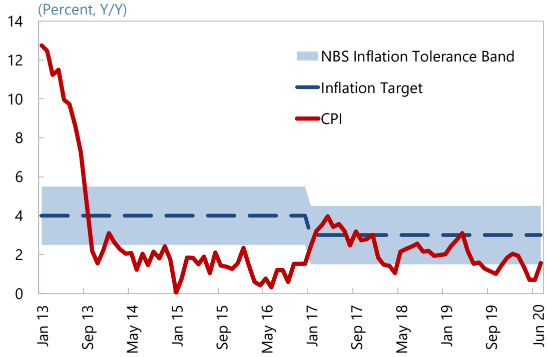


Sources: National Bank of Serbia.

Figure 4. Serbia: Inflation and Monetary Policy

Headline inflation has fallen below the lower limit of the tolerance band….

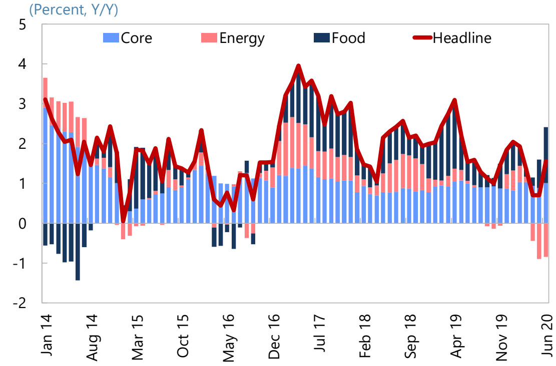
Inflation
(Percent, Y/Y)



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

….driven by low food and energy prices.

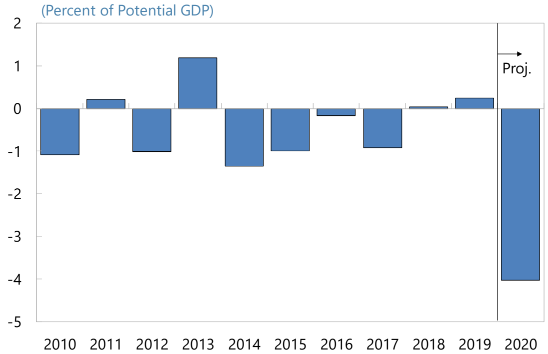
Contribution to Annual Inflation
(Percent, Y/Y)



Source: SORS.

Preliminary projections show a large output gap in 2020.

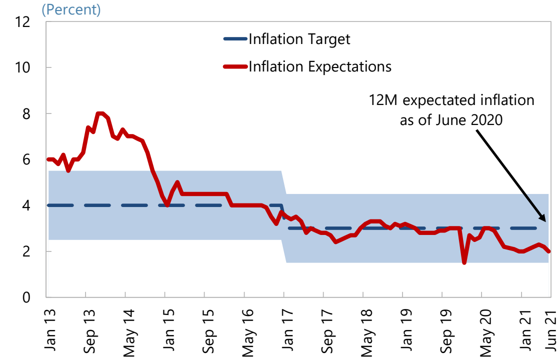
Output Gap
(Percent of Potential GDP)



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

Inflation expectations remain contained.

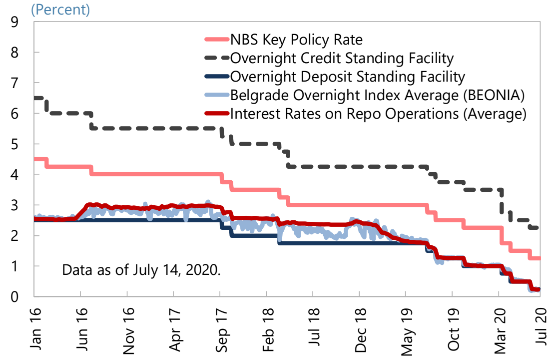
One-Year-Ahead Inflation Expectations
(Percent)



Sources: Bloomberg; SORS; and IMF staff projections.

The key policy rate has been cut further in March, April, and June….

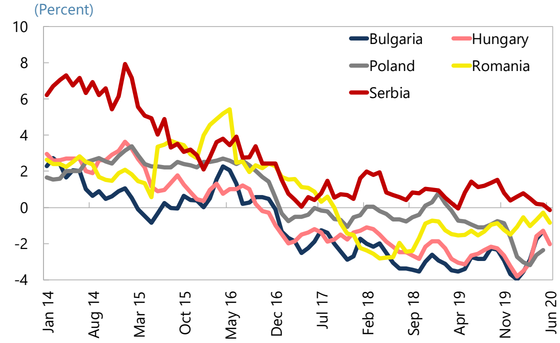
Interest Rates
(Percent)



Sources: National Bank of Serbia; and Haver Analytics.

….but remains above peer countries in real terms.

Policy Rate in Real Terms in Selected Countries
(Percent)

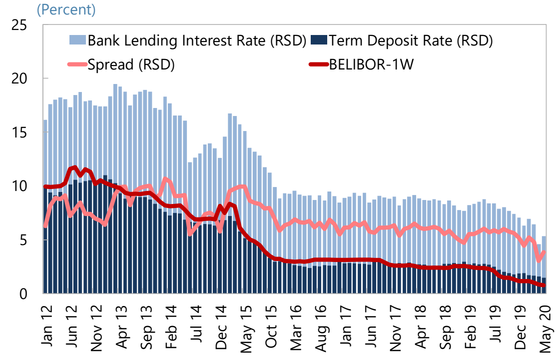


Source: Haver Analytics.
Nominal policy rates adjusted by inflation over the past 12 months.

Figure 5. Serbia: Selected Interest Rates

Monetary policy easing contributed to a decline in dinar interest rates....

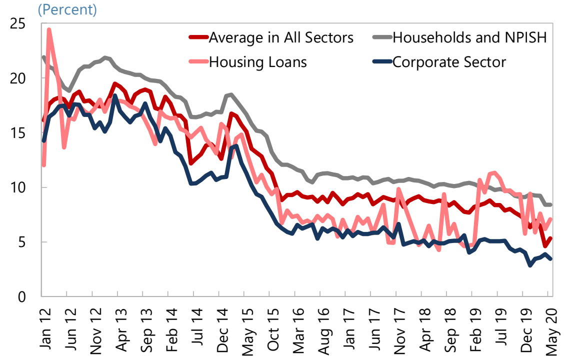
Selected Interest Rates (RSD)
(Percent)



Source: National Bank of Serbia.

....for corporates and housing loans.

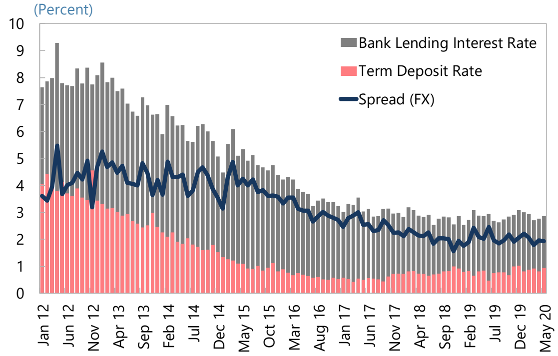
Bank Lending Interest Rates: RSD
(Percent)



Source: National Bank of Serbia.

FX (and FX-linked) interest rates remain low...

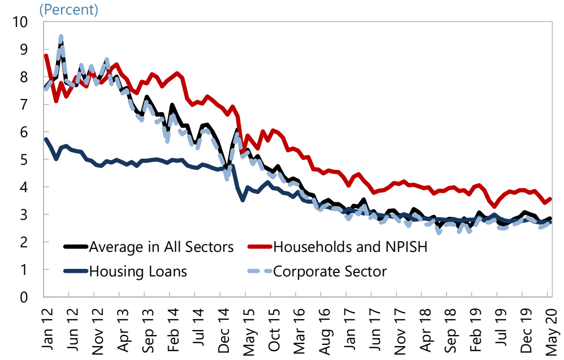
Selected Interest Rates (FX and FX-linked)
(Percent)



Source: National Bank of Serbia.

.... with lower lending rates to corporates.

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

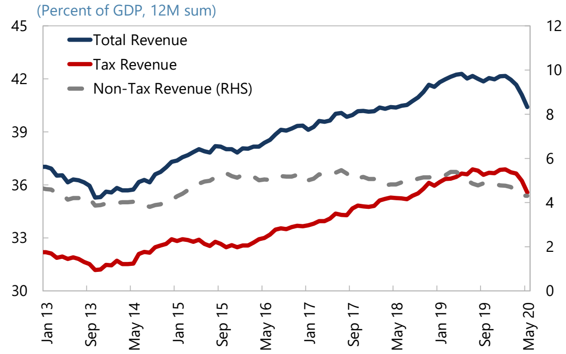


Source: National Bank of Serbia.

Figure 6. Serbia: Fiscal Developments

Public sector revenues as a share of GDP started to decline in March…

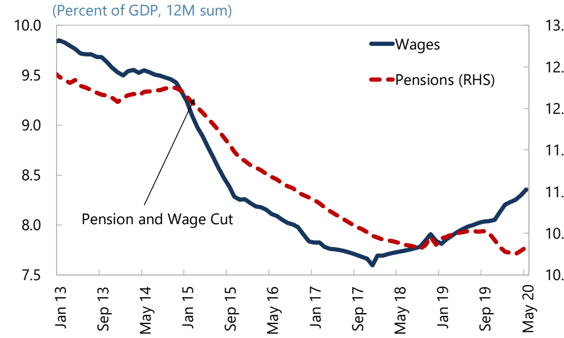
Total Revenue Composition
(Percent of GDP, 12M sum)



Sources: Ministry of Finance; and IMF staff calculations.

… while public sector wages grew relative to GDP as heath sector workers' salaries were increased.

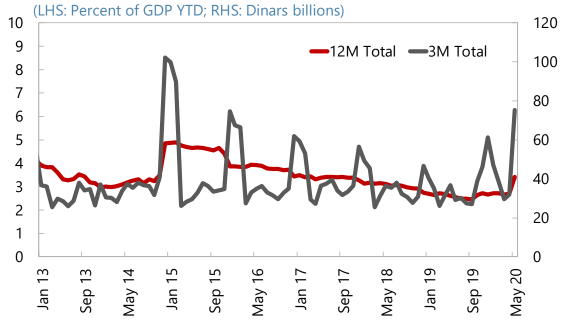
Wages and Pensions 1/
(Percent of GDP, 12M sum)



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

State aid increased as a result of government's economic support program….

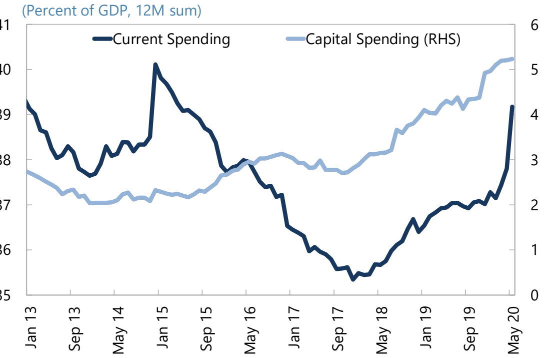
State Aid 2/
(LHS: Percent of GDP YTD; RHS: Dinars billions)



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

….as did current spending.

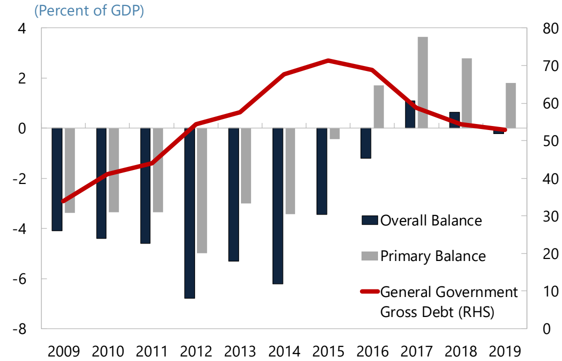
Current and Capital Spending
(Percent of GDP, 12M sum)



Sources: Ministry of Finance; and IMF staff calculations.

Government debt fell further in 2019…

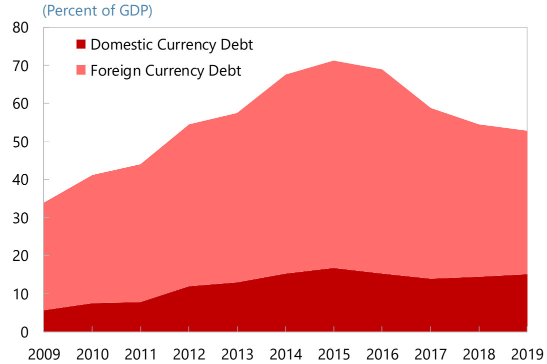
Fiscal Balance and Debt
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

….but there was little change in its currency composition.

Public Debt
(Percent of GDP)

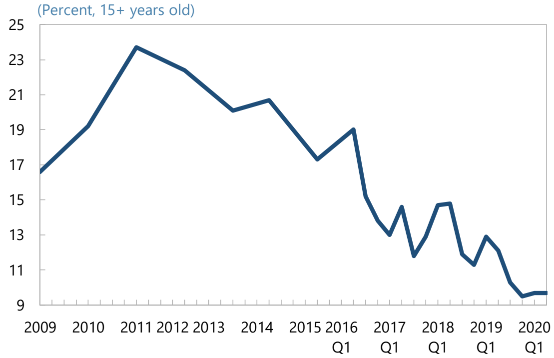


Sources: Ministry of Finance; and IMF staff calculations.

Figure 7. Serbia: Labor Market Developments

The declining trend in unemployment slowed in 1Q2020….

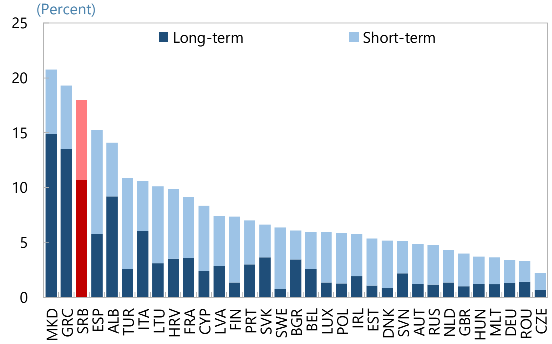
Unemployment Rate
(Percent, 15+ years old)



Source: Haver Analytics.

….while long-term unemployment persisted.

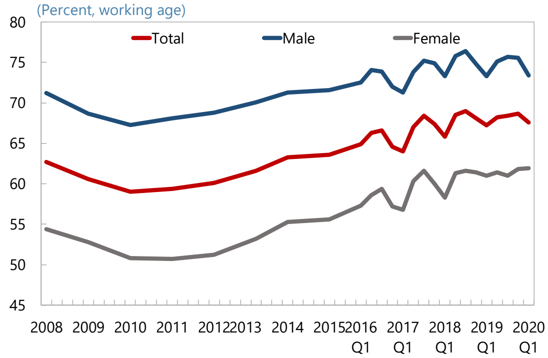
Unemployment Rate, 2019
(Percent)



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

A trend rise in labor market participation tapered in 2019 and 1Q2020…

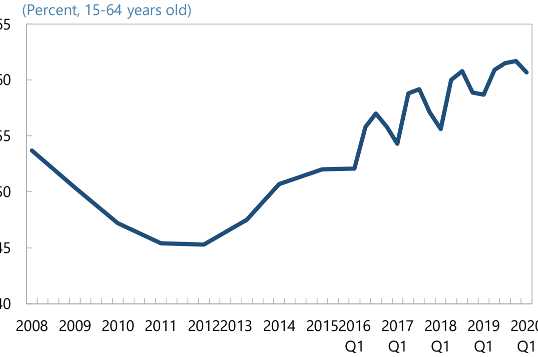
Labor Participation Rate
(Percent, working age)



Sources: SORS.

….along with employment growth.

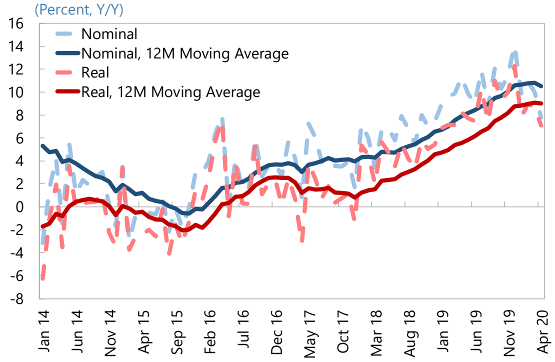
Employment Rate
(Percent, 15-64 years old)



Sources: SORS.

Growth of net wages has slowed…

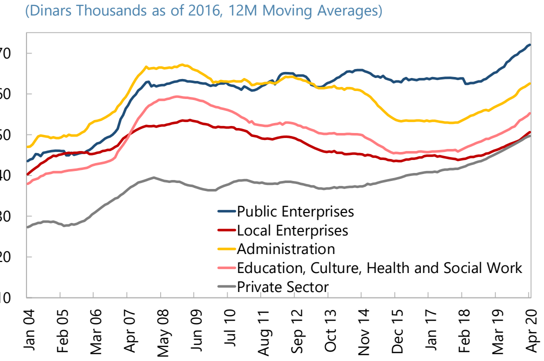
Net Wage Growth
(Percent, Y/Y)



Sources: SORS.

….while public sector wages remain above private sector wages, on average.

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



Sources: SORS; and IMF staff calculations.

Table 1. Serbia: Selected Economic and Social Indicators, 2016-2022

	2016	2017	2018	2019		2020		2021		2022
				CR 19/369	Est.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.
	(Percent change, unless otherwise indicated)									
Real sector 1/										
Real GDP	3.3	2.0	4.4	**3.5**	4.2	**4.0**	-3.0	**4.0**	6.0	6.0
Real domestic demand (absorption)	1.4	3.9	6.5	**4.6**	5.2	**4.0**	-1.8	**3.6**	8.0	5.9
Consumer prices (average)	1.1	3.1	2.0	**1.9**	1.9	**2.0**	1.5	**2.2**	1.9	2.3
GDP deflator	1.5	3.0	2.1	**3.3**	2.5	**3.4**	3.8	**3.4**	2.3	2.4
Unemployment rate (in percent) 2/	15.9	14.1	13.3	**...**	10.9	**...**	...	**...**	...	...
Nominal GDP (in billions of dinars)	4,521	4,754	5,069	**5,417**	5,411	**5,827**	5,448	**6,264**	5,907	6,414
	(Percent of GDP)									
General government finances										
Revenue 3/	40.8	41.5	41.5	**41.4**	42.1	**40.2**	38.2	**39.8**	41.1	41.4
Expenditure 3/	41.9	40.4	40.9	**42.0**	42.3	**40.7**	46.8	**40.3**	43.2	42.0
Current 3/	37.9	36.7	36.4	**37.2**	37.0	**35.9**	42.3	**35.6**	37.5	36.3
Capital and net lending	3.2	3.1	4.1	**4.5**	5.1	**4.7**	4.3	**4.5**	5.3	5.3
Amortization of called guarantees	0.9	0.6	0.4	**0.2**	0.2	**0.1**	0.2	**0.2**	0.4	0.4
Fiscal balance 4/	-1.2	1.1	0.6	**-0.5**	-0.2	**-0.5**	-8.6	**-0.5**	-2.0	-0.5
Primary fiscal balance (cash basis)	1.7	3.6	2.8	**1.5**	1.8	**1.5**	-6.6	**1.5**	-0.1	1.3
Structural primary fiscal balance 5/	1.7	3.7	2.8	**1.8**	1.6	**1.6**	1.1	**1.6**	1.1	1.1
Gross debt	68.9	58.7	54.5	**52.7**	52.8	**51.4**	59.8	**47.8**	57.0	53.2
	(End of period 12-month change, percent)									
Monetary sector										
Money (M1)	20.3	9.7	20.1	**10.7**	16.3	**9.7**	6.0	**8.6**	12.2	11.1
Broad money (M2)	9.8	3.3	15.0	**8.5**	8.8	**7.4**	5.5	**6.2**	9.0	8.2
Domestic credit to non-government 6/	1.8	4.4	10.1	**7.2**	9.5	**7.3**	6.6	**6.9**	8.4	9.0
	(Period average, percent)									
Interest rates (dinar)										
NBS key policy rate	3.3	3.9	3.1	...	2.3	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	3.1	3.1	2.8	...	3.1	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Balance of payments										
Current account balance	-2.9	-5.2	-4.8	**-5.9**	-6.9	**-5.3**	-6.4	**-5.2**	-6.5	-6.3
Exports of goods	34.9	35.9	35.2	**36.2**	35.8	**36.7**	33.2	**37.7**	33.5	35.1
Imports of goods	-43.4	-46.1	-47.1	**-49.2**	-48.0	**-49.3**	-44.1	**-49.7**	-46.0	-47.8
Trade of goods balance	-8.5	-10.2	-11.9	**-13.0**	-12.2	**-12.6**	-10.9	**-12.0**	-12.6	-12.7
Capital and financial account balance	0.6	4.8	6.7	**8.7**	10.5	**6.7**	6.1	**5.7**	7.3	7.0
External debt (percent of GDP) 7/	76.5	68.9	66.1	**58.4**	66.2	**54.7**	68.6	**51.1**	65.3	61.5
of which: Private external debt	29.4	29.7	30.9	**27.5**	31.7	**25.7**	30.3	**24.3**	29.0	27.4
Gross official reserves (in billions of euro)	10.2	10.0	11.3	**12.5**	13.4	**13.2**	13.2	**13.5**	13.6	14.0
(in months of prospective imports)	5.5	4.7	4.8	**4.9**	6.3	**4.8**	5.6	**4.5**	5.1	4.8
(percent of short-term debt)	345.2	200.3	193.9	**191.5**	250.8	**201.7**	247.9	**205.7**	255.8	262.5
(percent of broad money, M2)	58.7	53.2	52.2	**54.2**	57.8	**53.1**	57.2	**50.4**	54.8	52.0
(percent of risk-weighted metric)	169.5	158.4	164.8	**171.4**	181.1	**170.7**	177.3	**172.6**	180.2	178.5
Exchange rate (dinar/euro, period average)	123.1	121.4	118.3	**...**	117.9	**...**	...	**...**	...	...
REER (annual average change, in percent; + indicates appreciation)	-1.0	2.9	2.8	**...**	1.0	**...**	...	**...**	...	...
Social indicators										
Per capita GDP (in US$)	5,756	6,284	7,246	**7,445**	7,382	**8,086**	7,458	**8,787**	8,442	9,210
Real GDP per capita (percent change)	3.9	2.6	5.0	**3.9**	4.5	**4.4**	-2.6	**4.4**	6.4	6.4
Population (in million)	7.1	7.0	7.0	**7.0**	7.0	**6.9**	6.9	**6.9**	6.9	6.9

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

1/ SORS released revised national accounts in November 2018.

2/ Unemployment rate for working age population (15-64).

3/ Includes employer contributions.

4/ Includes amortization of called guarantees.

5/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs.

6/ At constant exchange rates.

7/ After CR19/369, domestic securities held by non-residents are included in external debt. Historical data were updated since 2015.

Table 2. Serbia: Medium-Term Framework, 2016-2025

	2016	2017	2018	2019		2020		2021		2022		2023	2024	2025
				CR 19/369	Est.	CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.	Proj.	Proj.
							(percent change)							
Real sector														
GDP growth 1/	3.3	2.0	4.4	3.5	4.2	4.0	-3.0	4.0	6.0	4.0	6.0	4.5	4.0	4.0
Domestic demand (contribution)	1.5	4.1	7.0	5.0	5.7	4.4	-2.0	4.0	8.9	4.0	6.7	4.4	3.7	4.0
Net exports (contribution)	1.9	-2.1	-2.6	-1.5	-1.5	-0.4	-1.0	0.0	-2.9	0.0	-0.7	0.1	0.3	0.0
Consumer price inflation (average)	1.1	3.1	2.0	1.9	1.9	2.0	1.5	2.2	1.9	2.5	2.3	2.6	2.9	3.0
Consumer price inflation (end of period)	1.5	3.0	2.0	1.6	1.9	1.9	1.6	2.2	2.0	2.5	2.3	2.6	2.9	3.0
Output gap (in percent of potential)	-0.2	-0.9	0.0	-0.2	0.2	0.0	-4.0	0.0	-2.6	0.0	-1.1	-0.3	-0.2	0.0
Potential GDP growth	2.5	2.8	3.4	3.7	4.0	3.8	1.4	4.0	4.5	4.0	4.4	3.7	3.9	3.8
Domestic credit to non-gov. (constant exchange rate) 2/	1.8	4.4	10.1	7.2	9.5	7.3	6.6	6.9	8.4	5.9	9.0	9.2	9.3	9.6
							(percent of GDP, unless otherwise indicated)							
General government														
Revenue 3/	40.8	41.5	41.5	41.4	42.1	40.2	38.2	39.8	41.1	39.5	41.4	40.8	40.9	40.9
Expenditure 3/	41.9	40.4	40.9	42.0	42.3	40.7	46.8	40.3	43.2	40.0	42.0	41.4	41.4	41.3
Current 3/	37.9	36.7	36.4	37.2	37.0	35.9	42.3	35.6	37.5	35.4	36.3	36.1	36.0	35.9
of which: Wages and salaries 3/	9.2	9.0	9.2	9.5	9.5	9.5	10.4	9.5	9.7	9.4	9.5	9.5	9.5	9.5
of which: Pensions	11.1	10.7	10.4	10.6	10.5	10.2	10.9	10.1	10.4	10.1	10.1	10.1	10.0	10.0
of which: Goods and services	7.5	7.7	8.1	8.6	8.7	8.3	10.2	8.2	9.1	8.1	8.6	8.5	8.5	8.4
Capital and net lending	3.2	3.1	4.1	4.5	5.1	4.7	4.3	4.5	5.3	4.4	5.3	5.2	5.2	5.3
Amortization of called guarantees	0.9	0.6	0.4	0.2	0.2	0.1	0.2	0.2	0.4	0.2	0.4	0.2	0.2	0.2
Fiscal balance 4/	-1.2	1.1	0.6	-0.5	-0.2	-0.5	-8.6	-0.5	-2.0	-0.5	-0.5	-0.5	-0.5	-0.5
change (+ = consolidation)	2.3	2.3	-0.5	-1.2	-0.8	0.0	-8.4	0.0	6.6	0.0	1.5	0.0	0.1	0.0
Primary fiscal balance	1.7	3.6	2.8	1.5	1.8	1.5	-6.6	1.5	-0.1	1.5	1.3	1.3	1.3	1.3
change (+ = consolidation)	2.1	1.9	-0.9	-1.2	-1.0	-0.1	-8.4	0.0	6.5	0.0	1.4	0.0	0.0	0.0
One-off fiscal items, net 5/	0.1	0.3	-0.1	-0.2	0.1	-0.2	-6.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Structural primary balance	1.7	3.7	2.8	1.8	1.6	1.6	1.1	1.6	1.1	1.6	1.1	1.1	1.1	1.1
change (+ = consolidation)	1.7	2.0	-0.8	-1.1	-1.3	-0.1	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Structural primary balance net of capital expenditures	4.8	6.5	6.8	6.2	6.5	6.1	4.9	5.8	5.9	5.8	5.9	5.9	6.0	6.2
Gross debt	68.9	58.7	54.5	52.7	52.8	51.4	59.8	47.8	57.0	44.7	53.2	50.4	47.8	45.2
Effective interest rate on government borrowing (percent)	4.3	4.1	3.9	4.1	3.9	3.9	3.8	4.1	3.5	4.4	3.4	3.7	3.8	4.1
Domestic borrowing (including FX)	5.8	5.6	5.0	5.2	4.7	5.3	4.6	5.3	4.3	5.3	4.5	4.5	4.8	4.9
External borrowing	3.3	3.2	3.1	3.3	3.3	3.4	2.8	3.4	2.7	3.4	3.0	3.3	3.5	3.7
							(percent of GDP, unless otherwise indicated)							
Balance of payments														
Current account	-2.9	-5.2	-4.8	-5.9	-6.9	-5.3	-6.4	-5.2	-6.5	-4.7	-6.3	-5.8	-5.3	-5.2
of which: Trade balance	-8.5	-10.2	-11.9	-13.0	-12.2	-12.6	-10.9	-12.0	-12.6	-11.4	-12.7	-12.4	-11.8	-11.5
of which: Current transfers, net (excl. grants)	8.4	8.6	9.2	8.7	7.9	8.7	6.6	8.1	8.0	8.0	8.1	8.0	8.0	7.7
Capital and financial account	0.6	4.8	6.7	8.7	10.5	6.7	6.1	5.7	7.3	4.6	7.0	6.6	6.2	5.8
of which: Foreign direct investment	5.2	6.2	7.4	7.8	7.8	6.3	4.7	5.5	5.6	5.5	5.9	5.9	5.9	5.9
External debt (end of period) 6/	76.5	68.9	66.1	58.4	66.2	54.7	68.6	51.1	65.3	46.7	61.5	58.9	55.5	53.3
of which: Private external debt	29.4	29.7	30.9	27.5	31.7	25.7	30.3	24.3	29.0	22.5	27.4	26.1	24.8	23.3
Gross official reserves														
(in billions of euros)	10.2	10.0	11.3	12.5	13.4	13.2	13.2	13.5	13.6	13.4	14.0	14.5	15.0	15.4
(in percent of short-term external debt)	345.2	200.3	193.9	191.5	250.8	201.7	247.9	205.7	255.8	205.1	262.5	271.1	281.0	288.2
REER (ann. av. change; + = appreciation)	-1.0	2.9	2.8	...	1.0	...	...	...	...	...	...	...	...	...

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

1/ SORS released revised national accounts in November 2018.

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

3/ Includes employer contributions.

4/ Includes amortization of called guarantees.

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

6/ After CR19/369, domestic securities held by non-residents are included in external debt. Historical data were updated since 2015.

Table 3. Serbia: Growth Composition, 2016-2025 1/

	2016	2017	2018	2019		2020		2021		2022		2023	2024	2025
				CR 19/369	Est.	CR 19/369	Proj.	CR 19/369	Proj.	19/369	Proj.	Proj.	Proj.	Proj.
						(Percent change, unless otherwise noted)								
Real														
Gross Domestic Product (GDP)	3.3	2.0	4.4	3.5	4.2	4.0	-3.0	4.0	6.0	4.0	6.0	4.5	4.0	4.0
Domestic demand	1.4	3.9	6.5	4.6	5.2	4.0	-1.8	3.6	8.0	3.6	5.9	3.9	3.3	3.6
Consumption	1.3	2.2	3.2	3.6	3.1	3.4	-0.1	3.2	5.8	3.1	4.8	3.1	2.7	2.7
Non-government	1.3	1.9	3.1	3.5	3.2	3.9	-0.6	3.6	6.5	3.7	5.3	2.9	2.6	2.8
Government	1.3	3.3	3.7	4.1	3.0	1.5	1.9	1.3	2.9	0.4	2.8	3.7	2.9	2.3
Investment	2.0	11.5	20.3	7.9	12.5	5.9	-7.3	5.1	15.8	5.4	9.3	6.4	5.1	6.1
Gross fixed capital formation	5.4	7.3	17.8	8.8	16.4	6.4	-7.9	5.4	17.0	5.7	9.9	6.6	5.3	6.6
Non-government	2.6	10.3	12.7	7.2	14.0	7.2	-3.5	6.5	13.5	6.5	11.0	7.0	5.2	6.5
Government	20.2	-6.1	44.9	15.6	26.3	3.4	-24.2	1.2	33.7	2.6	5.4	4.9	5.9	6.8
Exports of goods and services	11.9	8.2	8.3	8.6	8.5	8.1	-8.6	8.4	8.3	8.4	11.2	9.1	9.4	8.7
Imports of goods and services	6.7	11.1	11.6	9.6	9.5	7.4	-5.7	7.1	11.3	7.2	9.9	7.2	7.3	7.3
						(contributions to GDP, percent)								
Gross Domestic Product (GDP)	3.3	2.0	4.4	3.5	4.2	4.0	-3.0	4.0	6.0	4.0	6.0	4.5	4.0	4.0
Domestic demand (absorption)	1.5	4.1	7.0	5.0	5.7	4.4	-2.0	4.0	8.9	4.0	6.7	4.4	3.7	4.0
Net exports of goods and services	1.9	-2.1	-2.6	-1.5	-1.5	-0.4	-1.0	0.0	-2.9	0.0	-0.7	0.1	0.3	0.0
Consumption	1.1	1.9	2.8	3.1	2.7	2.9	-0.1	2.7	5.0	2.6	4.2	2.6	2.3	2.3
Non-government	0.9	1.3	2.1	2.4	2.2	2.7	-0.4	2.5	4.5	2.5	3.7	2.0	1.8	1.9
Government	0.2	0.6	0.6	0.7	0.5	0.3	0.3	0.2	0.5	0.1	0.5	0.6	0.5	0.4
Investment	0.4	2.2	4.2	1.9	3.0	1.5	-1.9	1.3	3.9	1.4	2.5	1.8	1.5	1.7
Gross fixed capital formation	1.0	1.3	3.4	1.9	3.6	1.5	-1.9	1.3	3.9	1.4	2.5	1.7	1.4	1.8
Non-government	0.4	1.5	2.1	1.3	2.4	1.3	-0.7	1.2	2.6	1.2	2.2	1.5	1.1	1.4
Government	0.6	-0.2	1.4	0.7	1.1	0.2	-1.2	0.1	1.4	0.1	0.3	0.2	0.3	0.4
Change in inventories	-0.6	0.8	0.8	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	5.4	4.0	4.3	4.6	4.6	4.6	-4.8	4.9	4.4	5.2	6.1	5.1	5.6	5.4
Imports of goods and services	3.5	6.1	6.9	6.1	6.0	5.0	-3.8	5.0	7.3	5.2	6.7	5.0	5.3	5.4
						(Percent change, unless otherwise noted)								
Nominal														
Gross Domestic Product (GDP)	4.9	5.2	6.6	6.9	6.8	7.6	0.7	7.5	8.4	7.6	8.6	7.4	7.2	7.4
Domestic demand (absorption), contribution to GDP growth	2.9	7.3	9.1	8.1	7.6	7.3	0.3	7.5	10.4	7.5	9.1	7.3	6.9	7.3
Net exports of goods and services, contribution to GDP growth	1.9	-2.1	-2.5	-1.2	-0.8	0.3	0.4	0.0	-2.0	0.1	-0.5	0.1	0.3	0.0
Non-government	3.3	5.0	4.3	5.5	5.0	5.9	0.8	5.9	8.6	6.3	7.7	5.5	5.6	5.9
Government	2.0	6.5	9.2	10.7	10.0	6.9	7.3	6.8	3.3	6.1	6.6	7.8	7.1	6.7
Investment	1.1	15.0	23.4	11.1	11.0	8.7	-6.6	9.8	18.0	9.4	11.5	9.0	8.1	9.3
Gross fixed capital formation	6.0	10.1	20.5	12.0	19.4	10.3	-5.5	8.9	20.4	9.1	13.2	9.9	8.7	10.1
Non-government	3.0	13.2	15.1	10.3	15.9	11.1	-0.8	10.0	16.7	9.9	14.4	10.3	8.6	10.0
Government	21.7	-3.9	48.9	18.9	33.6	7.2	-22.1	4.5	37.4	5.9	8.6	8.2	9.3	10.4
Exports of goods and services	12.6	9.3	7.1	10.0	9.2	10.3	-9.0	9.7	9.0	10.2	12.8	10.8	11.4	10.8
Imports of goods and services	7.2	12.5	10.6	10.6	9.3	8.3	-8.4	8.4	11.2	8.9	11.6	9.0	9.3	9.3
Memorandum items:														
GDP deflator (percent)	1.5	3.0	2.1	3.3	2.5	3.4	3.8	3.4	2.3	3.5	2.4	2.7	3.0	3.2
Nominal GDP (billions of dinars)	4521	4754	5069	5417	5411	5827	5448	6264	5907	6740	6414	6887	7383	7926

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

1/ SORS released revised national accounts in November 2018.

Table 4a. Serbia: Balance of Payments, 2016-2025 1/
(Billions of euros)

	2016	2017	2018	2019		2020		2021		2022		2023	2024	2025
				CR 19/369	Est.	CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.	Proj.	Proj.
	(Billions of euros)													
Current account balance	-1.1	-2.1	-2.1	**-2.7**	-3.2	**-2.6**	-3.0	**-2.8**	-3.2	**-2.7**	-3.4	-3.3	-3.2	-3.4
Trade of goods balance	-3.1	-4.0	-5.1	**-6.0**	-5.6	**-6.2**	-5.0	**-6.4**	-6.2	**-6.5**	-6.8	-7.1	-7.2	-7.5
Exports of goods	12.8	14.1	15.1	**16.6**	16.4	**18.1**	15.3	**20.0**	16.6	**22.1**	18.8	20.8	23.3	25.8
Imports of goods	-15.9	-18.1	-20.2	**-22.6**	-22.0	**-24.3**	-20.3	**-26.4**	-22.9	**-28.6**	-25.6	-27.9	-30.5	-33.3
Services balance	0.9	1.0	1.0	**1.3**	1.0	**1.5**	0.7	**1.7**	1.0	**1.9**	1.2	1.5	1.7	1.9
Exports of nonfactor services	4.6	5.2	6.1	**6.8**	7.0	**7.5**	6.0	**8.3**	6.6	**9.2**	7.4	8.2	9.1	10.0
Imports of nonfactor services	-3.7	-4.3	-5.1	**-5.5**	-5.9	**-6.1**	-5.3	**-6.6**	-5.6	**-7.3**	-6.2	-6.8	-7.4	-8.1
Income balance	-2.0	-2.5	-2.2	**-2.1**	-2.5	**-2.3**	-1.8	**-2.4**	-2.0	**-2.6**	-2.2	-2.4	-2.7	-3.0
Net interest	-1.0	-0.9	-0.7	**-0.7**	-0.7	**-0.7**	-0.7	**-0.7**	-0.7	**-0.8**	-0.7	-0.6	-0.6	-0.7
Current transfer balance	3.2	3.5	4.2	**4.1**	3.9	**4.4**	3.2	**4.3**	4.1	**4.6**	4.5	4.7	5.0	5.2
Others, including private remittances	3.1	3.4	3.9	**4.0**	3.6	**4.3**	3.1	**4.3**	4.0	**4.6**	4.3	4.6	4.9	5.0
Capital and financial account balance 2/	0.2	1.9	2.9	**4.0**	4.8	**3.3**	2.8	**3.0**	3.6	**2.6**	3.7	3.8	3.8	3.8
Foreign direct investment balance	1.9	2.4	3.2	**3.6**	3.6	**3.1**	2.2	**2.9**	2.8	**3.1**	3.2	3.4	3.6	3.8
Portfolio investment balance	-0.9	-0.8	-0.9	**0.3**	0.2	**0.0**	1.7	**0.1**	0.1	**-0.3**	-0.2	0.2	0.1	0.4
of which: debt liabilities	-0.9	-0.8	-0.9	**0.3**	0.3	**0.0**	1.7	**0.1**	0.1	**-0.3**	-0.2	0.2	0.1	0.4
Other investment balance	-0.7	0.3	0.6	**0.1**	1.2	**0.2**	-1.1	**0.0**	0.8	**-0.2**	0.7	0.2	0.1	-0.4
Public sector 2/ 3/	0.3	0.0	0.2	**0.0**	0.3	**0.1**	0.1	**-0.2**	0.3	**-0.1**	0.4	0.3	-0.1	0.4
Domestic banks	-0.5	0.9	0.1	**0.1**	0.6	**0.1**	-0.3	**0.1**	0.4	**-0.1**	0.2	0.1	0.3	-0.4
Other private sector 4/	-0.5	-0.6	0.3	**0.1**	0.3	**0.0**	-0.9	**0.1**	0.0	**0.1**	0.1	-0.2	-0.1	-0.4
Errors and omissions	0.5	0.4	0.3	**0.0**	0.2	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	-0.3	0.2	1.3	**1.3**	1.9	**0.7**	-0.2	**0.3**	0.4	**0.0**	0.4	0.5	0.5	0.4
Financing	0.3	-0.2	-1.3	**-1.3**	-1.9	**-0.7**	0.2	**-0.3**	-0.4	**0.0**	-0.4	-0.5	-0.5	-0.4
Gross international reserves (increase, -)	0.3	-0.2	-1.3	**-1.3**	-1.9	**-0.7**	0.2	**-0.3**	-0.4	**0.0**	-0.4	-0.5	-0.5	-0.4
Financing Gap	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Use of Fund credit, net	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0

Sources: NBS; and IMF staff estimates and projections.

1/ SORS released revised 2016 BOP in October 2017.

2/ Excluding net use of IMF resources.

3/ Includes SDR allocations in 2009.

4/ Includes trade credits (net).

Table 4b. Serbia: Balance of Payments, 2016-2025 [1/]

(Percent of GDP)

	2016	2017	2018	2019		2020		2021		2022		2023	2024	2025
				CR 19/369	Est.	CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.	Proj.	Proj.
							(Percent of GDP)							
Current account balance	-2.9	-5.2	-4.8	**-5.9**	-6.9	**-5.3**	-6.4	**-5.2**	-6.5	**-4.7**	-6.3	-5.8	-5.3	-5.2
Trade of goods balance	-8.5	-10.2	-11.9	**-13.0**	-12.2	**-12.6**	-10.9	**-12.0**	-12.6	**-11.4**	-12.7	-12.4	-11.8	-11.5
Exports of goods	34.9	35.9	35.2	**36.2**	35.8	**36.7**	33.2	**37.7**	33.5	**38.7**	35.1	36.3	38.1	39.5
Imports of goods	-43.4	-46.1	-47.1	**-49.2**	-48.0	**-49.3**	-44.1	**-49.7**	-46.0	**-50.2**	-47.8	-48.8	-49.9	-51.1
Services balance	2.5	2.5	2.3	**2.8**	2.3	**3.0**	1.5	**3.3**	1.9	**3.4**	2.2	2.6	2.7	2.9
Income balance	-5.5	-6.5	-5.1	**-4.7**	-5.4	**-4.7**	-4.0	**-4.6**	-4.1	**-4.6**	-4.2	-4.2	-4.5	-4.6
Current transfer balance	8.6	9.0	9.8	**8.9**	8.5	**8.9**	6.9	**8.1**	8.3	**8.0**	8.3	8.3	8.3	8.0
Official grants	0.2	0.4	0.6	**0.2**	0.6	**0.2**	0.3	**0.0**	0.3	**0.0**	0.3	0.3	0.3	0.3
Others, including private remittances	8.4	8.6	9.2	**8.7**	7.9	**8.7**	6.6	**8.1**	8.0	**8.0**	8.1	8.0	8.0	7.7
Capital and financial account balance 2/	0.6	4.8	6.7	**8.7**	10.5	**6.7**	6.1	**5.7**	7.3	**4.6**	7.0	6.6	6.2	5.8
Capital transfers balance	0.0	0.0	0.0	**0.0**	-0.2	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Foreign direct investment balance	5.2	6.2	7.4	**7.8**	7.8	**6.3**	4.7	**5.5**	5.6	**5.5**	5.9	5.9	5.9	5.9
Portfolio investment balance	-2.5	-2.1	-2.1	**0.7**	0.4	**0.1**	3.7	**0.2**	0.2	**-0.6**	-0.3	0.4	0.1	0.5
Other investment balance	-2.0	0.8	1.5	**0.3**	2.5	**0.4**	-2.3	**0.0**	1.6	**-0.3**	1.4	0.3	0.2	-0.6
Public sector 2/ 3/	0.8	0.0	0.5	**0.0**	0.6	**0.1**	0.2	**-0.4**	0.7	**-0.3**	0.7	0.5	-0.2	0.6
Domestic banks	-1.4	2.2	0.3	**0.1**	1.3	**0.2**	-0.6	**0.2**	0.9	**-0.2**	0.4	0.1	0.5	-0.6
Other private sector 4/	-1.5	-1.4	0.7	**0.1**	0.6	**0.1**	-1.9	**0.2**	0.0	**0.2**	0.2	-0.3	-0.2	-0.7
Errors and omissions	1.5	1.0	0.8	**0.0**	0.5	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	-0.8	0.6	3.0	**2.8**	4.1	**1.4**	-0.3	**0.5**	0.9	**-0.1**	0.7	0.8	0.9	0.6
Memorandum items:														
Nominal growth of exports of goods	11.9	9.8	7.4	**9.0**	8.8	**9.3**	-6.7	**10.2**	8.4	**10.5**	13.3	10.5	12.0	10.9
Nominal growth of import of goods	5.5	13.4	11.8	**10.2**	9.2	**7.9**	-7.7	**8.3**	12.4	**8.6**	12.2	8.9	9.3	9.3
Volume growth of exports of goods	12.7	8.5	5.7	**7.3**	8.5	**7.6**	-6.3	**8.4**	7.7	**8.4**	11.7	8.7	10.0	8.8
Volume growth of import of goods	11.0	10.0	8.9	**9.2**	9.8	**7.0**	-5.1	**7.0**	12.4	**6.9**	10.4	7.0	7.2	7.2
Trading partner import growth	6.0	6.9	5.2	**3.9**	2.1	**3.9**	-12.5	**3.9**	8.8	**3.9**	5.8	4.7	3.8	4.0
Export prices growth	-0.7	1.2	1.6	**1.5**	0.2	**1.5**	-0.4	**1.7**	0.6	**1.9**	1.4	1.6	1.8	1.9
Import prices growth	-4.9	3.1	2.6	**0.9**	-0.6	**0.8**	-2.8	**1.2**	-0.1	**1.5**	1.6	1.7	1.9	1.9
Change in terms of trade	4.4	-1.8	-1.0	**0.7**	0.8	**0.7**	2.5	**0.5**	0.7	**0.3**	-0.1	-0.1	-0.1	0.0
Gross official reserves (in billions of euro)	10.2	10.0	11.3	**12.5**	13.4	**13.2**	13.2	**13.5**	13.6	**13.4**	14.0	14.5	15.0	15.4
(In months of prospective imports of GNFS)	5.5	4.7	4.8	**4.9**	6.3	**4.8**	5.6	**4.5**	5.1	**4.1**	4.8	4.6	4.3	4.5
(in percent of short-term debt)	345.2	200.3	193.9	**191.5**	250.8	**201.7**	247.9	**205.7**	255.8	**205.1**	262.5	271.1	281.0	288.2
(in percent of broad money, M2)	58.7	53.2	52.2	**54.2**	57.8	**53.1**	57.2	**50.4**	54.8	**46.7**	52.0	50.3	48.9	46.9
(in percent of risk-weighted metric, float) 5/	169.5	158.4	164.8	**171.4**	181.1	**170.7**	177.3	**172.6**	180.2	**170.2**	178.5	174.3	179.6	175.5
(in percent of risk-weighted metric, other) 5/	114.8	108.8	113.1	**117.7**	123.1	**117.7**	121.3	**116.4**	120.8	**112.7**	118.0	115.2	115.7	112.3
GDP (billions of euros)	36.7	39.2	42.9	**45.9**	45.9	**49.4**	46.1	**53.1**	49.7	**57.1**	53.6	57.2	61.1	65.3

Sources: NBS; and IMF staff estimates and projections.

1/ SORS released revised 2016 BOP in October 2017.

2/ Excluding net use of IMF resources.

3/ Includes SDR allocations in 2009.

4/ Includes trade credits (net).

5/ Although Serbia was reclassified as crawl-like exchange rate regime in 2018, Serbia does not target any specific exchange rate.

Table 5. Serbia: External Financing Requirements, 2016-2025
(Billions of euros)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
					(Billions of euros)					
1. Total financing requirement	**5.3**	**5.2**	**8.4**	**10.8**	**8.1**	**8.9**	**7.7**	**7.4**	**8.1**	**6.6**
Current account deficit	1.1	2.1	2.1	3.2	3.0	3.2	3.4	3.3	3.2	3.4
Debt amortization	4.6	3.0	5.0	5.8	5.3	5.3	4.0	3.7	4.4	2.8
Medium and long-term debt	4.3	2.3	4.1	4.4	4.6	4.7	3.4	3.1	3.8	2.2
Public sector	2.3	1.4	3.1	3.4	1.8	2.8	2.0	1.8	2.6	1.7
Of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Eurobonds	0.1	0.5	1.0	1.5	0.2	1.4	0.0	0.0	0.0	0.0
Of which: Domestic bonds (non-residents)	1.3	0.9	1.1	1.0	0.9	0.4	0.8	0.7	0.7	0.5
Commercial banks	1.0	0.3	0.3	0.4	0.4	0.2	0.3	0.3	0.3	0.1
Corporate sector	1.0	0.6	0.8	0.7	2.4	1.7	1.1	1.0	0.9	0.3
Short-term debt	0.3	0.7	0.8	1.4	0.8	0.6	0.6	0.6	0.6	0.6
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.6	0.8	1.3	0.7	0.5	0.5	0.5	0.5	0.5
Corporate sector	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in gross reserves (increase=+)	-0.3	0.2	1.3	1.9	-0.2	0.4	0.4	0.5	0.5	0.4
2. Total financing sources	**5.3**	**5.2**	**8.4**	**10.8**	**8.1**	**8.9**	**7.7**	**7.4**	**8.1**	**6.6**
Capital transfers	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	1.9	2.4	3.2	3.6	2.2	2.8	3.2	3.4	3.6	3.8
Portfolio investment (net) 1/	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	3.2	2.4	5.0	7.1	6.6	6.1	4.5	4.4	4.5	3.6
Medium and long-term debt	2.9	1.8	4.2	5.7	5.8	5.5	4.0	3.8	4.0	3.1
Public sector 2/	1.9	0.7	2.4	3.9	3.6	3.3	2.2	2.3	2.6	2.5
Of which: Eurobonds	0.0	0.0	0.0	1.5	1.9	1.5	0.0	0.0	0.0	0.0
Of which: Domestic bonds (non-residents)	0.8	0.7	1.3	1.2	0.8	0.4	0.6	0.9	0.7	0.8
Commercial banks	0.3	0.4	0.5	0.6	0.3	0.3	0.4	0.3	0.3	0.2
Corporate sector	0.7	0.6	1.3	1.1	1.9	2.0	1.4	1.2	1.0	0.4
Short-term debt	0.3	0.7	0.8	1.4	0.8	0.6	0.6	0.6	0.6	0.6
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.6	0.8	1.3	0.7	0.5	0.5	0.5	0.5	0.5
Corporate sector	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other net capital inflows 3/	0.3	0.4	0.2	0.4	-0.6	0.1	0.1	-0.4	0.0	-0.9
o/w trade credit and currency and deposits	0.7	-0.1	1.5	0.5	0.6	-0.1	-0.1	0.4	0.0	0.9
3. Total financing needs	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:										
Debt service	5.5	3.8	5.6	6.5	6.1	6.0	4.8	4.3	5.0	3.5
Interest	0.9	0.8	0.7	0.6	0.8	0.7	0.8	0.7	0.6	0.8
Amortization	4.6	3.0	5.0	5.8	5.3	5.3	4.0	3.7	4.4	2.8

Sources: NBS; and Fund staff estimates and projections.

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

Table 6a. Serbia: General Government Fiscal Operations, 2016-2025 1/

(Billions of RSD)

	2016	2017	2018	2019		2020		2021		2022		2023	2024	2025
				CR 19/369	Est.	CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.	Proj.	Proj.
Revenue	1,843	1,973	2,105	**2,244**	2,279	**2,341**	2,080	**2,496**	2,430	**2,664**	2,658	2,813	3,017	3,239
Taxes	1,586	1,718	1,822	**1,978**	1,994	**2,084**	1,837	**2,226**	2,171	**2,378**	2,392	2,538	2,733	2,945
Personal income tax	155	168	179	**202**	204	**216**	170	**227**	227	**240**	259	265	288	308
Social security contributions 2/	527	567	620	**671**	676	**725**	580	**773**	775	**826**	861	897	967	1,047
Taxes on profits	80	112	112	**128**	127	**114**	99	**130**	96	**138**	109	123	137	152
Value-added taxes	454	479	500	**545**	551	**582**	566	**620**	610	**663**	660	711	763	820
Excises	266	280	290	**301**	307	**311**	296	**332**	324	**356**	353	380	405	432
Taxes on international trade	36	40	44	**47**	48	**52**	44	**55**	50	**60**	57	62	68	75
Other taxes	67	72	77	**83**	82	**84**	82	**89**	88	**94**	93	99	105	111
Non-tax revenue	239	241	263	**249**	259	**240**	226	**252**	243	**267**	249	256	264	272
Capital revenue	8	6	6	**0**	11	**0**	0	**0**	0	**0**	0	0	0	1
Grants	9	9	15	**16**	15	**17**	17	**18**	17	**19**	18	19	21	20
Expenditure	1,897	1,921	2,073	**2,273**	2,290	**2,370**	2,549	**2,525**	2,550	**2,695**	2,693	2,851	3,053	3,277
Current expenditure	1,715	1,745	1,845	**2,016**	2,002	**2,090**	2,306	**2,231**	2,216	**2,384**	2,327	2,484	2,655	2,842
Wages and salaries 3/	418	426	469	**514**	516	**555**	565	**595**	572	**636**	611	656	703	754
Goods and services	339	365	412	**466**	472	**483**	554	**511**	540	**544**	554	584	626	663
Interest	132	121	109	**113**	109	**114**	108	**122**	114	**132**	115	125	132	145
Subsidies	113	113	110	**128**	121	**114**	239	**123**	127	**132**	138	148	159	171
Transfers	714	720	746	**795**	783	**825**	839	**881**	864	**941**	909	970	1,035	1,109
Pensions 4/	503	506	525	**572**	568	**594**	595	**635**	616	**681**	649	693	739	791
Other transfers 5/	211	214	221	**223**	215	**231**	244	**246**	247	**260**	259	277	296	318
Capital expenditure	139	134	199	**237**	266	**260**	207	**266**	285	**282**	310	335	366	404
Net lending	3	13	9	**9**	11	**13**	27	**14**	25	**15**	33	20	16	18
Amortization of activated guarantees	39	29	20	**12**	11	**7**	9	**14**	24	**14**	24	12	15	14
Fiscal balance	-54	52	32	**-30**	-11	**-29**	-469	**-29**	-121	**-31**	-35	-38	-36	-38
Financing	54	-52	-32	**30**	11	**29**	469	**29**	121	**31**	35	38	36	38
Privatization proceeds	5	4	3	**20**	49	**0**	53	**0**	0	**0**	0	0	0	0
Equity investment	0	0	0	**0**	-26	**0**	0	**0**	0	**0**	0	0	0	0
Domestic	20	-40	41	**-18**	-64	**-3**	214	**36**	94	**28**	18	31	76	15
External	29	-16	-77	**28**	52	**32**	202	**-6**	26	**3**	17	7	-40	23
Program	0	61	0	**0**	0	**0**	0	**0**	0	**0**	0	0	0	0
Project	73	60	79	**65**	90	**82**	64	**69**	131	**76**	150	146	150	150
Bonds and loans	23	0	40	**223**	213	**53**	251	**182**	188	**27**	10	0	50	25
Amortization	-67	-137	-195	**-259**	-251	**-103**	-113	**-257**	-292	**-100**	-143	-139	-240	-152
Memorandum items:														
Wages and salaries excluding severance payments	418	426	469	**514**	516	**555**	565	**595**	572	**636**	611	656	703	754
Gross 1 wages and salaries	354	361	397	**438**	440	**475**	479	**508**	488	**543**	522	560	600	644
Arrears accumulation (domestic)	-1	-1	1	**-1**	2	**-1**	-1	**0**	-1	**0**	-1	-1	-1	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	86	54	38	**16**	32	**25**	11	**5**	3	**5**	7	5	5	0
Government deposits (stock)	107	102	105	**132**	212	**191**	162	**204**	175	**214**	185	208	223	238
Gross public debt	3114	2792	2760	**2854**	2859	**2995**	3261	**2992**	3369	**3015**	3415	3472	3527	3586
Gross public debt (including restitution)	3357	3035	3003	**3097**	3102	**3238**	3504	**3215**	3592	**3219**	3618	3655	3691	3729
Nominal GDP (billions of dinars)	4521	4754	5069	**5417**	5411	**5827**	5448	**6264**	5907	**6740**	6414	6887	7383	7926

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

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

2/ Includes employer contributions.

3/ Including severence payments. Includes employer contributions.

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

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

Table 6b. Serbia: General Government Fiscal Operations, 2016-2025 1/
(Percent of GDP)

	2016	2017	2018	2019		2020		2021		2022		2023	2024	2025
				CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.	Proj.	Proj.
Revenue	40.8	41.5	41.5	**41.4**	42.1	**40.2**	38.2	**39.8**	41.1	**39.5**	41.4	40.8	40.9	40.9
Taxes	35.1	36.1	36.0	**36.5**	36.8	**35.8**	33.7	**35.5**	36.7	**35.3**	37.3	36.9	37.0	37.2
Personal income tax	3.4	3.5	3.5	**3.7**	3.8	**3.7**	3.1	**3.6**	3.8	**3.6**	4.0	3.8	3.9	3.9
Social security contributions 2/	11.7	11.9	12.2	**12.4**	12.5	**12.4**	10.6	**12.3**	13.1	**12.3**	13.4	13.0	13.1	13.2
Taxes on profits	1.8	2.4	2.2	**2.4**	2.3	**2.0**	1.8	**2.1**	1.6	**2.1**	1.7	1.8	1.9	1.9
Value-added taxes	10.0	10.1	9.9	**10.1**	10.2	**10.0**	10.4	**9.9**	10.3	**9.8**	10.3	10.3	10.3	10.4
Excises	5.9	5.9	5.7	**5.6**	5.7	**5.3**	5.4	**5.3**	5.5	**5.3**	5.5	5.5	5.5	5.4
Taxes on international trade	0.8	0.8	0.9	**0.9**	0.9	**0.9**	0.8	**0.9**	0.9	**0.9**	0.9	0.9	0.9	0.9
Other taxes	1.5	1.5	1.5	**1.5**	1.5	**1.4**	1.5	**1.4**	1.5	**1.4**	1.5	1.4	1.4	1.4
Non-tax revenue	5.3	5.1	5.2	**4.6**	4.8	**4.1**	4.2	**4.0**	4.1	**4.0**	3.9	3.7	3.6	3.4
Capital revenue	0.2	0.1	0.1	**0.0**	0.2	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Grants	0.2	0.2	0.3	**0.3**	0.3	**0.3**	0.3	**0.3**	0.3	**0.3**	0.3	0.3	0.3	0.3
Expenditure	41.9	40.4	40.9	**42.0**	42.3	**40.7**	46.8	**40.3**	43.2	**40.0**	42.0	41.4	41.4	41.3
Current expenditure	37.9	36.7	36.4	**37.2**	37.0	**35.9**	42.3	**35.6**	37.5	**35.4**	36.3	36.1	36.0	35.9
Wages and salaries 3/	9.2	9.0	9.2	**9.5**	9.5	**9.5**	10.4	**9.5**	9.7	**9.4**	9.5	9.5	9.5	9.5
Goods and services	7.5	7.7	8.1	**8.6**	8.7	**8.3**	10.2	**8.2**	9.1	**8.1**	8.6	8.5	8.5	8.4
Interest	2.9	2.5	2.1	**2.1**	2.0	**1.9**	2.0	**1.9**	1.9	**2.0**	1.8	1.8	1.8	1.8
Subsidies	2.5	2.4	2.2	**2.4**	2.2	**2.0**	4.4	**2.0**	2.2	**2.0**	2.2	2.2	2.2	2.2
Transfers	15.8	15.1	14.7	**14.7**	14.5	**14.2**	15.4	**14.1**	14.6	**14.0**	14.2	14.1	14.0	14.0
Pensions 4/	11.1	10.7	10.4	**10.6**	10.5	**10.2**	10.9	**10.1**	10.4	**10.1**	10.1	10.1	10.0	10.0
Other transfers 5/	4.7	4.5	4.4	**4.1**	4.0	**4.0**	4.5	**3.9**	4.2	**3.9**	4.0	4.0	4.0	4.0
Capital expenditure	3.1	2.8	3.9	**4.4**	4.9	**4.5**	3.8	**4.2**	4.8	**4.2**	4.8	4.9	5.0	5.1
Net lending	0.1	0.3	0.2	**0.2**	0.2	**0.2**	0.5	**0.2**	0.4	**0.2**	0.5	0.3	0.2	0.2
Amortization of activated guarantees	0.9	0.6	0.4	**0.2**	0.2	**0.1**	0.2	**0.2**	0.4	**0.2**	0.4	0.2	0.2	0.2
Fiscal balance	-1.2	1.1	0.6	**-0.5**	-0.2	**-0.5**	-8.6	**-0.5**	-2.0	**-0.5**	-0.5	-0.5	-0.5	-0.5
Financing	1.2	-1.1	-0.6	**0.5**	0.2	**0.5**	8.6	**0.5**	2.0	**0.5**	0.5	0.5	0.5	0.5
Privatization proceeds	0.1	0.1	0.1	**0.4**	0.9	**0.0**	1.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Equity investment	0.0	0.0	0.0	**0.0**	-0.5	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Domestic	0.4	-0.8	0.8	**-0.3**	-1.2	**-0.1**	3.9	**0.6**	1.6	**0.4**	0.3	0.4	1.0	0.2
External	0.6	-0.3	-1.5	**0.5**	1.0	**0.6**	3.7	**-0.1**	0.4	**0.0**	0.3	0.1	-0.5	0.3
Program	0.0	1.3	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Project	1.6	1.3	1.6	**1.2**	1.7	**1.4**	1.2	**1.1**	2.2	**1.1**	2.3	2.1	2.0	1.9
Bonds and loans	0.5	0.0	0.8	**4.1**	3.9	**0.9**	4.6	**2.9**	3.2	**0.4**	0.2	0.0	0.7	0.3
Amortization	-1.5	-2.9	-3.9	**-4.8**	-4.6	**-1.8**	-2.1	**-4.1**	-5.0	**-1.5**	-2.2	-2.0	-3.3	-1.9
Memorandum items:														
Wages and salaries excluding severance payments	9.2	9.0	9.2	**9.5**	9.5	**9.5**	10.4	**9.5**	9.7	**9.4**	9.5	9.5	9.5	9.5
Gross 1 wages and salaries	7.8	7.6	7.8	**8.1**	8.1	**8.1**	8.8	**8.1**	8.3	**8.1**	8.1	8.1	8.1	8.1
Arrears accumulation (domestic)	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Government deposits (stock)	2.4	2.1	2.1	**2.4**	3.9	**3.3**	3.0	**3.3**	3.0	**3.2**	2.9	3.0	3.0	3.0
Gross financing need	12.3	9.0	8.5	**11.1**	10.3	**6.5**	14.0	**7.4**	9.3	**5.5**	6.8	6.8	6.4	5.0
Gross public debt	68.9	58.7	54.5	**52.7**	52.8	**51.4**	59.8	**47.8**	57.0	**44.7**	53.2	50.4	47.8	45.2
Gross public debt (including restitution)	74.3	63.8	59.3	**57.2**	57.3	**55.6**	64.3	**51.3**	60.8	**47.8**	56.4	53.1	50.0	47.0
Nominal GDP (billions of dinars)	4,521	4,754	5,069	**5,417**	5,411	**5,827**	5,448	**6,264**	5,907	**6,740**	6,414	6,887	7,383	7,926

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

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

2/ Includes employer contributions.

3/ Including severence payments. Includes employer contributions.

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

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

Table 7. Serbia: Monetary Survey, 2016-2025

	2016	2017	2018	2019		2020		2021		2022		2023	2024	2025
				CR 19/369	Est.	CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/													
Net foreign assets 2/	1156	986	1116	1255	1287	1326	1309	1348	1314	1359	1339	1393	1426	1524
in billions of euro	9.4	8.3	9.4	10.6	11.0	11.2	11.0	11.4	11.0	11.5	11.2	11.5	11.8	12.5
Foreign assets	1512	1391	1616	1760	1831	1840	1850	1872	1865	1869	1900	1964	2007	2110
NBS	1271	1191	1342	1487	1585	1567	1578	1599	1638	1596	1690	1755	1826	1881
Commercial banks	241	200	273	273	247	273	272	273	227	273	210	210	180	230
Foreign liabilities (-)	-356	-405	-500	-504	-544	-514	-542	-524	-550	-510	-561	-571	-580	-586
NBS	-6	-4	-3	-3	-2	-3	-3	-3	-3	-3	-3	-3	-3	-3
Commercial banks	-350	-401	-497	-501	-542	-511	-538	-521	-547	-506	-558	-568	-577	-583
Net domestic assets	989	1,231	1,435	1,511	1,486	1,645	1,620	1,808	1,878	1,978	2,117	2,336	2,594	2,791
Domestic credit	2,321	2,362	2,552	2,657	2,643	2,806	3,010	2,953	3,310	3,094	3,569	3,860	4,231	4,605
Government, net	341	353	346	295	225	270	417	238	486	214	477	474	518	523
NBS	-210	-215	-233	-268	-360	-327	-223	-340	-276	-349	-317	-359	-327	-340
Claims on government	4	4	5	5	1	5	90	5	50	5	20	1	1	1
Liabilities (deposits)	214	219	238	273	361	332	313	345	326	355	337	360	328	341
Banks	551	568	578	562	586	596	639	578	762	563	794	833	845	863
Claims on government	638	630	641	625	676	659	730	641	853	627	885	925	936	955
Liabilities (deposits)	87	63	63	63	91	63	91	63	91	63	92	92	91	91
Local governments, net	-20	-31	-28	-28	-19	-28	-19	-28	-19	-28	-19	-19	-19	-19
Non-government sector	2,000	2,040	2,235	2,390	2,437	2,565	2,612	2,744	2,843	2,908	3,110	3,406	3,732	4,101
Households	840	905	1,018	1,114	1,112	1,218	1,187	1,334	1,286	1,435	1,400	1,526	1,657	1,805
Enterprises	1,127	1,103	1,188	1,245	1,291	1,314	1,389	1,375	1,518	1,436	1,667	1,832	2,023	2,240
Other	34	32	29	31	33	33	36	35	39	37	43	47	51	56
Other assets, net	-1,332	-1,131	-1,117	-1,145	-1,156	-1,161	-1,390	-1,145	-1,432	-1,116	-1,451	-1,525	-1,637	-1,814
Capital accounts (-)	-1,016	-963	-997	-1,013	-1,046	-1,027	-1,252	-1,011	-1,281	-979	-1,297	-1,355	-1,451	-1,627
NBS	-391	-298	-324	-324	-353	-324	-386	-308	-328	-262	-325	-364	-360	-537
Banks	-625	-664	-673	-689	-693	-703	-866	-703	-953	-717	-972	-991	-1,090	-1,090
Provisions (-)	-281	-161	-121	-133	-106	-136	-133	-136	-146	-139	-149	-164	-180	-180
Other assets	-34	-7	1	2	-5	2	-5	2	-5	2	-5	-6	-6	-7
Broad money (M2)	2146	2217	2551	2766	2774	2971	2928	3156	3193	3338	3456	3729	4021	4316
M1	566	621	745	825	867	905	919	983	1031	1058	1146	1254	1364	1482
Currency in circulation	159	164	183	202	210	222	222	241	249	259	277	303	330	358
Demand deposits	407	457	563	623	657	683	697	742	782	799	869	951	1034	1124
Time and saving deposits	195	196	220	243	273	267	289	290	325	312	361	395	429	466
Foreign currency deposits	1385	1400	1585	1698	1634	1799	1720	1883	1837	1967	1949	2080	2227	2367
in billions of euro	11.2	11.8	13.4	14.4	13.9	15.2	14.5	15.9	15.4	16.6	16.2	17.2	18.4	19.5
Memorandum items:	(year-on-year change unless indicated otherwise)													
M1	20.3	9.7	20.1	10.7	16.3	9.7	6.0	8.6	12.2	7.7	11.1	9.4	8.8	8.7
M2	9.8	3.3	15.0	8.5	8.8	7.4	5.5	6.2	9.0	5.8	8.2	7.9	7.8	7.3
Velocity (Dinar part of money supply)	5.9	5.8	5.3	5.1	4.7	5.0	4.5	4.9	4.4	4.9	4.3	4.2	4.1	4.1
Velocity (M2)	2.1	2.1	2.0	2.0	2.0	2.0	1.9	2.0	1.9	2.0	1.9	1.8	1.8	1.8
Deposits at constant exchange rate	8.5	5.9	15.9	8.5	8.7	7.1	4.9	6.0	8.3	5.5	7.6	7.4	7.5	7.0
Credit to non-gov. (current exchange rate)	3.2	1.9	9.6	4.8	9.2	5.3	3.5	5.3	7.4	4.7	7.4	7.5	7.5	7.6
Credit to non-gov. (constant exchange rates) 3/	2.1	4.8	10.2	5.1	9.8	5.2	2.8	5.3	6.8	4.6	7.0	7.1	7.2	7.3
Domestic	1.8	4.4	10.1	7.2	9.5	7.3	6.6	6.9	8.4	5.9	9.0	9.2	9.3	9.6
Households	9.8	9.8	12.9	9.6	9.5	9.3	6.3	9.5	8.1	7.5	8.6	8.8	8.4	8.7
Enterprises and other sectors	-3.3	0.5	7.9	5.2	9.4	5.5	6.8	4.6	8.7	4.5	9.3	9.5	10.1	10.4
External	2.8	5.4	10.5	0.5	10.3	0.3	-4.6	1.2	3.4	1.1	2.2	1.9	1.6	0.6
Credit to non-gov. (real terms) 4/	1.6	-1.1	7.5	3.1	7.2	3.2	1.9	3.1	5.3	2.1	5.0	4.7	4.5	4.5
Domestic credit to non-gov. (real terms)	1.1	-1.0	7.4	5.2	7.1	5.3	5.5	4.7	6.7	3.4	6.9	6.7	6.5	6.7
Households	8.8	4.6	10.3	7.7	7.3	7.2	5.0	7.1	6.2	4.9	6.4	6.2	5.5	5.7
Enterprises and other sectors	-3.8	-5.1	5.1	3.1	6.9	3.5	5.9	2.3	7.2	1.9	7.3	7.1	7.3	7.5
External	2.6	-1.2	7.6	-1.5	7.6	-1.5	-5.4	-0.9	2.0	-1.3	0.5	-0.2	-0.8	-1.9
12-m change in NBS's NFA, billions of euros	0.1	-0.2	0.6	1.8	2.9	1.0	-0.9	0.3	0.4	-0.1	0.3	0.5	0.1	0.3
Deposit euroization (percent of total) 5/	69.7	68.2	66.9	66.2	63.7	65.4	63.5	64.6	62.4	63.9	61.3	60.7	60.3	59.8
Credit euroization (percent of total) 5/	68.3	67.1	66.9	66.3	66.7	65.5	66.7	64.7	65.9	63.9	65.1	64.1	63.1	62.1

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

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

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

3/ Using constant program dinar/euro and dinar/swiss franc exchange rates for converting FX and FX-indexed loans to dinars agreed under 2015-17 SBA.

4/ Calculated as nominal credit at current exchange rates deflated by the change in the 12-month CPI index.

5/ Using current exchange rates.

Table 8. Serbia: NBS Balance Sheet, 2016-2025

	2016	2017	2018	2019		2020		2021		2022		2023	2024	2025
				CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.	Proj.	Proj.
	(Billions of dinars, unless otherwise indicated; end of period) 1/													
Net foreign assets	1265	1187	1339	**1484**	1583	**1564**	1574	**1596**	1635	**1592**	1687	1751	1823	1877
(In billions of euro)	10.3	10.0	11.3	**12.6**	13.5	**13.3**	13.3	**13.5**	13.7	**13.5**	14.1	14.5	15.0	15.4
Gross foreign reserves	1271	1191	1342	**1487**	1585	**1567**	1578	**1599**	1638	**1596**	1690	1755	1826	1881
Gross reserve liabilities (-)	-6	-4	-3	**-3**	-2	**-3**	-3	**-3**	-3	**-3**	-3	-3	-3	-3
Net domestic assets	-663	-596	-607	**-721**	-806	**-724**	-728	**-686**	-691	**-613**	-643	-595	-547	-498
Net domestic credit	-272	-298	-282	**-397**	-453	**-399**	-342	**-378**	-363	**-351**	-318	-231	-187	39
Net credit to government	-210	-215	-233	**-268**	-360	**-327**	-223	**-340**	-276	**-349**	-317	-359	-327	-340
Claims on government	4	4	5	**5**	1	**5**	90	**5**	50	**5**	20	1	1	1
Liabilities to government (-)	-214	-219	-238	**-273**	-361	**-332**	-313	**-345**	-326	**-355**	-337	-360	-328	-341
Liabilities to government (-): local currency	-95	-118	-137	**-137**	-222	**-137**	-222	**-137**	-222	**-137**	-222	-222	-222	-222
Liabilities to government (-): foreign currency	-119	-101	-101	**-136**	-140	**-194**	-91	**-208**	-105	**-217**	-115	-139	-106	-120
Net credit to local governments	-43	-48	-46	**-48**	-36	**-48**	-38	**-48**	-38	**-48**	-38	-38	-38	-38
Net claims on banks	-33	-45	-16	**-94**	-69	**-37**	-94	**-2**	-62	**33**	24	153	165	404
Capital accounts (-)	-391	-298	-324	**-324**	-353	**-324**	-386	**-308**	-328	**-262**	-325	-364	-360	-537
Reserve money	602	591	732	**762**	777	**840**	846	**910**	944	**979**	1045	1156	1276	1379
Currency in circulation	159	164	183	**202**	210	**222**	222	**241**	249	**259**	277	303	330	358
Commercial bank reserves	221	232	269	**307**	341	**350**	367	**388**	420	**426**	476	542	614	667
Required reserves	147	156	171	**183**	192	**194**	186	**203**	198	**212**	211	225	241	256
Excess reserves	73	76	98	**123**	149	**156**	182	**185**	222	**214**	266	318	374	412
FX deposits by banks, billions of euros	1.8	1.6	2.4	**2.2**	1.9	**2.3**	2.2	**2.4**	2.3	**2.5**	2.4	2.6	2.7	2.9

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

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

Table 9. Serbia: Banking Sector Financial Soundness Indicators, 2014-2020

	2014	2015	2016	2017	2018	2019				2020
						Mar	Jun	Sep	Dec	Mar
Capital adequacy										
CAR: regulatory capital in percent of risk-weighted assets	20.0	20.9	21.8	22.6	22.3	23.7	23.2	23.6	23.4	22.7
Regulatory Tier 1 capital to risk-weighted assets	17.6	18.8	20.0	21.6	21.1	22.6	22.1	22.5	22.4	21.9
Nonperforming loans net of provisions to regulatory capital	56.0	44.0	27.1	17.7	9.7	8.2	8.1	7.3	6.3	6.5
Regulatory Tier 1 capital to assets	10.1	10.7	11.6	13.7	13.5	14.8	14.8	14.7	14.4	14.0
Large exposures to capital	130.5	115.7	86.0	69.3	77.4	63.4	64.0	68.3	66.5	70.5
Regulatory capital to assets	11.4	11.9	12.7	14.4	14.2	15.5	15.6	15.4	15.1	14.6
Asset quality										
Non-performing loans in percent of total loans	21.5	21.6	17.0	9.8	5.7	5.5	5.2	4.7	4.1	4.0
Sectoral distribution of loans (percent of total loans)										
Deposit takers	0.8	0.1	0.5	0.3	0.4	0.3	0.5	0.3	0.4	0.4
Central bank	0.4	1.6	1.7	2.1	0.7	0.7	1.7	2.8	2.8	0.4
General government	2.3	1.7	1.5	1.3	1.1	1.2	1.3	1.4	1.5	1.6
Other financial corporations	0.5	0.7	0.9	0.9	0.8	0.9	0.9	0.7	0.8	0.8
Nonfinancial corporations	56.3	55.9	52.6	50.5	50.0	49.9	49.2	49.0	49.2	51.0
Agriculture	3.5	3.7	3.6	3.5	3.5	3.3	3.2	3.4	3.5	3.2
Industry	19.2	18.4	16.5	16.2	16.5	16.5	15.7	15.3	15.0	15.1
Construction	4.2	3.8	4.1	4.0	4.2	4.5	4.5	4.7	4.8	4.8
Trade	13.9	13.9	14.3	14.6	14.0	14.2	13.8	13.7	13.7	14.6
Other loans to nonfinancial corporations	15.6	16.2	14.1	12.2	11.8	11.4	12.0	11.9	12.3	13.3
Households and NPISH	38.3	39.1	41.5	42.9	44.3	45.1	44.2	43.8	43.8	44.0
Households and NPISH of which: mortgage loans to total loar	18.0	18.1	17.9	16.9	16.8	17.0	16.1	15.8	15.8	16.1
Foreign sector	1.4	0.9	1.4	2.0	2.6	2.0	2.1	1.8	1.5	1.9
IFRS provision for NPLs to gross NPLs	54.9	62.3	67.8	58.1	60.2	61.3	60.8	60.1	61.5	61.4
IFRS provision of total loans to total gross loans	12.7	14.4	12.4	6.6	4.5	4.4	4.1	3.7	3.4	3.4
Earnings and Profitability										
Return on average assets: earnings before extraordinary items & t	0.1	0.3	0.7	2.1	2.2	1.7	1.8	1.9	1.8	1.8
Return on equity	0.6	1.5	3.3	10.5	11.3	9.7	9.7	10.5	9.8	10.5
Liquidity										
Customer deposits to total (noninterbank) loans	95.7	99.7	108.1	106.9	110.6	109.6	107.4	107.8	109.2	106.8
Foreign-currency-denominated loans to total loans	70.1	72.3	69.4	67.5	68.5	68.2	67.6	66.9	67.1	68.7
Average monthly liquidity ratio	2.2	2.1	2.1	2.0	2.0	2.2	2.1	2.2	2.2	2.2
Average monthly narrow liquidity ratio	1.7	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8
Sensitivity to Market Risk										
Foreign-currency-denominated liabilities to total liabilities	74.7	72.7	71.1	69.7	69.3	69.8	68.3	67.2	66.6	66.0
Classified off-balance sheet items to classified balance sheet asset	27.6	30.6	32.4	36.4	36.8	37.6	37.7	38.6	39.7	37.6

Source: National Bank of Serbia.

Table 10. Serbia: Reform Targets

	Reform Targets	Target Date	Status	Objective
	Outstanding Actions			
	Fiscal			
1	Approve a government decree defining wage coefficients under the new Public Sector Employee Wage System for local governments, public services, and public administration.	End-July 2020	Not met.	Rationalize pay and improve incentives across public sector.
2	Adopt a government decision on a revised public employment framework for 2020.	End-September, 2020	Drop.	Improve employment flexibility while containing fiscal pressures.
3	Prepare methodologies to: (i) monitor fiscal risks from SOEs and natural disasters, and (ii) manage fiscal risks associated with the state-guarantee scheme designed in response to the COVID-19 crisis.	End-July, 2020	Not met. Revised and reset to end-November 2020.	Reduce fiscal risks.
	Structural			
4	Adopt a government decision to launch a privatization tender for Petrohemija.	End-February, 2019	Not met.	Reduce fiscal risks.
5	Launch a tender for the valuation of EPS property and assets.	End-December, 2019	Not met.	Improve SOE governance.
6	Government adoption of an ownership policy document and a time-bound action plan to implement it.	End-July, 2020	Not Met. Reset to end-October 2020.	Improve SOE governance.
	Past Actions			
	Fiscal			
7	Submit to the National Assembly a draft Law on Charges.	End-October, 2018	Not met. Submitted in November 2018.	Improve transparency and predictability, reduce parafiscal tax burden on businesses.
8	Issue a detailed rule book to the 2017 Capital Project Regulation, covering methodology for project appraisal and selection.	End-January, 2019	Not met. Issued in July 2019.	Unifies methodology for the project and cost-benefit analysis and raise transparency.
9	Establish Capital Investment Commission (CIC) and update Capital Project Regulation to (i) clarify roles of MoF, CIC, and other line ministries, (ii) remove the exclusion of IPA-funded projects, and (iii) expand the coverage to government-to-government agreements.	End-April, 2019	Not met. CIC established in April 2019 and decree on capital investment projects updated in July 2019.	Improve selection, appraisal, and implementation of public infrastructure projects.
10	Complete consolidation of core STA activities into fewer sites.	End-June, 2019	Met.	Advance reforms of the State Tax Administration.
11	Reach decision on a preferred approach to the STA IT system upgrade.	End-October, 2019	Met.	Advance reforms of the State Tax Administration.
	Financial			
12	Approve a time-bound action plan to resolve part of the DIA portfolio of bad assets by end-2020 through a tendering process implemented in two phases (agreed with the World Bank); and complete the first phase of the sale.	End-December, 2018	Not met. Action plan adopted in December 2018. First phase completed in June 2019.	Resolve bad assets and address fiscal risks.
13	Approve an updated Dinarization Strategy in line with the IMF recommendations.	End-December, 2018	Met.	Strengthen financial stability and increase dinarization.
14	Submit to the National Assembly amendments to the Law on Public Debt with a view to update legal foundation of debt management.	End-December, 2018	Met.	Strengthen public debt management.
15	Implement items listed in Serbia's action plan to address the significant AML/CFT weaknesses identified by the FATF.	End-February, 2019	Met.	Remove Serbia from FATF listing and prevent pressures on capital inflows and correspondent banking relationships.
16	(i) Submit to the National Assembly amendments to the Law on Deposit Insurance Agency and the Law on Deposit Insurance to incorporate the findings of IADI assessment and update parametrization; and (ii) introduce risk-based premia.	End-June, 2019	Not met. Submitted in July 2019.	Align deposit insurance scheme with international standards.
17	Launch a privatization tender for Komercijalna Banka.	End-June, 2019	Met.	Reduce state involvement in the financial sector and reduce fiscal risks.
18	Issue tenders for the second phase of DIA asset sales, in line with the time-bound action plan.	End-September, 2019	Met.	Resolve bad assets.
19	Sign an updated MOU between the DIA and NBS to reflect new resolution tools given to the NBS and the need for information sharing.	End-December, 2019	Met.	Strengthen financial safety nets.
	Structural			
20	Approve amendments to the Law on Inspection Supervision.	End-September, 2018	Not met. Approved in December 2018.	Reduce grey economy.
21	Publication of a comprehensive list of SOEs as of December 31, 2018 (covering all levels of government including consolidated ownership; include information on main economic activity; at least 10 percent government ownership stake).	End-October, 2019	Met.	Improve SOE governance.

Table 11. Serbia: Schedule of Reviews Under the Policy Coordination Instrument, 2018-2020

Program Review	Proposed Date
Board discussion of a PCI request	July 18, 2018
First Review	December 1, 2018
Second Review	June 1, 2019
Third Review	December 1, 2019
Fourth Review	June 1, 2020
Fifth Review	December 1, 2020

Source: IMF staff.

Annex I. Adverse Scenario

1. **In the context of the high uncertainty surrounding the COVID shock, IMF staff developed an alternative adverse scenario for 2020-2022.** This scenario illustrates how the economy could be affected if the crisis were to become more severe than expected under the baseline projections. The baseline assumes the pandemic fades in the second half of 2020 with lingering effects in 2021. The assumption underlying the alternative scenario involves repeated outbreaks in Serbia and in its main trading partners through 2H2020 and 2021. Consequently, renewed containment measures would be needed throughout this period. In addition to constraining domestic supply, this would also reduce export demand, remittances, and FDI. In addition, the higher uncertainty would depress demand. Furthermore, the scenario assumes a severe tightening of global financing conditions, such that financial markets would be closed to European emerging market economies until 2022.

Serbia: Adverse Scenario, 2020-2022

	Baseline			Adverse scenario		
	2020	2021	2022	2020	2021	2022
GDP growth (percent)	-3.0	6.0	6.0	-6.0	2.0	4.0
Current account (percent of GDP)	-6.4	-6.5	-6.3	-6.9	-7.1	-6.7
Revenue (percent of GDP)	38.2	40.9	41.0	38.0	40.0	41.0
Expenditure (percent of GDP)	46.8	42.9	41.6	48.4	45.9	44.8
Fiscal balance (percent of GDP)	-8.6	-2.0	-0.5	-10.4	-5.9	-3.8
Primary fiscal balance (percent of GDP)	-6.6	-0.1	1.2	-8.4	-3.7	-1.4
Debt (percent of GDP)	59.9	57.0	53.2	64.5	67.8	67.0

2. **Under the adverse scenario, Serbia's public debt would exceed 60 percent, financing needs would increase, and reserves would decline:**

- ***Growth***. Real GDP growth in 2020 drops to -6 percent, with a weaker recovery in 2021 and 2022 relative to the baseline. Given Serbia's integration into European and global supply chains, the impact of a prolonged and stronger COVID shock on manufacturing would be severe, particularly on the automotive sector. The negative impact from tourism would be more limited given its relatively small share of Serbia's economy. Inflation would be lower relative to the baseline scenario and remain below 2 percent through 2022.

- ***Budget***. Given limited fiscal space, there would be limited or no room for additional fiscal spending to counter the further shocks—in contrast with the strong fiscal package deployed so far in response to the pandemic. Nonetheless, the primary fiscal deficit in 2020 would deteriorate by 1.8 pp of GDP relative to the baseline, mainly due to lower revenues stemming from a weaker economy. With weaker revenues and higher amortization of activated guarantees, the primary fiscal balance in 2021 and 2022 would deteriorate by 3.6 pp of GDP and 2.6 pp of GDP relative to the baseline, respectively.

- ***Fiscal financing***. With lower growth and higher deficits, general government debt (including guarantees) would exceed the 60-percent threshold in 2020-2022, and peak at 67.8 percent of GDP in 2021. In the adverse scenario, gross fiscal financing needs would be RSD 97.5 billion and RSD 203.1 billion higher relative to the baseline in 2020 and 2021, respectively (or 1.7 percent and 3.7 percent of baseline GDP, respectively). This scenario assumes that the fiscal deficit is financed domestically, with non-residents participating in the domestic market only gradually from 2022. However, financing the residual needs in the adverse scenario may require additional liquidity support and, possibly, regulatory measures from the NBS. Alternatively, additional official external support to the budget could be mobilized.

Serbia: Fiscal Financing Needs (RSD billion)

	Baseline		Adverse	
	2020	2021	2020	2021
Fiscal balance	-469.1	-120.0	-566.6	-334.1
Gross financing needs	763.0	549.0	829.7	752.1

- ***External sector***. Compared with the baseline, FDI inflows would be lower in both 2020 and 2021, as a result of a weaker external environment. Similarly, lower wages and employment levels of migrant workers would cause a larger and more protracted fall in remittances. With exports falling due to weak external demand (particularly from Europe, Serbia's main trading partner) and lower imports related to lower FDI and remittances, the current account balance would not change much relative to the baseline scenario. However, the balance of payments would weaken also as a result of lower assumed rollover rates for commercial and bank debt and the assumed switch to domestic fiscal financing.

Serbia: External Financing (EUR billion)

	Baseline		Adverse	
	2020	2021	2020	2021
CA deficit	3.0	3.2	3.0	3.2
FDI	2.1	2.8	1.7	1.7
Debt financing	6.0	6.3	5.7	3.8

3. **If the adverse scenario were to materialize, several policy issues would arise.** A deeper and more prolonged downturn would have a severe negative impact on corporates and households, whose buffers (credit lines and precautionary savings) could be quickly eroded. Additional support for the most affected sectors and the most vulnerable, including the informally employed, could become necessary. NPLs could rise substantially. At the same time there would be limited fiscal space for additional measures. Against this background, contingent policies could cover the following areas:

- Ensuring continued provision of adequate health care.

- Targeted measures to support those most in need. The existing social assistance system could be expanded.

- Identifying options to support at risk companies or sectors that are most critical to the economy.
- Identifying options for reallocations within the budget.
- Maintaining a relatively large liquidity buffer and measures to keep domestic markets liquid, and reexamining the exchange market intervention strategy.
- Close monitoring of emerging financial vulnerabilities, in particular in the banking system and of troubled SOEs, including Air Serbia.
- Implementing continued liability management and pre-financing of gross financing needs to ease financing pressures.

Annex II. Public Debt Sustainability Analysis

After declining for four consecutive years, public debt to GDP is expected to increase in 2020 due to higher financing needs and lower economic growth driven by the COVID-19 shock. Public debt is expected to revert to a downward path in future years, as the fiscal balance gradually goes back to primary surpluses and growth resumes. In the context of the pandemic, projections are subject to larger-than-usual risks stemming from the materialization of contingent liabilities, further fiscal costs, a deeper and more protracted slowdown in growth, and pressures on the exchange rate.

1. **General government debt has been on a downward trajectory since 2016.** Debt increased rapidly following the global financial crisis in 2008, due to a combination of expansionary fiscal policies, sluggish output growth, and significant exchange rate depreciation. Public debt peaked at 71 percent of GDP in 2015, but fell thereafter thanks to continued fiscal discipline under the previous and current IMF programs. At end-2019, public debt stood at 52.8 percent of GDP, with contingent liabilities at 3.2 percent of GDP.[1] Gross financing needs stood at 10 percent of GDP.

2. **The shares of foreign currency debt, debt held by non-residents, and external financing needs remain high.** Compared to the last DSA, the main sources of risks identified in the heat matrix have not changed, apart from market perception which worsened slightly (reflecting higher yields across European EMs prevailing since March). Debt held by non-residents exceeds 60 percent, while the share of debt denominated in foreign currency is 71 percent (about 44 percent is in euro).[2] However, these risks are mitigated by other factors, including the maturity and interest rate structure, and the creditor base. The majority of external debt is owed to multilateral and bilateral creditors, while the share of domestic securities held by non-residents has remained broadly stable (around 27 percent), reducing rollover risks. Almost all outstanding debt is medium- and long-term.[3] The share of total debt with fixed interest rates is around 84 percent. In 2019, investors' interest in Serbian securities was strong, making it possible to finalize several liabilities management operations to retire expensive debt for cheaper debt with longer maturities. A global environment characterized by ultra-low interest rates and ample liquidity allowed cheap market funding, also at the long end of the curve.[4]

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[1] Public debt includes general government debt, and public guarantees covering SOE, local governments, and other entities.

[2] Compared to the DSA presented in the Staff Report for the 2019 AIV Consultation (CR 19/238), domestic securities held by non-residents (4.3 percent of GDP in 2019) are now included in external debt. Historical data have been revised since 2015.

[3] The residual maturity is above 2 years for about 82 percent of outstanding dinar-denominated securities, and 66 percent of euro-denominated securities.

[4] The bulk of domestic issuance in dinar securities consisted of 5, 7 and 12 years maturity bonds, while euro-denominated securities at 12 and 20 years were issued at competitive rates.

3. In 2020, public debt is projected to increase to almost 60 percent of GDP, on account of higher financing needs and negative growth. The DSA baseline is in line with staff's macroeconomic projections. Real GDP is expected to contract by 3 percent in 2020, while the fiscal deficit is projected to widen to 8.6 percent of GDP, from 0.2 in 2019. Gross financing needs are estimated at about 14 percent of GDP, fully covered by expected issuance on domestic and international markets (10 percent of GDP), project loans and budget support from IFIs (1.3 percent of GDP), drawdown of deposits (1.5 percent of GDP) and privatization proceeds (1 percent of GDP). Importantly, the programmed financing in international markets has already been broadly achieved, with issuance of a Euro 2 billion Eurobond in May. Over the medium term, the output gap is expected to gradually close, and inflation to remain within the tolerance band of the NBS. The fiscal deficit is projected to return to the medium-term norm of 0.5 by 2022. This target aims to reduce public debt and increase fiscal buffers, while allowing for adequate capital spending to address Serbia's large infrastructure needs, and support economic recovery.

4. Macro-fiscal stress tests highlight risks from weak fiscal outcomes, low growth, and a weak exchange rate—that could materialize in case of a more prolonged or severe COVID-19 crisis. While a deviation from the fiscal path envisaged in the last DSA is warranted given the severity of the COVID-19 shock, the positive outlook for both debt and financing needs hinges on continued strong fiscal outcomes and a return to sustained growth. Conversely, under the historical scenario, public debt stabilizes in percent of GDP, and financing needs remain significantly higher than under the baseline.[5] This result is confirmed by the set of macroeconomic stress tests, and by the asymmetric distribution of the debt forecast fan charts assuming no positive shocks to the primary balance and growth. The stress tests also indicate that the currency depreciation shock determines quickly rising debt levels and financing needs, given the large share of foreign currency-denominated debt.[6] Instead, the interest rate shock has only moderate effects, in light of the favorable interest rate structure. The calibrated contingent liabilities shock increases gross financing needs to more than 14 percent of GDP in 2021. Only under the combined macroeconomic shock public debt in percent of GDP exceeds 70 percent.

5. Forecast errors are in line with other market access countries under a program, and the envisaged fiscal stance is realistic. Large forecast errors for real GDP growth in some years are explained by sharp output contractions amid the global financial crisis in 2009, and by severe weather shocks with negative repercussions for agricultural output and energy production in 2012 and 2014. Forecast errors in primary balance projections have been positive in recent years, reflecting better fiscal outcomes than budgeted, while those for inflation are in line with comparator countries. The DSA assumes a fiscal multiplier of 0.5,

[5] The historical scenario sets real GDP growth, the primary balance, and real interest rates at their historical average. Other variables are the same as in the baseline.

[6] The size of the exchange rate shock is the estimate of real exchange rate overvaluation, or maximum historical movement of exchange rate over 10 years, whichever is highest. Pass-through to inflation is kept at default elasticity of 0.25 for EMs and 0.03 for AEs.

approximately in the middle of the range of values found in the literature, and appropriate for economies that are smaller and more open. The projected 3-year average level of the cyclically adjusted primary balance remains comfortably below the top quartile of the distribution. The planned fiscal adjustment over any three years during the projection horizon exceeds 3 percent of GDP, following the large deficit from the COVID-19 shock.

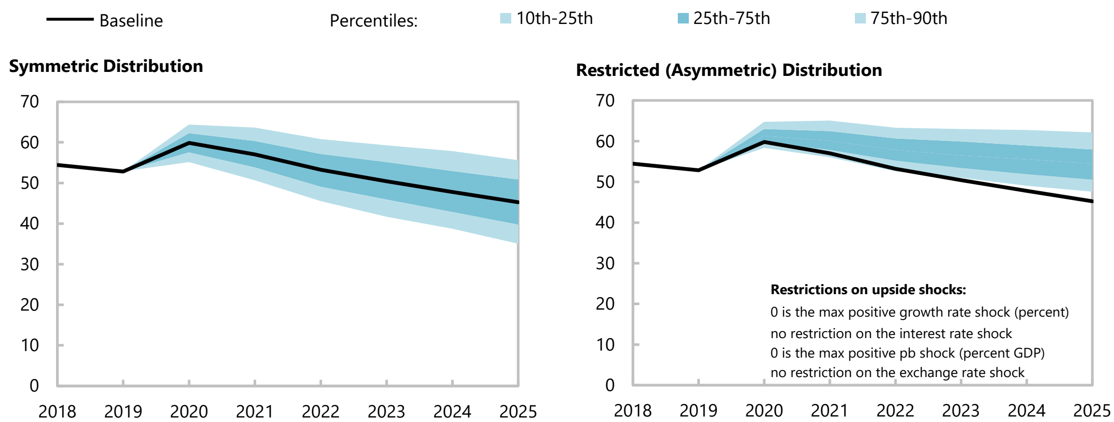
Figure 1. Serbia: Public Debt Sustainability (DSA) – Risk Assessment

Heat Map

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

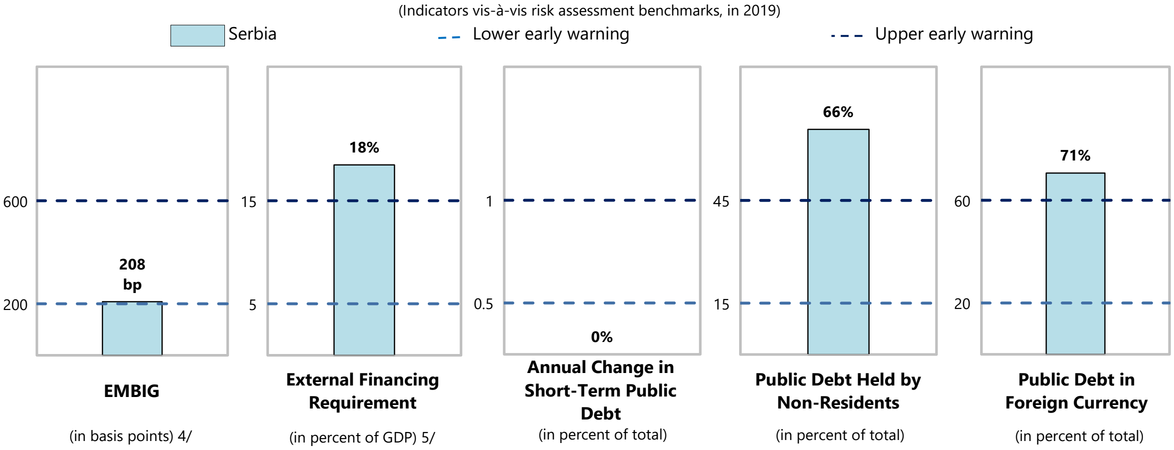
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

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

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

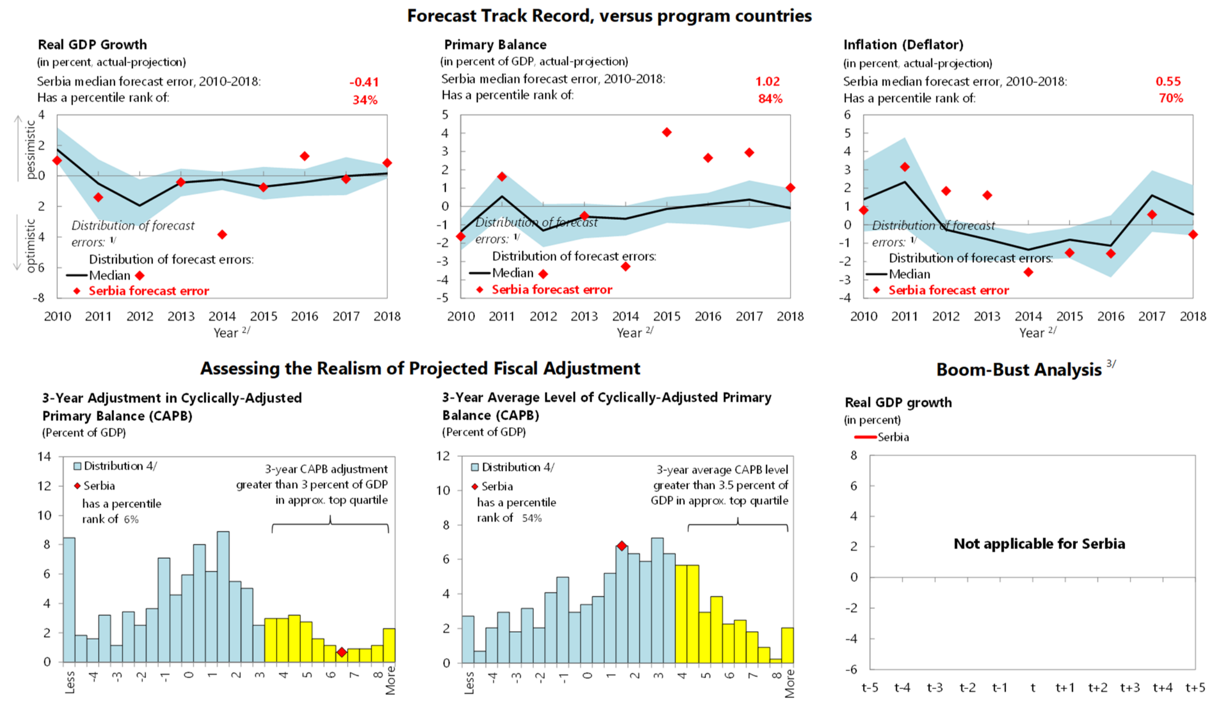
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 14-Apr-20 through 13-Jul-20.

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

Figure 2. Serbia: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

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

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

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

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

Figure 3. Serbia: Public DSA – Baseline Scenario

(in percent of GDP unless otherwise indicated)

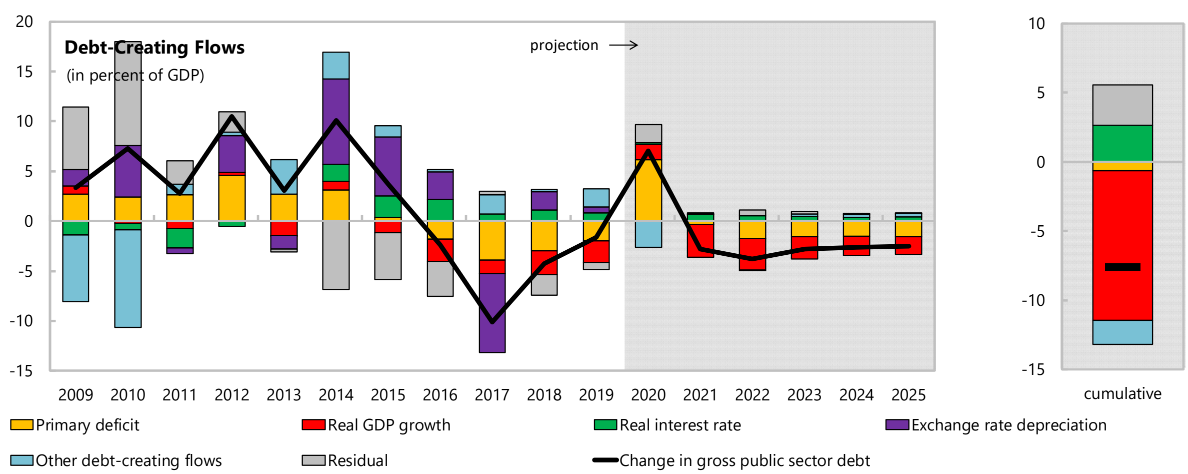
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	55.3	54.5	52.8	59.8	57.0	53.2	50.4	47.8	45.2
Of which: guarantees	5.8	3.5	3.2	3.2	3.0	2.7	2.5	2.4	2.2
Public gross financing needs	12.5	8.3	10.1	13.4	9.0	6.5	6.6	6.3	4.9
Real GDP growth (in percent)	0.9	4.4	4.2	-3.0	6.0	6.0	4.5	4.0	4.0
Inflation (GDP deflator, in percent)	4.8	2.1	2.5	3.8	2.3	2.4	2.7	3.0	3.2
Nominal GDP growth (in percent)	5.6	6.6	6.8	0.7	8.4	8.6	7.4	7.2	7.4
Effective interest rate (in percent) [4/]	4.5	4.2	4.2	4.0	3.6	3.6	3.8	4.0	4.3

As of July 13, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		121
5Y CDS (bp)		134
Ratings	Foreign	Local
Moody's	Ba3	Baa2
S&Ps	BB+	BB
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing
Change in gross public sector debt	3.1	-4.3	-1.6	7.0	-2.8	-3.8	-2.8	-2.6	-2.5	-7.6	primary
Identified debt-creating flows	2.4	-2.2	-0.9	5.2	-2.9	-4.4	-3.1	-2.8	-2.6	-10.5	balance [9/]
Primary deficit	1.4	-3.0	-2.0	6.1	-0.3	-1.8	-1.6	-1.5	-1.6	-0.6	-1.0
Primary (noninterest) revenue and grants	39.2	41.5	42.1	38.2	41.1	41.4	40.8	40.9	40.9	243.3	
Primary (noninterest) expenditure	40.7	38.6	40.1	44.3	40.8	39.7	39.3	39.3	39.3	242.7	
Automatic debt dynamics [5/]	1.6	0.5	-0.7	1.7	-2.6	-2.6	-1.8	-1.5	-1.4	-8.2	
Interest rate/growth differential [6/]	-0.3	-1.3	-1.3	1.7	-2.6	-2.6	-1.8	-1.5	-1.4	-8.2	
Of which: real interest rate	0.2	1.1	0.8	0.2	0.7	0.5	0.5	0.4	0.4	2.7	
Of which: real GDP growth	-0.6	-2.4	-2.1	1.6	-3.3	-3.1	-2.2	-1.9	-1.8	-10.8	
Exchange rate depreciation [7/]	2.0	1.8	0.6	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.6	0.2	1.8	-2.6	0.1	0.0	0.2	0.3	0.4	-1.7	
Privatization/Drawdown of Deposits (+ reduces financing need) (negative)	-1.5	-0.1	1.4	-2.5	0.2	0.1	0.3	0.4	0.5	-1.1	
Contingent liabilities	0.9	0.4	0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6	
Residual, including asset changes [8/]	0.7	-2.0	-0.7	1.8	0.1	0.6	0.3	0.1	0.0	2.9	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

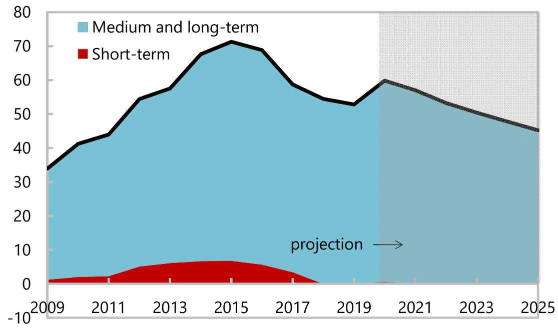
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

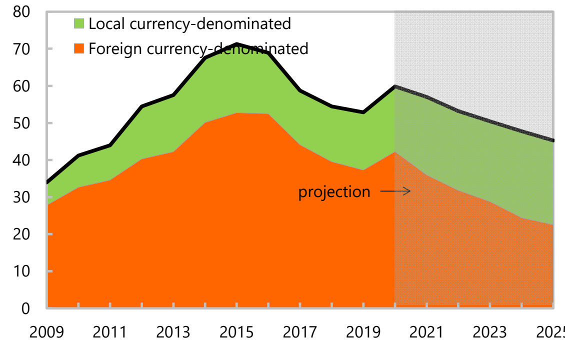
Figure 4. Serbia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



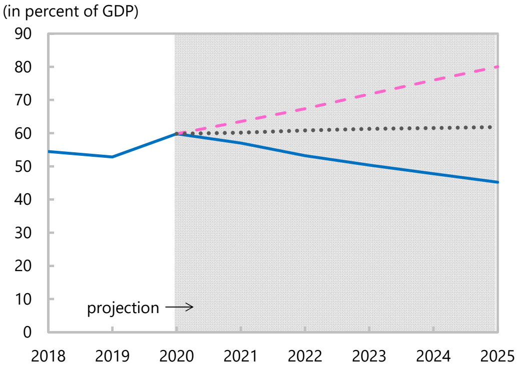
By Currency
(in percent of GDP)



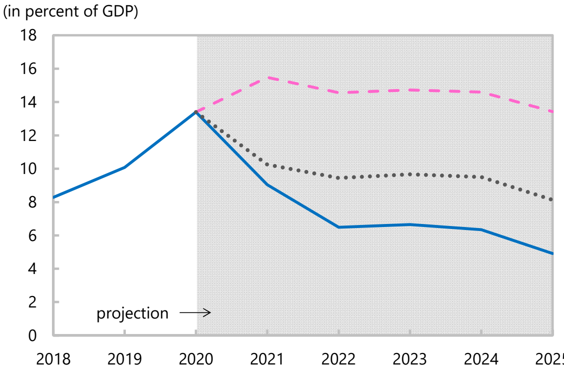
Alternative Scenarios

Baseline — Historical — Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

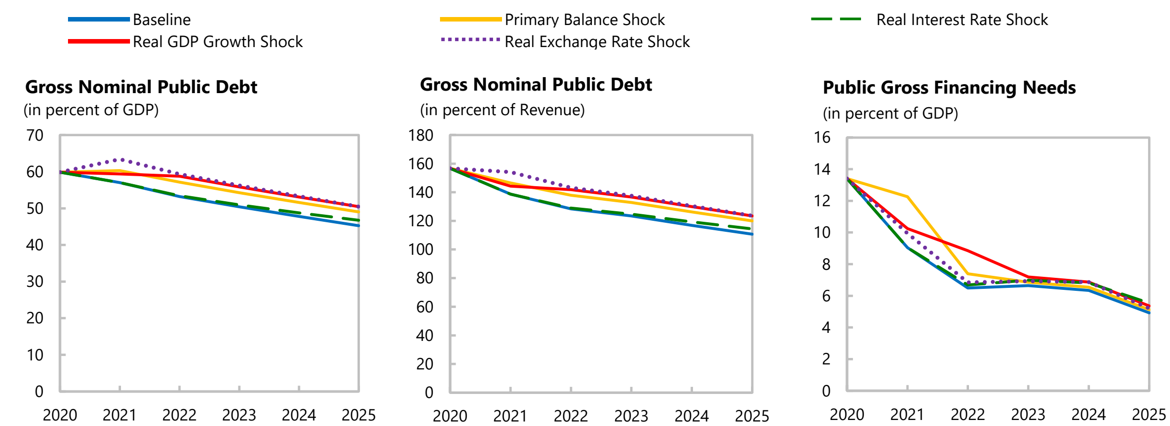
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-3.0	6.0	6.0	4.5	4.0	4.0
Inflation	3.8	2.3	2.4	2.7	3.0	3.2
Primary Balance	-6.1	0.3	1.8	1.6	1.5	1.6
Effective interest rate	4.0	3.6	3.6	3.8	4.0	4.3
Constant Primary Balance Scenario						
Real GDP growth	-3.0	6.0	6.0	4.5	4.0	4.0
Inflation	3.8	2.3	2.4	2.7	3.0	3.2
Primary Balance	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1
Effective interest rate	4.0	3.6	3.5	3.6	3.7	3.8

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-3.0	1.9	1.9	1.9	1.9	1.9
Inflation	3.8	2.3	2.4	2.7	3.0	3.2
Primary Balance	-6.1	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	4.0	3.6	3.5	3.7	3.8	4.0

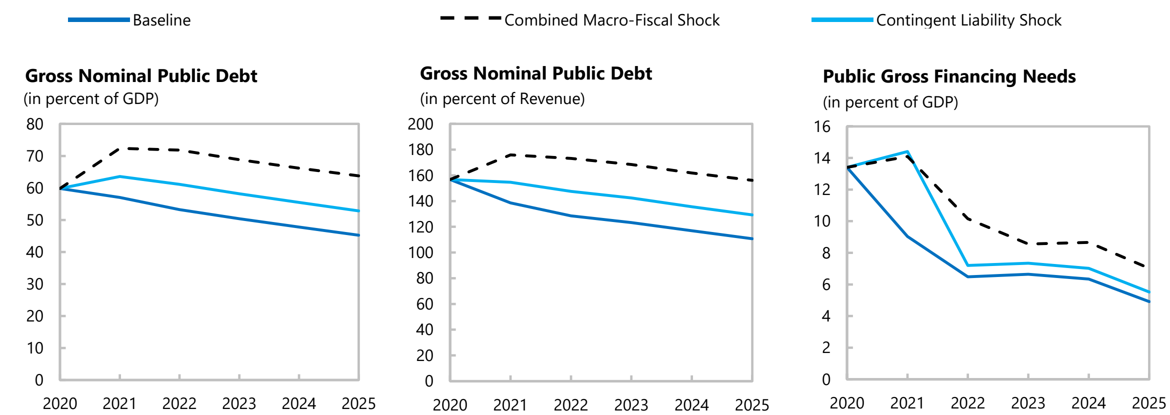
Source: IMF staff.

Figure 5. Serbia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2020	2021	2022	2023	2024	2025
Primary Balance Shock						
Real GDP growth	-3.0	6.0	6.0	4.5	4.0	4.0
Inflation	3.8	2.3	2.4	2.7	3.0	3.2
Primary balance	-6.1	-2.9	1.0	1.6	1.5	1.6
Effective interest rate	4.0	3.6	3.7	4.0	4.1	4.4
Real Interest Rate Shock						
Real GDP growth	-3.0	6.0	6.0	4.5	4.0	4.0
Inflation	3.8	2.3	2.4	2.7	3.0	3.2
Primary balance	-6.1	0.3	1.8	1.6	1.5	1.6
Effective interest rate	4.0	3.6	4.0	4.5	5.0	5.6
Combined Shock						
Real GDP growth	-3.0	4.0	4.0	4.5	4.0	4.0
Inflation	3.8	1.8	2.0	2.7	3.0	3.2
Primary balance	-6.1	-2.9	-0.1	1.6	1.5	1.6
Effective interest rate	4.0	4.1	3.8	4.3	4.7	5.3

	2020	2021	2022	2023	2024	2025
Real GDP Growth Shock						
Real GDP growth	-3.0	4.0	4.0	4.5	4.0	4.0
Inflation	3.8	1.8	2.0	2.7	3.0	3.2
Primary balance	-6.1	-0.7	-0.1	1.6	1.5	1.6
Effective interest rate	4.0	3.6	3.6	3.9	4.0	4.3
Real Exchange Rate Shock						
Real GDP growth	-3.0	6.0	6.0	4.5	4.0	4.0
Inflation	3.8	8.8	2.4	2.7	3.0	3.2
Primary balance	-6.1	0.3	1.8	1.6	1.5	1.6
Effective interest rate	4.0	4.1	3.4	3.6	3.8	4.1
Contingent Liability Shock						
Real GDP growth	-3.0	4.0	4.0	4.5	4.0	4.0
Inflation	3.8	1.8	2.0	2.7	3.0	3.2
Primary balance	-6.1	-4.6	1.8	1.6	1.5	1.6
Effective interest rate	4.0	4.0	3.8	4.0	4.2	4.4

Source: IMF staff.

Annex III. External Debt Sustainability Analysis

Serbia's external debt is assessed to be sustainable over the medium term although, due to the COVID-19 pandemic, its path looks temporarily less favorable than envisaged before. In addition, external debt dynamics are particularly sensitive to real exchange rate shocks, given that external debt is mainly denominated in foreign currencies. Thus, it is essential to continue with prudent fiscal policies and structural reforms.

1. **After gradually decreasing since 2015, total external debt is expected to increase somewhat in 2020 due to the COVID-19 pandemic, however it will continue decreasing after that.** With a sustained private sector deleveraging that took place over 2010-2015 coming to a halt, public sector deleveraging took over during the 2016-2018 period. The current landscape is determined by COVID-19: the external-debt-to-GDP ratio is projected to temporarily increase and reach 68.6 percent in 2020. Then, step-by-step, it will reduce to 53.3 percent by 2025. Relatedly, gross financing needs are expected to be the highest in 2021, and then gradually decline over the medium term.

Table 1. Serbia: External Debt Sustainability Framework, 2014-2025

(in percent of GDP, unless otherwise stated)

	Actual					10-Year	10-Year	Projections							
	2014	2015	2016	2017	2018	Historical Average	Standard Deviation	2019	2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	72.4	79.4	76.5	68.9	66.1			**66.2**	**68.6**	**65.3**	**61.5**	**58.9**	**55.6**	**53.4**	**-8.1**
2 Change in external debt	2.0	7.0	-2.8	-7.6	-2.8			0.1	2.4	-3.2	-3.8	-2.6	-3.3	-2.1	
3 Identified external debt-creating flows (4+8+9)	4.1	12.2	-4.1	-6.9	-11.2			-3.5	3.7	-2.8	-3.2	-2.7	-2.8	-2.7	
4 Current account deficit, excluding interest payments	3.3	0.9	0.3	3.1	3.3			5.5	4.7	5.0	4.8	4.6	4.3	4.1	
5 Deficit in balance of goods and services	10.3	8.2	6.0	7.7	9.5			9.9	9.4	10.6	10.5	9.9	9.1	8.6	
6 Exports	40.7	44.0	47.3	49.3	49.4			51.0	46.2	46.8	48.9	50.7	53.0	54.9	
7 Imports	51.0	52.2	53.4	57.1	58.9			60.9	55.5	57.4	59.3	60.6	62.1	63.5	
8 Net non-debt creating capital inflows (negative)	-3.5	-4.9	-5.1	-6.1	-7.3			-7.6	-4.7	-5.6	-5.9	-5.9	-5.9	-5.9	
9 Automatic debt dynamics 1/	4.3	16.2	0.6	-3.9	-7.2			-1.3	3.7	-2.2	-2.1	-1.4	-1.2	-0.9	
10 Contribution from nominal interest rate	2.3	2.6	2.6	2.1	1.6			1.4	1.7	1.4	1.5	1.1	1.0	1.2	
11 Contribution from real GDP growth	1.2	-1.5	-2.6	-1.4	-2.6			-2.7	2.0	-3.7	-3.6	-2.6	-2.2	-2.1	
12 Contribution from price and exchange rate changes 2/	0.8	15.1	0.6	-4.6	-6.2			...	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-2.1	-5.1	1.3	-0.7	8.5			3.5	-1.3	-0.5	-0.6	0.1	-0.5	0.6	
External debt-to-exports ratio (in percent)	177.7	180.3	161.7	139.7	133.9			129.9	148.5	139.7	125.8	116.1	104.9	97.3	
Gross external financing need (in billions of US dollars) 4/	7.2	5.7	5.6	7.7	8.1			8.8	9.3	9.9	8.7	8.3	9.0	7.3	
in percent of GDP	15.4	14.3	13.8	17.4	15.9			17.1	18.0	16.9	13.8	12.2	12.4	9.5	
Scenario with key variables at their historical averages 5/								**66.2**	**68.2**	**73.2**	**75.5**	**78.7**	**81.3**	**85.6**	**-2.2**
Key Macroeconomic Assumptions Underlying Baseline															For debt stabilization
Real GDP growth (in percent)	-1.6	1.8	3.3	2.0	4.4	1.5	2.6	4.2	-3.0	6.0	6.0	4.5	4.0	4.0	
GDP deflator in US dollars (change in percent)	-1.2	-17.3	-0.8	6.4	9.9	-1.0	12.8	-2.5	3.7	6.4	2.5	2.5	2.6	2.7	
Nominal external interest rate (in percent)	3.2	3.0	3.3	3.0	2.6	3.1	0.3	2.2	2.6	2.4	2.5	2.0	1.8	2.2	
Growth of exports (US dollar terms, in percent)	3.4	-8.9	10.2	13.1	14.8	6.3	14.6	4.8	-8.9	14.2	13.6	11.2	11.4	10.7	
Growth of imports (US dollar terms, in percent)	1.6	-13.8	4.8	16.1	18.5	2.1	16.1	5.0	-8.3	16.5	12.4	9.3	9.3	9.2	
Current account balance, excluding interest payments	-3.3	-0.9	-0.3	-3.1	-3.3	-3.6	2.3	-5.5	-4.7	-5.0	-4.8	-4.6	-4.3	-4.1	
Net non-debt creating capital inflows	3.5	4.9	5.1	6.1	7.3	4.4	1.6	7.6	4.7	5.6	5.9	5.9	5.9	5.9	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

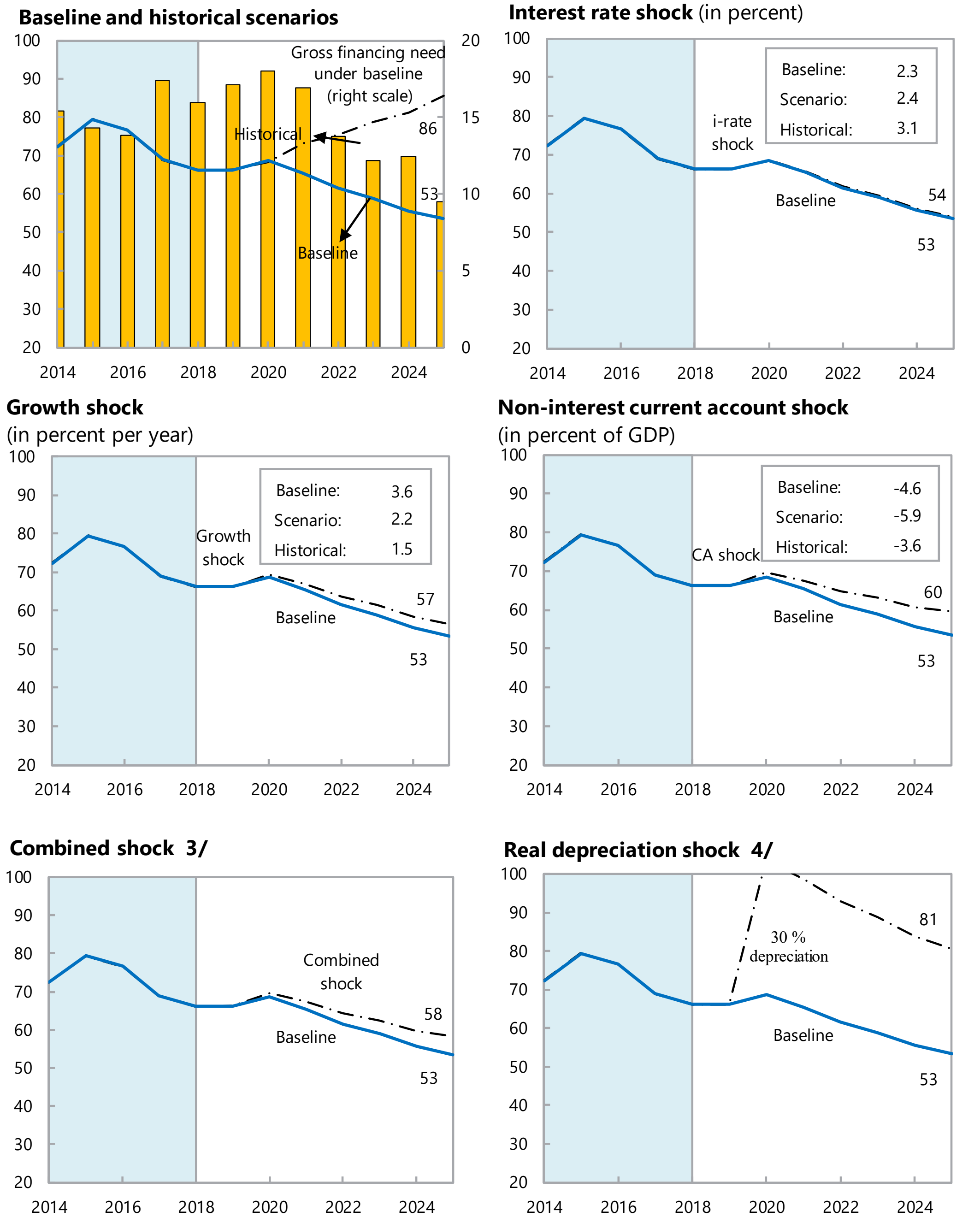
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2020.

2. The main driving factors behind the temporarily higher 2020 external debt-to-GDP ratio are the 2019 increase in current account and the 2020 decrease in economic growth. The current account deficit peaked at 6.9 percent of GDP in 2019, including the one-off import impact of the Turk Stream pipelines project, estimated at about 1 percent of GDP. At the time of the third review, i.e., before the pandemic, the 2020 current account deficit was projected to decline to 5.3 percent. Currently, a 6.4 percent deficit is projected as (i) exports of goods will be lower (particularly, because of the lower demand in main partner countries), (ii) there is a temporary stop in tourism, and (iii) residents transfer a lower amount of remittances back home. The 2021 will be negatively affected, too. These shocks are expected to exceed to crisis-related reduction in imports. From 2022 onwards, the CA deficit is projected to decline and eventually reach 5.2 percent in 2025. Net FDI inflows, which have been at historically high levels both in 2018 and 2019, are expected to fall to 4.7 percent of GDP in 2020, and then rise step-by-step to 5.9 percent of GDP by 2025. Even without the pandemic a slight slowdown in FDI inflows was predicted – with the pandemic, this will be more pronounced. Lower FDI inflows and other inflows put downward pressure on reserves. Relatedly, after strong fiscal performance in 2019 (fiscal balance at -0.2 percent of GDP), the pandemic and the introduced fiscal measures aimed at mitigating its economic and social impact, will result in a 8.6 percent of GDP fiscal deficit in 2020. Meanwhile, economic growth is expected to decline to -3.0 percent in 2020 – a level Serbia has not experienced since 2009, during the global financial crisis – which also has a large negative impact on the external debt-to-GDP ratio.

3. The external debt path is particularly sensitive to possible real exchange rate depreciation shocks. As shown among the shock scenarios, a 30 percent real depreciation of the Dinar in 2020 would cause the external debt-to-GDP ratio to reach 103.5 percent in 2020 and to stabilize at 80.6 percent by 2025.

4. It is essential to continue with prudent fiscal policy and further enhance structural reforms. When the COVID-19 crisis is over, it will be crucial to go back to the strong fiscal performance the country experienced during 2019 and preceding years. This should include finishing the implementation of the fiscal-structural agenda which was being implemented before and during the. As regards competitiveness, higher productivity and higher value-added would facilitate further convergence and resilience against shocks, including the exchange rate depreciation shock described above.

Annex IV. External Sector Assessment

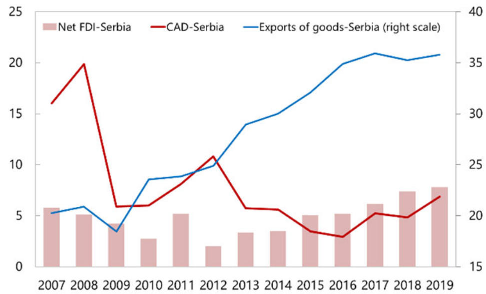
Overall, based primarily on the current account approach, Serbia's external position at end-2019 appears broadly consistent with fundamentals and desirable policy settings. Further improving Serbia's NIIP position requires continuous efforts to reduce the current account deficit and improve competitiveness. The COVID-19 pandemic negatively affects Serbia's external position, and complicates the forward-looking assessment of competitiveness.

1. Serbia's external balances significantly improved since the global financial crisis (GFC) through 2019. The current account (CA) deficit substantially narrowed between 2008 and 2019: from 19.9 percent of GDP to 6.9 percent. While this was mainly driven by a continuous increase in exports of goods, other factors, including the improving services balance over the last 5 years, also contributed. Since 2015, net FDI inflows consistently exceeded the current account deficit, and rose to historically high levels (reaching 7.8 percent of GDP in 2019). The current transfers balance, including remittances, has also been sizeable since the GFC.

2. Serbia's net international investment position (NIIP) has remained highly negative, despite recent improvements. In 2019 it was estimated at -87.5 percent of GDP, below the -44.1 percent of GDP average of countries in the region. Yet, its structure has to be taken into account. First, FDI inflows contributed much to the buildup of equity within net FDI liabilities—the main IIP component—standing at 77.3 percent of GDP in 2019. A recent decrease in Serbia's net foreign liabilities was mainly driven by a significant drop in total gross external debt to 66.2 percent of GDP in 2019. Local currency debt held by nonresidents has remained below 5 percent of GDP. In terms of maturity, nearly all net foreign liabilities are long-term. Moreover, Serbia has an adequate international reserve position, with official reserves within the recommended bounds of the IMF reserve adequacy metric.[1] Specifically, gross reserves at end-2019 corresponded to 121.9 percent of the ARA metric (assuming the current stabilized de-facto exchange-rate classification).

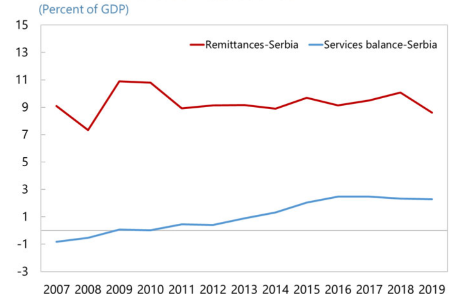
[1] Reserves in the range of 100-150 percent of the composite metric are considered adequate for precautionary purposes. See IMF, "Assessing Reserve Adequacy", 2011; "Assessing Reserve Adequacy-Further Considerations", 2013' and "Assessing Reserve Adequacy—Specific Proposals", 2015.

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



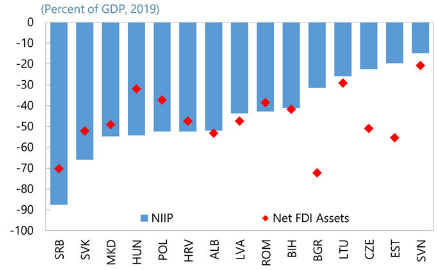
Sources: IMF, WEO database; and IMF staff calculations.

Remittances and services balance
(Percent of GDP)



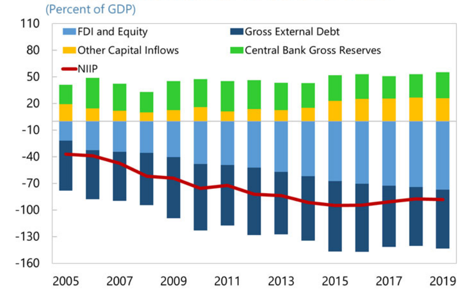
Sources: IMF, WEO database; and IMF staff calculations.

Net International Investment Position
(Percent of GDP, 2019)



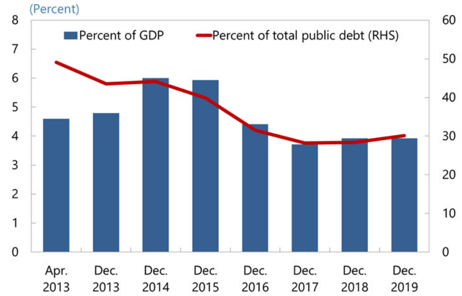
Sources: IMF, BOP and IIP Database; IMF, WEO Database; and IMF Staff calculations.

Serbia: Net International Investment Position
(Percent of GDP)



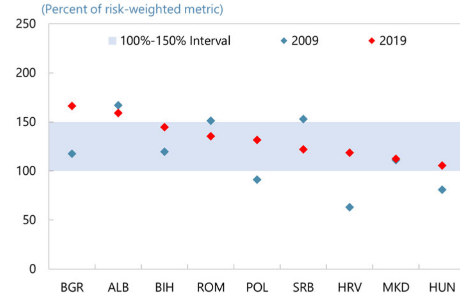
Sources: Country Authorities; and IMF Staff calculations.

Non-Resident Participation in LC Debt
(Percent)



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

International Reserves
(Percent of risk-weighted metric)



Source: IMF Staff calculations.

3. The EBA-Lite methodology, particularly the CA approach, suggests that the external position at end-2019 was broadly consistent with fundamentals and desirable policy settings, but subject to vulnerabilities.[2] For this exercise, we adjusted the 2019 CA balance to eliminate the one-off impact (via higher imports) of the large TurkStream pipelines project. In particular, we reduced the 2019 imports-to-GDP ratio by 0.75 pp.

- **The current account approach.** This approach estimates Serbia's current account norm at -5.1 percent of GDP, and the current account gap at -0.8 percent of GDP. Key elements of the calculation of the norm include (i) low productivity relative to others which contributes to a greater current account deficit, (ii) a negative NFA position

[2] The TurkStream project amounted to about 1.7 percent of GDP in 2019. The project is import-intensive, and its impact on imports was estimated at about 1 percent of GDP.

contributing to higher income expenses[3], which (iii) is partially offset by low actual public health expenditure – a proxy for social insurance policies – which contributes to a narrower current account deficit.

- **The real effective exchange rate (REER) approach.** Consistent with the CA approach, the REER approach yields a positive real exchange rate gap, and so points to the need for a more depreciated exchange rate.

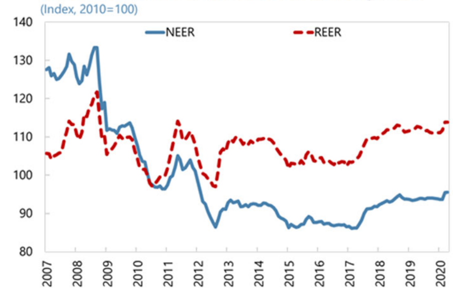
- **The external stability (ES) approach.** This approach focuses on the scenario where the goal is to stabilize the NIIP. It also considers the currency of denomination of assets and liabilities. This methodology suggests that a real exchange rate appreciation of 6.7 percent would help stabilize the NIIP at the current level. The NIIP in percent of GDP is projected to improve over the medium-term, given in particular a declining trade deficit and more moderate FDI and portfolio investment inflows. At the same time, this improvement is to a large extent reflective of the COVID-19 crisis.

Text table. Serbia: Results from EBA-lite models, 2019
(in percent of GDP, unless otherwise indicated)

	CA model	REER model	ES model
CA-Actual	**-6.9**		
Cyclical Contributions (from model)	-0.2		
Additional temporary/statistical factors	0.8		
Adjusted CA	**-5.9**		
CA Norm (from model) 1/	**-5.1**		
Adjustments to the norm	0.0		
Adjusted CA Norm	**-5.1**		
CA Gap	**-0.8**	**-5.9**	**2.6**
o/w Policy gap	2.8		
Elasticity	-0.40		
REER Gap (in percent)	**2.1**	**14.8**	**-6.7**

1/ Cyclically adjusted, including multilateral consistency adjustments.

Serbia: Nominal and Real Effective Exchange Rate
(Index, 2010=100)



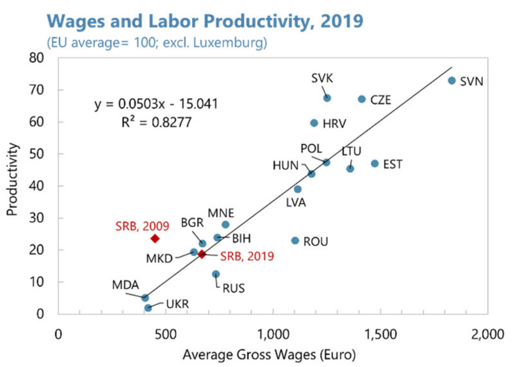
Source: IMF, INS database.

4. Further improving Serbia's NIIP position requires continuous efforts to reduce the current account deficit and improve competitiveness. In staff's view, this could be supported by structural reforms that can increase the currently low labor productivity. Furthermore, continuing with reforms to ease doing business would help attract investments in sectors that produce higher-technology goods with higher-skilled labor, and so provide a higher value-added to the economy. This would also increase the productivity of the tradable sector. These reforms should be supported by a prudent fiscal policy over the medium term to ensure public savings and preserve wage competitiveness. In 2020 Serbia ranked 44th in the World Bank Doing Business Survey. There is scope for further improvement in a several areas, including starting a business, getting credit, paying taxes and enforcing contracts.

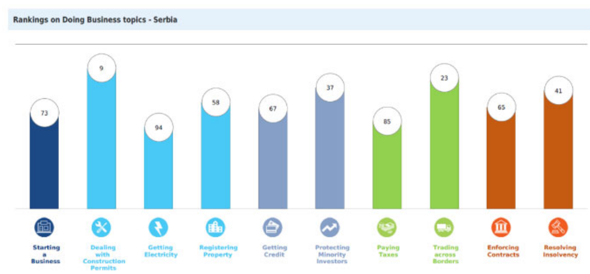
5. The COVID-19 pandemic negatively affects Serbia's external position, and it complicates a forward-looking assessment of exchange rate competitiveness.

[3] The regression behind this model suggests a small positive coefficient between NFA and the current account balance consistent with the theory that higher external liability position suggest higher income expenses and, therefore, higher current account deficit.

Compared to 2019, the current account deficit is not expected to show a large net change in 2020, as lower imports largely offset a slowdown in exports of goods, a temporary stop in tourism and lower remittance inflows. Nonetheless, reserves are expected to suffer as a result of temporarily reduced net FDI and other financial inflows. Furthermore, there is a risk for a longer and more severe crisis, in which case the export sector could be affected more strongly. Particularly, companies may permanently close, including foreign partners in a supply chain or foreign purchasers (resulting in an equilibrium real depreciation) or foreign competitors (resulting in an equilibrium real appreciation). These risks further highlight the importance of ongoing structural reforms to make the economy more resilient.



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



Source: World Bank Doing Business 2020.

Annex V. Corporate Sector Vulnerabilities: Firm-level Analysis

1. **Financial resilience of non-financial corporates is assessed using a simulation analysis of debt-at-risk (DaR) incorporating the impact of the COVID-19 shock.** This analysis relies on corporate balance sheet information through end-2018 combined with earnings expectations for 2020 at the sector level.[1] The main transmission channels of the negative shocks are through firm earnings and current assets, which are embedded in the interest coverage ratio (ICR) and the current ratio (CR). Typically, a firm's capacity to service its liabilities is captured by its ICR computed as the ratio of earnings to interest expense. In addition, the CR, measured as current assets to current liabilities, captures firm's capacity to pay other short-term obligations such as taxes, wages, and utility bills. Debt is considered at risk if a firm's ICR and CR fall simultaneously below 1, in line with previous studies associating this threshold with an increased likelihood of debt distress.[2]

2. **The sectoral shocks were calibrated based on analysts' earnings expectations for listed firms in several peer European countries and main trading partners for end-2020 (Table 1).[3]** The key advantage of using analyst expectations is that these are forward-looking estimates, endogenizing both the effects of the pandemic, lockdowns, and response policies on firm profits, while at the same time taking into account the variation of the COVID-19 impact across industries. For each sector, the shock distribution is obtained by computing the main statistics (e.g., mean, median, and the standard deviation) across our set of peer countries. The use of expectations related to peer countries to approximate the impact of the crisis on corporations in Serbia could introduce a degree of bias, to the extent that Serbia's experience may be different. However, validating these assumptions, the earnings forecasts across all sectors average about 20-percent drop from the previous year, which is consistent with the COVID-19 Business Impact Survey in Serbia conducted by the AmCham in May 2020.

3. **Several monetary and fiscal measures undertaken by the Serbian authorities mitigate the impact of the crisis and were integrated in the simulation exercise.** For instance, accommodative monetary policy (e.g., a reduction in the policy interest rate by 100

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[1] The corporate sector analysis relies on BvD's ORBIS data for end-2018 with about 22,000 firms, including primarily SMEs (93 percent). These firms cover more than 53 percent of total employment (as reported by SORS). SOEs and firms with negative equity were excluded from the analysis. Like other micro data sets, the ORBIS data need to be managed carefully and appropriate accounting checks were performed before using it for formal analysis (see Alter and Elekdag, 2020; Kalemli-Ozcan and others, 2015). The balance sheet data were extended to end-2019 for each firm using GDP and credit growth rates.

[2] To compute ICR, we use earnings before interest expense and taxes (EBIT), which has a broad coverage in our firm-level data. For example, an ICR lower than 1 has been historically associated with firm distress (see IMF (2019); Chow, 2015; Miyajima and others, 2017).

[3] The source of these estimates are the I/B/E/S analysist surveys provided by Thomson Datastream, as of June 15, 2020. Based on data availability, the set of countries and regions considered includes: Russia, Turkey, Poland, Hungary, Czech Republic, Greece, Germany, Italy, France, Spain, Austria, South Africa, Europe, and Central and Eastern Europe.

bps), SME loan guarantees provided by the government, and subsidized firm loans provided by the Development Fund, have jointly lowered the interest expense in the short term. One caveat is that extending new loans also affects firms' leverage ratio, and thus could pose liquidity challenges in the future when interest payments normalize.

4. On average, non-financial corporates in Serbia had healthy balance sheets and robust levels of profitability over the past few years (Figure 1). For instance, several sectors such as transportation, mining, and telecommunication services had an average return-on-equity exceeding 10 percent (Panel 2). In terms of indebtedness levels, Serbian firms generally seem to be less leveraged than firms in peer countries, potentially reflecting less developed debt markets and limited opportunities to issue corporate bonds. However, firms benefited from strong FDI inflows and retained earnings as sources of funding in recent years. As may be expected, sectors with a higher share of tangible assets exhibit higher leverage ratios. These positive aspects are also mirrored in the relatively high ICR, with the average level in 2019 topping 300 percent (Panel 4). Sectors such as mining, construction, wholesale and retail seemed to be particularly well positioned to sustain profit shocks, relative to other sectors, given that their average EBIT covered interest expense by 6 to 9 times at end-2019. However, about 15 percent of total firms in our sample had negative equity and were loss-making in 2018/2019, with the highest shares in construction, machinery and equipment sectors (Panel 6). These 'zombie firms' held about 20 percent of total corporate debt.[4]

5. In recent years, the overall share of risky debt declined, reaching 23 percent of total debt at end-2019, reflecting the lower interest rate environment and improved profitability (Figure 1.6). However, there is substantial heterogeneity across sectors, with hospitality, postal services and telecommunications bucking this positive trend. Nearly 40 percent of debt owed by firms in hospitality services was considered at risk at the onset of the COVID-19 pandemic. Troubled firms in telecommunication, postal, and other services held almost 50 percent of the debt in these sectors.

6. The simulation analysis points to a surge in DaR to over 40 percent of total corporate debt by end-2020 in absence of any mitigating policies (Figure 2). In addition to the EBIT shocks, current assets are expected to decline by 50 percent compared to the level observed in 2019. Without any of the policy responses, corporate loans were expected to bear similar interest rates in 2020 as in 2019. Under these assumptions, the overall DaR would have reached between 37 and 43 percent, when a 90 percent confidence interval is considered (Panel 3). In addition to the surge in DaR, the corporate analysis points to a significant variation across sectors, with hospitality, machinery and equipment, and transportation being the hardest hit sectors.

[4] In the simulation analysis, these firms are discarded, as the likelihood of their revival is considered fairly limited in 2020. In addition, banks might have already provisioned for these loan losses, and the NPLs of these firms are likely to be off balance sheet.

Table 1. Serbia: Earnings Expectation Statistics and Data Description

Industry	Mean	Median	Standard deviation	Number of firms	Total debt (mln USD)	Number of employees	% of SORS
Agriculture	-14.6	-14.6	14.4	1,316	2,870	26,586	35
Chemicals	-26.8	-16.0	29.1	1,243	1,150	39,931	53
Construction	-31.7	-32.6	25.8	2,106	2,140	41,107	53
Education & Health Care	12.2	3.6	27.3	161	22	2,382	100
Food & Beverages	3.1	1.9	22.0	1,174	2,240	55,579	74
Hospitality	-29.6	-48.5	64.5	583	440	14,075	46
Machinery & Equipment	-35.7	-39.5	45.4	1,384	1,560	88,690	78
Mining	2.1	16.8	27.6	816	803	28,705	100
Post, Telecommunication & Other Services	-4.8	-9.7	31.0	2,818	4,020	99,070	100
Retail & Wholesale	-15.9	-17.5	24.4	7,838	4,190	150,560	57
Textiles	-13.0	-5.7	32.9	551	370	35,897	95
Transportation	-77.6	-45.5	137.6	1,672	862	34,627	33
Utilities	-15.0	-20.6	35.0	151	293	933	5
Total	-19.0	-17.5	39.8	21,813	20,960	618,142	53

Note: The grey panel refers to key statistics of sector earnings expectations obtained from analysts' forecasts for end-2020 (as of June 15, 2020) across a set of peer countries and main trading partners, sourced from Eikon Datastream. The white panel shows the total number of firms in each major sector considered in our analysis, their total debt and employment (sourced from ORBIS database). The last column refers to the share of the covered employment in our analysis as percent of the employment reported by the Statistical Office of the Republic of Serbia (SORS).

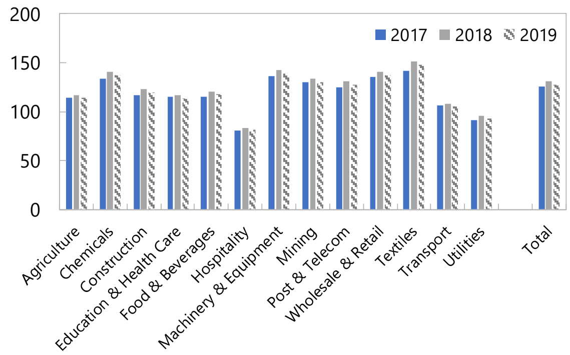
7. **However, monetary and fiscal policies undertaken by the Serbian authorities are found to play an important role in buffering the earnings shock and reducing the liquidity burden in the short term.**[5] When the implemented policies are considered, the overall DaR is expected to climb from 23 percent in 2019 to about 33 percent in 2020 (Figure 2.1). Sectors that are more capital intensive such as utilities, hospitality, and construction are greatly benefiting from the monetary and financial sector policies (e.g., interest rate cuts and moratorium), and less from the fiscal policies (e.g., wage subsidies). In contrast, firms in labor-intensive sectors such as education and food & beverages are expected to benefit more from fiscal policies (Figure 2.2).

[5] The main assumptions regarding the undertaken policies are as follows: i) all firms benefit from 100 basis points reduction in interest rates (e.g., accommodative monetary policy); ii) SMEs additionally gain from the bank loan moratorium and government guarantees, by a drop in interest expenses by 25 percent; iii) all firms benefit from a 25 percent reduction in current liabilities (e.g., wage subsidies, tax deferrals); and iv) SMEs additionally experience a boost in current assets by 10 percent (e.g., subsidized loans, government guarantees). These assumptions have several caveats. For example, not all SMEs accepted the 3-month bank loan moratorium, but one could assume that those firms short of liquidity did not opt out. The NBS also implemented other measures such as the inclusion of corporate bonds in its monetary operations and further support for loans from the Guarantee Scheme in the form of a higher remuneration rate.

Figure 1. Serbia: Stylized Facts prior to the COVID-19 Pandemic

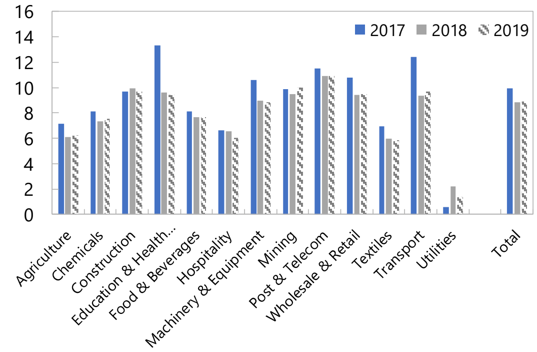
1. Liquidity: Current Ratio

(Current assets to current liabilities, median, in percent)



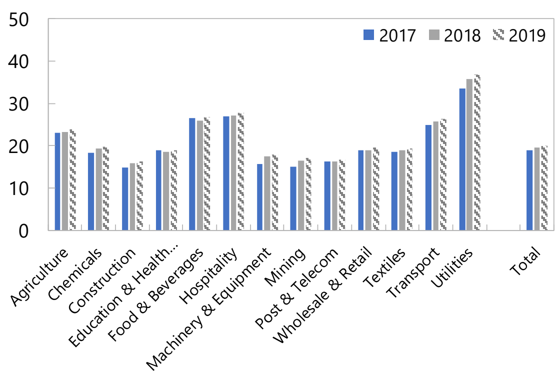
2. Profitability: Return on Equity

(Net income to shareholder's funds, median, in percent)



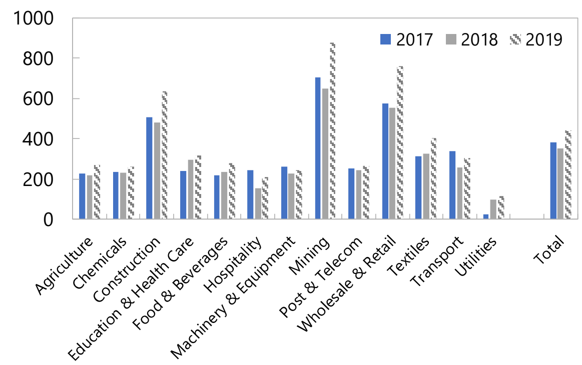
3. Indebtedness: Leverage Ratio

(Total debt to total assets, median, in percent)



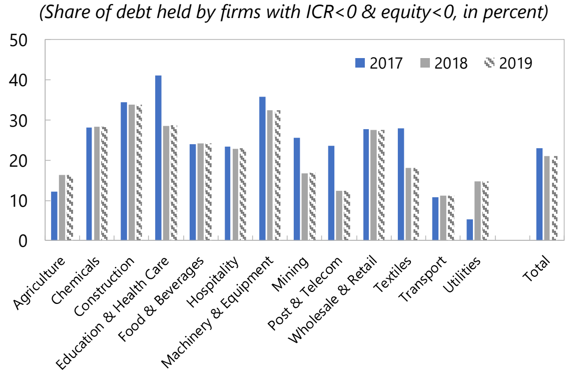
4. Debt Service Capacity: Interest Coverage Ratio

(EBIT to interest expense, median, in percent)



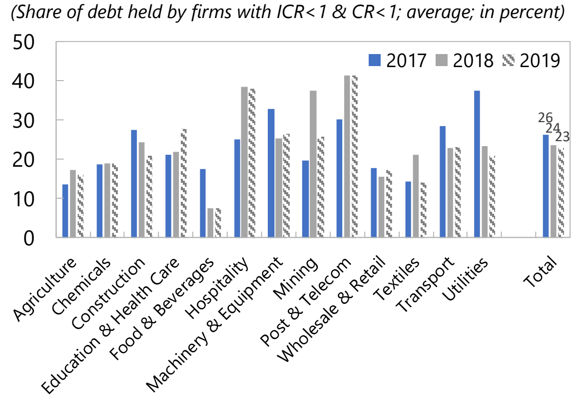
5. Zombies: Insolvent and Loss-making Firms

(Share of debt held by firms with ICR<0 & equity<0, in percent)



6. Debt-at-Risk

(Share of debt held by firms with ICR<1 & CR<1; average; in percent)



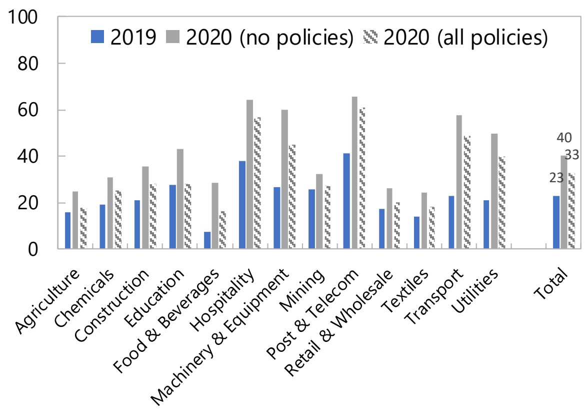
Source: ORBIS; Datastream; IMF staff calculations.

8. The crisis can also raise unemployment, if highly affected firms close their businesses or significantly reduce their activity (Figure 2.4). 100,000 to 120,000 workers are employed by "troubled" firms (with low interest expense coverage and lack of liquid assets) and could thus be at risk of losing their jobs, primarily driven by sensitive sectors such as machinery & equipment, retail & wholesale, and transportation. In the absence of the mitigating policies, 140,000 to 160,000 jobs could have been at risk this year.

Figure 2. Serbia: Simulation Results (end-2020)

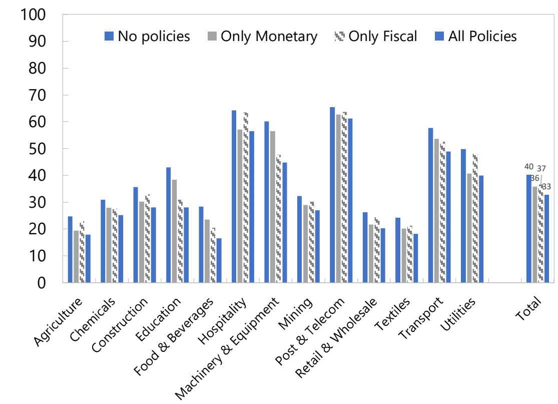
1. Debt-at-Risk: With and Without Policies

(Share of debt held by firms with ICR<1 & CR<1; average; in percent)



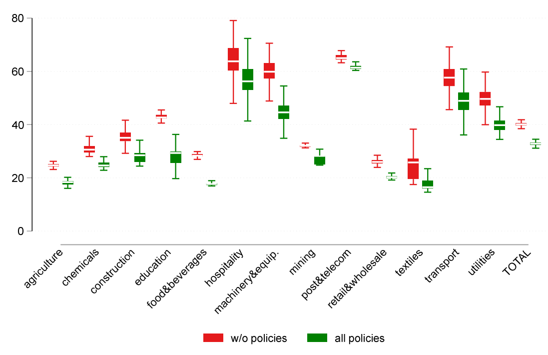
2. Debt-at-Risk: The Role of Policies (2020)

(Share of debt held by firms with ICR < 1 and CR < 1; in percent;)



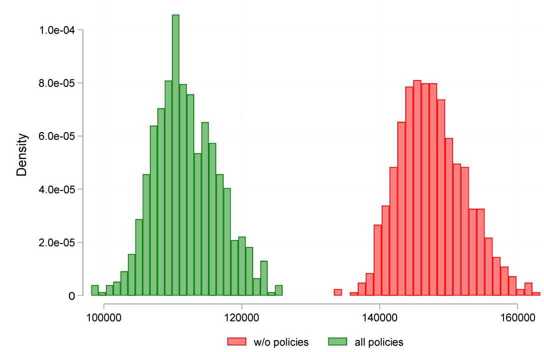
3. Debt-at-Risk: Distributions

(Share of debt held by firms with ICR<1 & CR<1; average; in percent)



4. Jobs-at-Risk: Probability Distributions

(Employees of firms with ICR<1 & CR<1; with and without policies)



Source: ORBIS; Datastream; IMF staff calculations.

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Appendix I. Program Statement

Ms. Kristalina Georgieva   Belgrade, August 6, 2020
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Ms. Georgieva:

After several years of strong macroeconomic performance, the COVID-19 outbreak and the related deterioration of global economic conditions are having a strong negative effect on Serbia's economic activity in 2020. The shock is affecting the Serbian economy mostly through weaker demand from key trading partners, lower FDI and remittances, domestic supply limitations, and disruptions in regional and global supply chains. Real GDP growth averaged 4.3 percent in 2018-19 and was projected at 4 percent in 2020 at the time of the third review of the Policy Coordination Instrument (PCI), but is now projected at around -1½ percent.

To mitigate the economic and social effects of the COVID-19 shock, we have deployed a substantial package of measures. Owing to sound fiscal policy in the past few years, we had sufficient policy space to respond to the pandemic with a large package, which includes a combination of healthcare spending, tax deferrals, wage subsidies, universal cash transfers, and a state guarantee scheme for bank loans to SMEs. On the monetary front, we responded by cutting the key policy rate and injecting liquidity in the banking system, while introducing a moratorium on all bank loan repayments.

The impact of the pandemic on fiscal revenues, coupled with the measures to support business and employment, are bringing the overall fiscal deficit this year to about 8¼ percent of GDP, compared with 0.5 percent of GDP in the initial budget. We expect the fiscal deficit to narrow to about 2 percent of GDP next year, given the projected economic rebound and the temporary nature of the fiscal measures. Public debt, which was declining steadily in previous years, is now expected to increase to almost 60 percent of GDP in 2020 but should resume a downward path in 2021.

In the absence of near-term financing needs, we consider the PCI as an appropriate instrument to help maintain macroeconomic stability and advance our reform agenda. However, the dramatic deterioration of the external and domestic environment and the elevated uncertainty require that the PCI objectives be adjusted for the remaining six months of the program. In this context, the PCI will focus on supporting the economy through the crisis while preserving macroeconomic and financial stability, managing remaining risks, and protecting vulnerable groups. Key structural reforms that can be adopted by the end of the program will be prioritized. This Program Statement (PS) sets out the economic policies that the Government and the National Bank of Serbia (NBS) intend to implement during the remainder of the program.

Program implementation was broadly on track prior to the outbreak. However, the end-March quantitative target (QT) on current primary spending was not met due to the fiscal package and deviations are likely against end-June indicative targets (ITs). As the COVID-19 shock has drastically altered the fiscal outlook for 2020, we are requesting modifications of the QTs, consistent with the implemented measures. Implementation of our structural reform agenda has faced delays due to the pandemic. Inflation has remained low and stable and within the inner limit of the program inflation consultation clause.

The implementation of our program will continue to be monitored through quantitative, standard continuous, and reform targets, and an inflation consultation clause, as described in the PS and the attached Technical Memorandum of Understanding (TMU). Reviews by the IMF will continue to be completed on a semi-annual basis to assess program implementation progress and reach understandings on additional measures that may be needed to achieve its objectives.

We believe that the policies set forth in this PS are adequate to achieve the revised objectives of the PCI, and we will promptly take any additional measures that may become appropriate for this purpose. We will consult with the IMF before adopting any such measures or in advance of revisions to the policies contained in this PS. Moreover, we will provide all information requested by the IMF to assess implementation of the program.

In line with our commitment to transparency, we wish to make this letter available to the public, along with the PS and TMU, as well as the IMF staff report on the fourth review of the PCI. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official website of the Serbian government.

Sincerely,

/s/
Ana Brnabić
Prime Minister

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

/s/
Slavica Savičić
State Secretary Ministry of Finance

Attachment: Technical Memorandum of Understanding

Program Statement

1. **This program statement sets out our economic program for the remainder of the Policy Coordination Instrument (PCI).** The program aims to maintain macroeconomic stability and advance our structural reform agenda. In this context, the COVID-19 outbreak and the dramatic deterioration of external and domestic economic conditions require that the specific PCI objectives be adjusted for the remainder of the program.

2. **Our policies will focus on supporting the economy through the pandemic while preserving macroeconomic and financial stability, managing risks, and protecting vulnerable groups.** We have deployed a large fiscal package in response to the outbreak, aimed at supporting households and businesses, preserving jobs, and enhancing public health. The implementation of these measures, together with the decline in fiscal revenues, will raise the fiscal deficit temporarily in 2020. Public debt will also increase this year but will revert to a downward trajectory in 2021 and over the medium term. Amid low inflation, monetary policy has focused on supporting economic activity and maintaining broad exchange rate stability. The external position remains broadly in line with fundamentals.

3. **We will prioritize key structural reforms, taking into account existing constraints.** We have made progress in reforming tax administration, strengthening public financial management, resolving SOEs and privatizing the largest state-owned bank. We plan further actions to strengthen tax administration, public financial management, corporate governance of public enterprises and SOEs, and to develop Serbia's capital market.

4. **The goals of the program remain compatible with our aspirations to join the EU.** Implementing this program will allow Serbia to maintain macroeconomic stability, support the economic recovery, and realize the sizable potential for convergence towards EU-income levels.

Recent Economic Developments and Outlook

5. **Macroeconomic performance before the COVID-19 outbreak was strong.** Real GDP growth reached 4.2 percent in 2019, and employment and wages continued to grow. Investment remained robust, with record-high FDI inflows. Inflation remained low. The general government registered a fiscal deficit of 0.2 percent of GDP in 2019 and public debt declined to 52.8 percent of GDP. Foreign reserves increased further. Our solid performance has been recognized by credit rating agencies, with improvements in our rating or outlook.

6. **The economic impact of the COVID-19 shock in 2020 will be sizeable.** Serbia's improved resilience to shocks due to the fiscal space created in previous years, a strong FX reserves position, and enhanced financial soundness indicators, enabled a prompt and well-designed policy response to the pandemic outbreak. However, despite the large fiscal stimulus and the supportive monetary and financial measures, economic activity will be

negatively affected. Although growth remained strong in 1Q2020 (5 percent yoy), the main impact of the crisis is expected in 2Q2020, followed by a gradual recovery in the second half of 2020 supported by the monetary and fiscal stimulus and the relaxation of lockdown measures imposed worldwide. While the stringent containment measures ended in early May, historically large output declines in main European trading partners are likely to affect Serbia's economy mostly through trade and FDI spillovers.

- **Real GDP growth** is projected to fall to around -1½ percent in 2020 and to rebound by 6 percent in 2021, converging to 4 percent over the medium term.
- **Inflation** is projected to stay close to the lower bound of the inflation target band in 2020 and to gradually converge to 3 percent by over the medium term.
- **The current account deficit** is projected at about 5 percent of GDP in 2020 and 5½ percent of GDP in 2021, gradually falling to 4 percent of GDP over the medium term. These deficits will continue to be fully financed by net FDI. External financing will continue to consist mostly of FDI, and bilateral and infrastructure project loans.

Economic Policies

A. Fiscal Policies

7. Strong fiscal performance continued in 2019. The general government recorded an overall deficit of 0.2 percent of GDP, compared to 0.5 percent of GDP foreseen in the budget. Capital spending execution was strong, while current spending, including mandatory spending on wages and pensions, grew in line with expectations. Public debt fell to 52.8 percent of GDP in December 2019, while yields on government securities reached record-low levels.

8. To mitigate the impact of the COVID-19 shock, we deployed a large fiscal package. The total cost in 2020 of fiscal measures adopted initially amount to about RSD 390 billion (almost 7 percent of GDP). Key measures include:

i. A 10 percent wage increase for the public healthcare sector (RSD 13 billion) and increased healthcare spending (about RSD 60 billion);

ii. A one-off payment to all pensioners (RSD 7 billion);

iii. A universal cash transfer of EUR 100 available to each citizen over 18 years old (about RSD 71 billion);

iv. A three-month deferment of labor taxes and social security contributions for all private companies, to be repaid in 24 installments starting from 2021 (RSD 100 billion);

v. A deferment of corporate income tax advance payment during the second quarter of 2020 (RSD 21 billion);

vi. Wage subsidies, including payment of minimum wages for all SME employees and entrepreneurs for three months (RSD 93 billion) and payment of 50 percent of the net minimum wage for three months for employees in large private sector companies who are on involuntary leave but continue to be on the firms' payroll (RSD 4 billion); and

vii. New loans to MSMEs from the Development Fund at favorable terms (RSD 24 billion).

Moreover, a state guarantee scheme for bank loans to SMEs was introduced in April. Loans under this scheme can amount to up to EUR 2 billion, with a maximum cost to the budget of EUR 480 million. Other measures implemented include a 3-month moratorium on enforcement and interests on tax debt under rescheduling agreements and a 10 percentage points reduction of the interest rate on tax debt.

9. In late July, we adopted a second round of fiscal measures. Wage subsidies of 60 percent of the minimum wage for SME employees and entrepreneurs, and 50 percent of the minimun wage for employees in large private sector companies who are on involuntary leave but continue to be on the firms' payroll, are granted for another two months (at an estimated cost of RSD 36 billion). Moreover, the deferment of labor taxes and social security contributions for all private companies is extended for an additional month (at an estimated cost of RSD 30 billion).

10. These measures will temporarily increase the overall fiscal deficit and public debt to a significant extent in 2020. The fiscal deficit is expected to widen to about 8¼ percent of GDP in 2020. Public debt will temporarily increase, reaching about 60 percent of GDP by the end of the year.

11. We are committed to maintain fiscal discipline and to bring the public debt-to-GDP ratio back to a clear downward trajectory in 2021 and over the medium term. For 2021, the general government deficit is projected to narrow to about 2 percent of GDP and public debt to decline to 57½ percent of GDP. The fiscal stance in 2021 would accommodate the delayed effects of fiscal measures, such as possible calls on loans backed by state guarantees. Public wage and pension increases will be strictly limited and the budget will create space for scaling up public investment. For 2022 onwards, we will aim at overall deficits consistent with new fiscal rules planned to be introduced during 2021, with a view to bring public debt to 45 percent of GDP by 2025.

12. We will aim to contain fiscal risks and will prepare contingency measures as needed. We will closely monitor revenue and expenditure risks related to the pandemic and its economic impact—in particular, risks stemming from troubled SOEs, local governments, and state-guaranteed loans. We will maintain adequate liquidity buffers and will not accumulate public sector external debt payment arrears (continuous target). We will also refrain from accumulating domestic payment arrears (quantitative target). Our efforts to contain public spending will continue to be monitored through a ceiling on current primary spending of Serbia's Republican budget, excluding capital spending and interest payments (quantitative target).

13. We are committed to ensuring transparency and accountability for COVID-related spending. Specifically, we will: (i) continue to ensure that proper procurement procedures are followed; (ii) ensure that execution of this spending is officially accounted for through regular budget execution reports; and (iii) subject all spending to regular ex-post control mechanisms and publish ex-post audits. Any financial support to public enterprises to address the adverse impact of the crises will be delivered in a transparent manner and will be channeled through the government budget.

B. Structural Fiscal Policies

14. We remain committed to modernize tax administration to strengthen revenue collection and improve the business environment. Our reform efforts are based on IMF technical assistance and the Tax Administration Diagnostic Assessment Tool review. We are committed to fully implement the Transformation Program Action Plan (TPAP, 2018-23), which provides strategic guidance and a time-bound action plan to create a modern tax administration utilizing electronic business processes, improved taxpayer services, and a risk-based approach to compliance.

- Over the last two years, tangible reform agenda outcomes have been achieved. A strategic risk management unit is implementing modern compliance risk management (CRM) approaches. A Large Taxpayer Office (LTO) is now fully operational and there has been a steady increase in the availability of e-services for taxpayers. In 2019, we completed the separation of the administration of core and non-core activities and consolidated core activities into 37 sites. In late-2019, a decision was made to replace STA's existing IT system with a commercial-off-the shelf-system (COTS). A tender for procuring the system will be launched by mid-2021. We expect that this new system will facilitate an effective implementation of key reform activities, including the modernization of business processes.
- The next phase of reforms will be implemented through a World Bank Tax Administration Modernization Project with four components: (i) a review of the legal environment; (ii) improvement of the STA organization and operations, which include business process re-engineering; (iii) ICT system and record management modernization, including the implementation of an e-fiscalization system and (iv) project management and change management.
- In this context, a new Strategic Plan for the period 2021-2025, with agreed resource commitments, will be approved by end-October 2020.
- After some delays, a project manager and an assistant manager have been appointed to ensure an efficient implementation of the modernization project.

- To help ensure that the STA has adequate capacity to fulfill its tasks, we will accommodate and prioritize an increase in its staffing. In this context, we have also decided to build a new and suitable headquarter building for the STA.
- Efforts to reduce the average processing time for VAT refunds have continued. Refunds continue to be processed according to the legally prescribed timelines and the STA takes a cautious approach to minimize fraud. Going forward, the STA will continue to process the VAT refunds within the deadlines prescribed by the law (15/45 days for exporters and others, respectively), but it will strive to refund VAT earlier to low-risk taxpayers.
- To increase the share of revenues collected by the large taxpayer office (LTO), the STA is developing measures to assess the level of compliance of this taxpayer segment; expanding the risk profiling of taxpayers overseen by the LTO; and increasing the LTO staffing levels.
- Following the recent adoption of the Law on Origin of Assets, becoming effective January 2021, we will create a special unit to analyze the level of noncompliance of high net worth individuals, including by applying indirect audit methods, and start implementing a response strategy. We will seek Fund TA to help us establishing this unit, which should be effective at the start of 2021.
- The COVID-19 relief measures managed by the STA include (i) the deferment of labor taxes and social security contributions for private companies to be repaid in 24 installments commencing 2021; (ii) the deferment of the corporate income tax advance payment during the second quarter of 2020; and (iii) a three-month moratorium on compliance enforcement and a reduction of the interest rate on tax arrears. However, the operations of the STA have not been significantly affected by the COVID-19 outbreak or the measures implemented in response.

15. The general government employment and wage system reforms are expected to be delayed due to the COVID-19 outbreak.

- **Public wage system reform**
    - The 2016 Law on the Public Sector Employees Wage System sets the stage for a new system where employees are granted equal pay for equal work across the public sector, in a more transparent and systematic manner. Secondary legislation for local governments and public services (health, education, culture, and social protection) was approved in December 2017. We had planned to apply the new wage system to all public sector employees (including the police and army) during 2020, in time for the 2021 wage increases.
    - We have continued the preparatory work to implement the new system, including assessing the fiscal implications of alternative phasing-in

approaches and incorporating the recently adopted 10 percent wage increases in the Health sector into the model. A new Law on Salaries of Civil Servants and General Service Employees, as well as amendments to the job catalogue for public sector institutions and other organizations in the public sector, will be adopted after the formation of the new parliament and government. This, coupled with delayed negotiations with trade unions due to the pandemic and the related postponement of the national elections, has delayed the timeline for the adoption of the decree specifying the coefficients under the new wage system (**end-July 2020 reform target**). While we remain committed to implement the new system as expeditiously as possible, making it effective in 2021 will be complicated by the limited remaining fiscal space and other spending priorities. In this context, we will explore options to phase-in the new system next year, in a broadly fiscally neutral way.

- **General government employment framework**

  - The current framework is governed by the Budget System law, which regulates an employment freeze, with exceptions managed through the Employment Commission. This system, which includes local public enterprises, has helped to reduce public employment, but also resulted in reliance on fixed-term and contractual positions and staffing shortages in some areas.

  - We plan to replace this existing framework with a new system based on personnel planning for all public sector entities. The new system should ensure medium-term workforce planning by all public sector institutions as well as alignment with budgetary constraints. Our earlier plan to adopt a government decision on a revised public employment framework along these lines **(end-September 2020 RT, proposed to be dropped)** has been delayed due to the COVID crisis and related delays in delivery of TA and are now not likely to be effective in 2021. The need for firm control of public employment and the wage bill in the current situation also calls for postponing this planned reform.

  - Once the new system is sufficiently effective and comprehensive, we aim to phase out the controls through the hiring freeze and the Employment Commission. In the meantime, and through 2021, the Employment Commission will continue to allow the hiring of staff within the institutions' budget limits. However, within this system, we plan to define a methodology to make hiring practices more flexible and better tailored to institutions' staffing needs.

- We have also developed a new electronic public employment registry for the Public Administration, which will be effective by end-2020 starting with a pilot for the Ministry of Finance.

16. We are strengthening the public investment management (PIM) framework. This will help reduce infrastructure gaps—both in terms of quantity and quality.

- After steadily improving in past years, capital spending execution will be temporarily lower in 2020 due to the pandemic.

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

- In 2019, we established the Capital Investment Commission (CIC), updated the decree on management of capital projects, and adopted the associated by-laws. In this context, a PIM Unit has been instituted within the Ministry of Finance. The decree and associated by-laws intend to guide both the project-proponent line ministries and the PIM Unit on the operation of the new system, which became operational in January 2020.

- We have developed a single project pipeline that will continue to cover all ongoing and future projects.

- We are developing working practices, including processes, information flows and working relationships to operationalize the system. The PIM Unit also acts as secretariat to support decisions by the CIC. The first meeting of the CIC was held in February 2020.

- We are also developing, with World Bank support, a Public Investment Management System (PIMIS)—including an integrated database of public investment projects. The new system will be procured with a view to have the first modules operational in 2021 and the full system in 2022.

- We will continue to build human resource capacity within the PIM Unit, strengthen coordination and information flows within the Ministry of Finance (MOF) departments, and—by end-2020—prepare a Manual for Project Preparation and Appraisal to provide clear but generic guidance on how to prepare prefeasibility and feasibility studies.

17. We aim at strengthening fiscal frameworks, by adopting a new set of fiscal rules.

- To ensure a more rules-based pension system, we reintroduced the indexation of pensions effective January 2020 and will refrain from any additional ad-hoc pension increases. Indexation will automatically be suspended should the pension bill exceed 11 percent of GDP.

- Due to the COVID-19 crisis, we will postpone the adoption of a new fiscal rule. As part of a broader revision of the budget system law, during 2021 we will adopt a deficit-based fiscal rule anchored on public debt. We aim to achieve: (i) a more transparent and credible operational annual ceiling for the overall general government fiscal deficit (in principle, at zero, 0.5 or 1 percent of GDP depending on the level of public debt (including restitution bonds) compared with preset debt thresholds); (ii) improved accountability and facilitate transition towards the EU fiscal framework; and (iii) retain a strong role of the Fiscal Council. We will continue collaboration with the IMF to define key elements of the new rules, such as the debt thresholds, escape clauses, possible cyclical adjustment, correction mechanisms, and a strong accountability framework. The new fiscal rule will become effective with the 2022 budget.

18. We will continue to enhance public financial management (PFM).

- To prevent arrears to public enterprises, we will continue the publication of monthly reporting of overdue receivables to Srbijagas and EPS of their top-20 debtors on the companies' websites. We will prepare a plan to settle the arrears accumulated during the pandemic and will adopt measures to prevent further arrears as needed.

- We will continue to strictly limit the issuance of state guarantees. We will not issue any new state guarantees for liquidity support to SOEs, or state guarantees for any company in the portfolio of the former Privatization Agency. The Government will continue to refrain from issuing any implicit state guarantees.

- We will adopt a new PFM reform program for 2021-25 by end-2020, incorporating the findings of a Public Expenditure and Financial Accountability (PEFA) assessment to be conducted by the World Bank during the Summer.

- We will continue to submit financial plans of social security funds with estimates for their indirect beneficiaries to the National Assembly, in parallel with the Republican budget. We have been including all indirect budget beneficiaries of the central government (except for indirect budget beneficiaries of the Ministry of Education) in the Information System for Budget Execution (ISIB). We have upgraded the budget execution system to enable the integration of new users.

- We are committed to ensure that a full assessment of all proposed Public-Private Partnerships (PPPs) is reviewed by the MOF, including PPPs' key financing features, cost-benefit analysis, and risk sharing arrangements with the government. To improve control of fiscal implications and risks, the existing legislation requires that

PPPs over EUR 50 million are submitted to the government for consideration only after receiving the MOF's consent.

- We will continue to strengthen the role and capacity of the Fiscal Risks Management unit at the MOF. The preparation of a strategy and methodology to properly monitor fiscal risks has been delayed due to the COVID-19 outbreak and is now planned to be completed by end-2020, in line with the timeline for World Bank technical assistance. The strategy will prioritize the assessment of fiscal risks stemming from (i) SOEs; (ii) local governments; (iii) public-private partnerships; (iv) litigation; and (v) natural disasters.

- As a first step, we will prepare—with World Bank support—the sub-components of this methodology addressing risks from SOEs and from natural disasters; and will also develop a methodology for managing fiscal risks associated with the state-guarantee scheme designed in response to the COVID-19 crisis **(end-November 2020 reform target, revised and reset from July 2020)**.

- With the World Bank support, we aim to develop and strengthen fiscal risk management through three main components: (i) strengthening legislative and methodological framework on monitoring and management of fiscal risks; (ii) developing tools and models to effectively monitor and manage fiscal risks; and (iii) capacity building of the MOF's Fiscal Risks Department and other key stakeholders.

- We will make plans to move to a medium-term budget orientation and will continue to ensure a strict adherence to the budget calendar and transparency of the budget process. In this regard, we plan to publish the 2019 financial statement by end-October 2020. However, due to the COVID-19 outbreak, the publication of our fiscal strategy for 2021 has been delayed and will be published by end-2020.

- We will promptly resolve any new domestic arrears that may emerge due to the COVID-19 crisis and address the underlying factors to prevent the emergence of new ones.

C. Monetary and Exchange Rate Policies

19. Inflation has remained low and the exchange rate to the euro stable. Headline inflation was below the lower bound of the inflation target range in the period March-May 2020 mostly due to base effects in food prices and lower energy prices. Helped by the exhaustion of base effects of vegetable prices, it returned to the target range in June (1.6 percent y-o-y). Core inflation remains low and inflation expectations well-anchored—one-year ahead inflation expectations of the financial and corporate sectors are below the 3 percent target.

20. Amid low inflationary pressures, we eased the monetary stance to support lending and economic activity in response to the COVID-19 shock.

- We implemented three key policy rate cuts in March, April, and June, reducing it from 2.25 percent to 1.25 percent. In March, we also narrowed the interest rate corridor from ±1.25pp to ±1pp relative to the key policy rate. These policy measures were reflected in a fall in the repo rate, from about 1.0 percent in early 2020 to 0.25 percent.

- We have also provided liquidity (both in dinars and euros) to banks through additional and regular EUR/RSD swap auctions as well as repo purchase auctions and outright purchases of dinar government securities and reduced the FX swap interest rates (NBS deposit facility rate plus 10 basis points for dinars and 0 percent for euros). These measures provided necessary additional liquidity to the banking system, and excess dinar liquidity is now at high levels.

- In May, local-currency denominated corporate bonds became eligible for open market operations (OMOs) and as collateral for banks to receive daily liquidity loans and short-term liquidity from the NBS. Only corporate bonds issued before end-2020, and with an original maturity of up to 10 years, are eligible for OMOs and as collateral for liquidity loans.

- In July, we set up a repo line arrangement with the ECB to address possible euro liquidity needs of Serbian financial institutions in the presence of market dysfunctions due to the COVID-19 shock. Under this repo line, the ECB provides euro liquidity (up to EUR 1 billion) to the NBS in exchange for adequate euro-denominated collateral. The maximum maturity of each drawing is three months, and the repo line will remain in place until end-June 2021, unless an extension is agreed.

- In July, we introduced measures to make dinar loans under the state guarantee scheme introduced in response to the COVID-19 crisis more attractive. Specifically, we increased the remuneration (by 0.50 percentage points relative to the standard remuneration rate on allocated required reserves in dinars, which equals 0.10 percent) to banks approving dinar loans under the state guarantee scheme. This preferential remuneration rate is available for banks approving dinar loans at an interest rate that is at least 0.50 percentage points lower than the ceiling interest rate envisaged by the scheme (1M BELIBOR+2.5 percentage points).

21. The current inflation targeting framework remains appropriate for maintaining stable inflation and protecting the economy against external shocks. We remain committed to the objective of keeping inflation within the tolerance band (3 percent ±1½ percentage points). Inflation developments will continue to be monitored via a consultation clause with consultation bands set around the central projection (Table 1).

22. We aim to maintain relative stability of the exchange rate during the crisis period. Foreign exchange interventions will continue to be used to smooth excessive short-term exchange rate volatility, while considering the implications for financial sector and price stability. In the context of heightened uncertainty due to the pandemic, weaker remittances and FX supply from exporters, and amid dividend payments by foreign companies, we intervened in the FX market to smooth excessive volatility, with a net sale of EUR 980 million since March through end-June. We assess the current level of gross international reserves as adequate and comfortable for precautionary purposes.

23. Promoting dinarization remains an important medium-term objective. The dinarization strategy adopted in 2012—and updated in 2018—is based on three pillars: (i) maintaining overall macroeconomic stability; (ii) creating favorable conditions for developing the dinar bond market; and (iii) promoting hedging instruments.

- Several measures to foster dinarization remain in place, such as higher reserve requirements on FX deposits, mandatory down-payment ratios for FX loans, and systemic risk buffers. We have enhanced our communication to the public on the risks of unhedged FX borrowing, the need of prudent management of FX risks, the availability of hedging instruments, and the benefits of dinar savings.

- Based on results from a recent survey of banks' exposures to foreign currency borrowers, in December 2019 we adopted a set of prudential measures related to banks' capital adequacy and risk management, aimed at supporting dinar lending. In March 2020 the corresponding by-laws were adopted to adjust the reporting system to the new regulations. In May 2020, due to the emergency situation created by the COVID-19 outbreak, we postponed the effectiveness of these measures to January 2021.

- By June 2020, deposit and credit dinarization reached 38.5 percent and 34.6 percent, respectively. We have increased the share of public debt in local currency, which reached 27.7 percent by May 2020, while extending the average maturity of dinar-denominated securities. The COVID-19 shock, however, temporarily increased market demand for shorter term dinar securities.

24. Our dinarization strategy aims to further strengthen liquidity management and develop local currency debt and hedging markets.

- Once the uncertainty associated to the COVID-19 pandemic dissipates, we will consider additional measures to (i) further develop local and foreign currency derivative markets, and (ii) encourage prudent pricing of credit risks of unhedged foreign currency borrowing.

- We will continue to strengthen public debt management. We aim to make possible the settlement of Serbian government securities through Euroclear, which will help expand the investor base, reduce transaction costs, and improve liquidity. We also plan to establish a primary dealer system and develop adequate supervisory framework. Implementation of these plans, however, has been delayed by the COVID-19 shock. Thus, a Market Maker Agreement will be agreed with the involved parties during the Fall of 2020. Concurrently, the necessary changes to the Public Debt Law and the Law on Capital Market will be approved. To this end, a working group comprising representatives of the PDA, MOF, prospective primary dealers, and other relevant institutions has been established and a pilot will be effective by the end of the first quarter of 2021.

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

D. Financial Sector Policies

26. Several actions were taken in response to the emergency created by the pandemic.

- In March, we introduced a 3-months moratorium relieving debtors of repayment of their obligations under loan and lease agreements. During the state of emergency, banks could not charge any default interest on past due outstanding receivables and could not initiate enforcement or enforced collection procedures or take legal actions to collect receivables from customers.

- In late July, a new 2-month moratorium was introduced, relieving debtors of repaying their liabilities during August and September, as well as those obligations that were due in July but were not settled.

- In June, we relaxed the loan-to-value (LTV) cap for first-home buyers mortgage loans in foreign currency, increasing the limit from 80 percent to 90 percent.

- In June, we kept the countercyclical buffer rate (CCyB) at 0 percent, considering that the estimated credit-to-GDP gap level, while increasing, is still below its long-term trend. The next review of the CCyB is planned for September 2020. Regarding the systemic risk buffer, in February 2020 we decided to keep this rate at 3 percent, taking into account the still high degree of euroization.

27. We will continue to strengthen financial sector regulatory and supervisory frameworks, to fully align them with international standards. We continue to enhance the prudential framework for banks and insurance companies to ensure full compliance with international standards and EU requirements. We will further harmonize our financial legal framework with EU Acquis taking into account the specificities of the Serbian financial market.

28. We will further enhance financial safety nets. Significant progress has been achieved in strengthening the bank resolution, deposit insurance, and crisis management frameworks.

- In February and March 2020, we completed the latest cycle of updating resolution plans, with no substantial impediments to resolution being observed. Moreover, previous MREL targets for banks have been reviewed and new MREL targets have been determined. Banks' compliance with the new MREL targets are being monitored through regular resolution-related reporting, starting from June 30, 2020.

- We have further aligned the deposit insurance scheme with international standards. In October 2019, we amended the Law on Deposit Insurance to address the findings and recommendations of the IADI core principles assessment. These amendments, among other modifications, allowed for the introduction of risk-based premia, established backstop funding, and modified the basis for the computation of deposit insurance premiums and targets from eligible to insured deposits, while extending the deadline to reach the target fund level. The amendments imply a significant reduction in the average effective premium paid by banks and ensure further alignment with EU directives (EU DGSD).

- To ensure an appropriate application of the amended law, we also amended secondary legislation and DIA internal rules in relation to the premium assessment and collection, and to other functions covered by the law. The DIA also developed and deployed a new IT system for deposit monitoring and premium assessment.

- The DIA is committed to the introduction and implementation of a risk-based premium assessment model. In collaboration with the NBS, the DIA will adopt the corresponding methodology by October 19, 2020.

- In response to the pandemic, the DIA limit to invest in foreign currency government securities (of up to 25 percent of its portfolio) was temporarily lifted. In this context, the DIA has increased its holding of government securities from 25 percent to about 48 percent of its foreign currency investment portfolio by end-June. The DIA will revert to the previous exposure limit within 12 months after the expiration of the state of emergency.

- In November 2019, we updated the 2015 MoU between the DIA and NBS to enhance the information sharing between both institution on banks' risk profiles and resolution plans, and the joint development of a least cost test.

29. NPL ratios have reached historically low levels. As of end-May, the NPL ratio had fallen to 3.9 percent, the lowest level since 2008. While the COVID-19 shock could have a negative impact on NPLs, such impact should be mitigated by the comprehensive measures to support firms and households deployed by the NBS and the government. We will closely monitor NPLs trends, especially after the expiration of the moratorium of bank loan repayments and the fiscal measures to support companies.

30. We will continue our efforts to contain NPLs. Our updated NPL resolution strategy focuses on measures to prevent accumulation of new NPLs, further improve bankruptcy frameworks, while broadening the scope to include the export credit agency (AOFI), the Development Fund (DF), and the bad assets managed by the Deposit Insurance Agency (DIA) on behalf of the State and the bankruptcy estates of banks in liquidation. We have been implementing measures under the updated strategy based on the corresponding action plan.

- We are advancing a time-bound action plan to resolve the DIA portfolio of bad assets by end-2020 through a tendering process implemented in two phases; and in June 2019 the first phase of the sale was completed.
- In September 2019, we launched the tender for the sale of the second, larger DIA portfolio (of EUR 1.8 billion). In December 2019, 6 non-binding offers were received, all of them meeting the requirements to enter the next phase of the project, the virtual data room, which started in February 2020. The deadline for submission of binding offers was postponed to August 21, 2020 due to the pandemic and at the bidders' request, with the transaction now expected to be completed by end-2020. We will also develop, by end-2020, a time-bound plan to resolve the residual assets of the DIA portfolio.
- A study on corporate indebtedness in Serbia and prevention of new NPLs, prepared with support of the World Bank, has been completed and will be presented to the NPL Resolution working group at the next meeting.
- We are establishing, with support of the IFC and an external consultant, an internet portal for online auctions of bankruptcy assets. Work on this area has been delayed due to the pandemic and is now expected to be completed by end-2020.

31. We will continue to implement our state-owned financial institutions reform agenda. We will further strengthen our oversight of state-owned financial institutions.

- The privatization of Komercijalna Bank is expected to be completed by the end of 2020.
- We will continue to implement the new strategy for Banka Poštanska Štedionica (BPS). The strategy focuses on (i) the bank's commercial reorientation towards retail

banking, entrepreneurs, micro-enterprises and small enterprises, (ii) improvements of the bank's internal organization, corporate governance and risk management, and (iii) enhancement of its IT infrastructure. In April, we amended the government conclusion on BPS to (i) allow the bank to lend to medium-size companies through the state guarantee scheme introduced in response to the COVID-19 crisis, (ii) eliminate the loan-size limit for private enterprises, (iii) introduce the possibility of lending to municipalities and local governments (while requiring MOF consent for any loan over RSD 20 million), and (iv) and abolish the cap on exposure to SOEs. Going forward, we will closely monitor risks related to new lending to medium-size companies, SOEs and local governments in the aftermath of the COVID-19 outbreak, including in the context of the state guarantee scheme.

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

32. We will continue strengthening the AML/CFT framework. After successfully implementing all measures listed in the action plan to address the AML/CFT weaknesses identified by the FATF, Serbia is no longer on the FATF grey list as of June 2019. The amendments to the AML/CFT Law, the Law on Centralized Records of Beneficial Owners, the Law on Games of Chance, and the Law on Real Estate Lease and Trade Agency adopted in December 2019 addressed the outstanding technical issues. Thus, Serbia is now either largely or fully compliant with FATF standards. We will continue to enhance the AML/CFT framework:

- We maintain a close coordination across agencies to further improve the effectiveness of the AML/CFT system and to continue implementing MONEYVAL recommendations.

- We continue our regular reporting under the EU agenda, both as part of negotiating chapters (e.g. Chapters 24 and 4) and sub-committees of monitoring the implementation of the Stabilization and Association Agreement.

- We continue implementing the 2018 National Risk Assessment Action Plan.

- A new National Strategy Against Money Laundering and the Financing of Terrorism for 2020-2024 was adopted in February 2020 together with an action plan for 2020-22. We have also started preparations for a new national risk-assessment update, to be completed in 2021.

- Training, capacity building and national coordination have continued even during the COVID-19 pandemic, and Serbian FIU experienced no delays in international financial intelligence sharing.

- Regulations have been aligned with the amended AML/CFT Law. The MOF passed an amended Rulebook on the Methodology for Complying with the AML/CFT Law, to reflect the December 2019 amendments to the AML/CFT Law.

- Good progress has been made in terms of prosecution, with seven persons convicted for money laundering so far this year, with their assets being confiscated.

- The AML/CFT authorities will support government activities concerning the development of a new regulatory framework for crypto-assets in Serbia.

33. We are developing strategies for capital market deepening and development finance.

- Serbia's capital markets remain underdeveloped with limited stock-market activity, nascent domestic bond market volumes, and a virtually nonexistent corporate bond market. Alternative sources of financing such as private equity or venture capital, are negligible. A diagnostic assessment, prepared with the World Bank support, focused on developing capital markets and diversifying sources of long-term financing. A working group, chaired by the Minister of Finance, has prepared a strategic outline of the main objectives, priority areas and measures, which will serve as a guide for the development of a strategy and an action plan to enhance Serbia's capital markets. Work on this front has been delayed due to the pandemic and completion of the strategy and action plan is now expected by the end of 2020.

- Meanwhile, external consultants hired with EU support are currently working on a draft Capital Markets Act. Also, based on a recent EBRD comparative study analyzing corporate bond markets in 8 CESEE countries, in April 2020 we introduced regulatory changes to simplify the process of issuing corporate bonds as well as reducing issuance costs.

- A working group for Development Finance has been formed, led by the Ministry of Economy and with support from the World Bank. Preparation of a strategy for development finance and an action plan to implement it—with support of an external consultant—has been delayed due to the COVID-19 outbreak and is now expected to be completed by end-2020. The World Bank has prepared a report on access to finance for micro, small and medium enterprises in Serbia, which will further support efforts under the development finance strategy.

E. Structural Policies

34. We will continue to implement structural reforms to improve the business environment and support higher private sector-led growth. Our focus is on policies to improve the investment climate, reduce informality, and enhance corporate governance of public and state-owned enterprises.

35. We are implementing measures to fight the grey economy. We continue to implement the Action Plan on the National Program for Countering the Grey Economy. Our priorities include improvements in the inspection system, modernization of Tax Administration, strengthening of incentives for voluntary compliance, and improving the business environment to encourage entrepreneurship and innovation. We will further improve coordination across inspections through an e-inspection system, which provides a horizontal e-platform facilitating full implementation of a risk-based approach to inspection oversight.

36. We are committed to continue restructuring large public utilities companies to enhance efficiency and contain fiscal costs and risks. We remain fully committed to implement the corporate and financial restructuring in these companies over the medium term. We will closely monitor and tackle fiscal risks from these companies, especially in the context of the COVID-19 outbreak and its impact on the SOE sector.

- **Elektroprivreda Srbije (EPS).** We continue to improve corporate governance with support of the EBRD. In 2021, we will change the legal status of EPS to a joint stock company, in line with the ongoing corporate restructuring process and financial consolidation, aiming to improve the viability of the company and ensure its professional management. In this context, by December 2020 we will launch a tender for the valuation of the company's properties and assets (**end-December 2019 reform target**). We will conduct an assessment of electricity tariffs in order to ensure full cost recovery, incorporating the cost of increased reliance on renewable energy sources and investment needs to ensure safeguard adequate generation capacity. The assessment has been delayed due to the pandemic and we now plan to complete it by July with a view to implement a tariff adjustment by end-September 2020.

- **Srbijagas.** Collection rates have been affected by the COVID-19 outbreak. We will closely monitor the emergence of new arrears and make efforts to improve payment discipline. We remain committed to phase out Srbijagas' reliance on government support for servicing debt incurred in the period 2008-2012 by the end of 2020.

37. We will make further efforts to resolve the remaining strategic companies in the portfolio of the former Privatization Agency:

- Negotiations with potential investors are ongoing regarding Petrohemija and we intend to launch a privatization tender following ongoing discussions with potential investors (**end-February 2019 reform target**).

- We continue to explore options for potential strategic investments or partnerships for MSK. Meanwhile, we will resolve recent utility bill arrears and have taken actions to prevent the accumulation of new arrears.

- We remain committed to the privatization of Lasta. However, the process has been delayed due to the pandemic, and a new timeline will be set once market conditions normalize.

- We will implement a time-bound action plan for Resavica mines, developed with the assistance of the World Bank, that foresees the closure of four unviable mines, while developing a voluntary social program and labor optimization plan. We will ensure sufficient resources in the budget to transparently support Resavica through subsidies and to prevent further accumulation of arrears to EPS.

38. We continue to resolve enterprises in the portfolio of the former Privatization Agency through either privatization or bankruptcy, in accordance with the revised Privatization Law. By May 2020, more than 310 companies entered bankruptcy, and 67 were privatized since end-2014. About 35,600 employees from 355 companies have received severance payments. 72 companies with nearly 29,000 employees remain.

39. We are developing a new ownership and governance strategy for SOEs. The strategy will provide an integrated approach to oversight and monitoring of SOE operations, financial consolidation, restructuring or divestment plans, and measures to improve governance and institutional frameworks. The strategy will complement ongoing efforts to better monitor and tackle fiscal risks and enhance efficiency.

- We will adopt, with the EBRD support, an ownership policy document consistent with the core principles embodied in the OECD Guidelines on Corporate Governance of State-Owned Enterprises, and a time-bound action plan to implement it **(end-July 2020 reform target, reset to end-October 2020)**. These documents will: identify ownership rationales and high-level objectives of the State's ownership; develop criteria for classification of SOEs; design the framework for setting objectives and targets for SOEs and for monitoring their achievement; and review the Legal and regulatory framework for corporate governance of SOEs.

- We will also adopt a dividend policy by end-2020 that fits with our long-run views of the key PEs and SOEs.

- We will make efforts to promptly resolve the excessive reliance on acting directors in state-owned companies.

40. We will continue to improve the quality and transparency of national statistics:

- We remain committed to comprehensive, timely, and automatic data sharing across relevant compiling agencies (including MOF, SORS and NBS) for statistical purposes. To ensure compilation efficiency and consistency of outputs, and to further strengthen cooperation and coordination across statistical authorities, in 2019 we updated the Memorandum of Cooperation signed between SORS, MOF (Macro-fiscal unit, Treasury, PDA), and NBS. The updated Memorandum reflects best practices and describe the roles and responsibilities of each reporting agency with regards to current and envisaged fiscal reporting both within the national legal context and official reporting to international institutions.

- By end-December 2020, the Ministry of Finance will start submitting monthly fiscal accounts to the European Department of the IMF using the templates in line with the GFSM 2014 framework, developed with the assistance of IMF TA.

- By end-March 2021, the Serbian Statistical Agency (SORS) will publish these monthly GFSM 2014 fiscal accounts under the Enhanced General Data Dissemination System (eGDDS), covering the budgetary government and Roads and Corridors of Serbia, and will resume reporting of annual data, covering the general government, to the GFS Database of the IMF Statistics Department. These annual data should also be consistent with GFSM 2014.

Program Monitoring

41. Progress in the implementation of the policies under this program will be monitored through quantitative targets (QTs)—including an inflation consultation clause, continuous targets (CTs) and reform targets (RTs). These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1a. Serbia: Quantitative Program Targets 1/

	2019												2020					
	Mar.			Jun.			Sep.			Dec.			Mar.			Jun.	Sep.	Dec.
	Prog. QT	Adj. Prog.	Act.	IT 7/	Adj. Prog.	Act.	Prog. QT	Adj. Prog.	Act.	IT 7/	Adj. Prog.	Act.	Prog. QT	Adj. Prog.	Act. 8/	IT 7/	Prog. QT	IT 7/
	CR 18/375			CR 18/375			CR 19/238			CR 19/238			CR 19/369			CR 19/369	CR 19/369	CR 19/369
I. Quarterly Quantitative Targets (QT)																		
1 Ceiling on the general government fiscal deficit 2/ 3/ (in billions of dinars)	18.9	26.0	-11.2	2.2	4.9	-17.3	4.5	-1.3	-35.1	26.2	11.5	11.1	37.6	65.2	52.6	32.7	476.3	457.8
2 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 2/	221.9	221.1	219.2	457.8	457.4	460.0	718.4	717.0	681.1	988.4	988.9	970.8	234.5	241.5	266.3	478.3	1113.6	1385.2
3 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 4/	0.5	...	-0.4	0.5	...	-0.9	0.5	...	-0.5	0.5	...	2.4	1.0	...	0.2	1.0	1.0	1.0
II. Continuous Targets																		
4 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros)	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0
III. Inflation consultation band (quarterly) 5/																		
Upper band limit (1.5 percent above center point)	4.4			3.5			3.4			3.5		3.4	3.3		2.8	4.0	3.0	3.1
End of period inflation, center point 6/	*2.9*	...	*2.8*	*2.0*	...	*1.5*	*1.9*	...	*1.2*	*2.0*		*1.9*	*1.8*		*1.3*	*2.5*	*1.5*	*1.6*
Lower band limit (1.5 percent below center point)	1.4			0.5			0.4			0.5		0.4	0.3		-0.2	1.0	0.0	0.1

1/ As defined in the Program Statement and the Technical Memorandum of Understanding.
2/ Cumulative since the beginning of a calendar year.
3/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees.
4/ Quarterly changes for numbers in 2018. Cumulative change since December 31, 2018 for numbers starting in 2019.
5/ Staff level consultation is required upon breach of the band limits.
6/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Serbian Statistics Office.
7/ Indicative targets are not monitored as part of the program conditionality.
8/ Does not include end-March data for all beneficiaries.

Table 1b. Serbia: Standard Continuous Targets

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

Table 2. Serbia: Reform Targets

	Actions	Target Date	Status	Objective
	Fiscal			
1	Approve a government decree defining wage coefficients under the new Public Sector Employee Wage System for local governments, public services, and public administration.	End-July 2020	Not met.	Rationalize pay and improve incentives across public sector.
2	Adopt a government decision on a revised public employment framework for 2020.	End-September, 2020	Drop.	Improve employment flexibility while containing
3	Prepare methodologies to: (i) monitor fiscal risks from SOEs and natural disasters, and (ii) manage fiscal risks associated with the state-guarantee scheme designed in response to the COVID-19 crisis.	End-July, 2020	Not met. Revised and reset to end-November 2020.	Reduce fiscal risks.
	Structural			
4	Adopt a government decision to launch a privatization tender for Petrohemija.	End-February, 2019	Not met.	Reduce fiscal risks.
5	Launch a tender for the valuation of EPS property and assets.	End-December, 2019	Not met.	Improve SOE governance.
6	Government adoption of an ownership policy document and a time-bound action	End-July, 2020	Not met. Reset to end-October 2020.	Improve SOE governance.

Attachment I. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program. To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on May 18, 2018, except as noted below.

A. Fiscal Conditionality

2. **The general government fiscal deficit** is defined as the difference between total general government expenditure (irrespective of the source of financing) including expenditure financed from foreign project loans, payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed, repayments of debt takeover if debt was previously guaranteed, and payment of arrears (irrespective of the way they are recorded in the budget law) and total general government revenue (including grants). For program purposes, the consolidated general government comprises the Serbian Republican government (without indirect budget beneficiaries), local governments, the Pension Fund, the Health Fund, the Military Health Fund, the National Agency for Employment, the Roads of Serbia Company (JP Putevi Srbije) and any of its subsidiaries, and the company Corridors of Serbia. Any new extra budgetary fund or subsidiary established over the duration of the program would be consolidated into the general government. Privatization receipts are classified as a financial transaction and are recorded "below the line" in the General Government fiscal accounts. Privatization receipts are defined in this context as financial transactions.

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

Adjustors

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

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

	End-Sep. 2019	End-Dec. 2019	End-Mar. 2020	End-Jun. 2020	End-Sep. 2020	End-Dec. 2020
Programmed cumulative dividends	17.1	17.1	17.1	17.1	17.1	17.1
Programmed cumulative debt recovery receipts	2.5	2.5	4	4	4	4
Programmed cumulative debt issuance at a premium	0	0	6	6	6	6
Programmed concession and PPP receipts recorded above the line	0	0	0	0	0	0

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

- The quarterly ceilings on the **general government fiscal deficit** and the **primary current expenditure of the Republican budget** in March and June 2020 will be adjusted upward by a maximum of RSD 11 billion to the extent that the Republican Budget assumes expenditures associated with repayment of foreign currency savings to citizens of the former Federal Republic of Yugoslavia, in addition to RSD 4 billion that has already been budgeted for in the 2020 Budget. For the purpose of calculating the adjustor, the total amount will be recorded above the line in the fiscal presentation and will be converted from euros into dinars using the National Bank of Serbia's middle RSD/EUR exchange rate prevailing on the day when the Ministry of Finance issues the associated bond to non-residents.

- The quarterly ceilings on the **general government fiscal deficit** and the **primary current expenditure of the Republican budget** in 2020 will be adjusted upward by a maximum of EUR 170 million to the extent that the Republican Budget assumes expenditures associated with state owned enterprise recapitalization, or the assumption of debt obligations on behalf of the company. For the purpose of calculating the adjustor, the total amount will be recorded above the line in the fiscal presentation and will be converted from euros into dinars using the National Bank of Serbia's middle RSD/EUR exchange rate prevailing on the day when the Ministry of Finance executes the transaction.

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

	End-Sep. 2019	End-Dec. 2019	End-Mar. 2020	End-Jun. 2020	End-Sep. 2020	End-Dec. 2020
Programmed cumulative ear-marked grants receipts	9.3	13.9	2.5	5.5	9.3	13.9
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0	0

4. Domestic arrears. For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include a quantitative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶2 above, except local governments; (ii) the Development Fund, and (iii) AOFI. Arrears to be covered include outstanding payments on wages and pensions; social security contributions; obligations to banks and other private companies and suppliers; as well as arrears to other government bodies. This quantitative target will be measured as the change in the stock of domestic arrears relative to the stock at December 31, 2018, which stood at RSD 3.41 billion.

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

B. Ceiling on External Debt Service Arrears

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

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

C. Inflation Consultation Mechanism

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

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

D. Reporting

10. General government revenue data and the Treasury cash position table will be submitted weekly; and the stock of spending arrears as defined in ¶6 45 days after the end of each quarter. General government comprehensive fiscal data (including social security funds) will be submitted within 35 days of the end of each month.

11. The stock of spending arrears (> 60 days past due) as reported in the MOF e-invoice system will be submitted within 14 calendar days after the end of each month.

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

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

14. Borrowing by the Development Fund and AOFI will be submitted within four weeks of the end of each month.

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

16. Monthly average VAT refund time, stock of pending VAT refunds, and the value of the VAT refunds provided each month will be submitted by the Serbian Tax Administration in advance of the scheduled program review missions.

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

Data Reporting for Quantitative Targets

Reporting Agency	Type of Data	Timing
Statistical Office and NBS	CPI inflation	Within four weeks of the end of the month
Ministry of Finance	Fiscal deficit of the consolidated general government	Within 35 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 35 days of the end of the month
Ministry of Finance	External debt payment arrears by general government, Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Gross accumulation of domestic payment arrears by the general government (without local government, the Development Fund, and AOFI)	Within 45 days of the end of the quarter
Ministry of Finance	Earmarked grants and receipts from small-scale disposal of assets	Within four weeks of the end of the quarter

IMF Executive Board Completes Fourth Review Under the Policy Coordination Instrument for the Republic of Serbia

FOR IMMEDIATE RELEASE

- Due to the COVID-19 pandemic, Serbia's real GDP is projected to contract by 3 percent in 2020 and is expected recover next year with growth at 6 percent.
- To address the crisis, the authorities adopted stringent containment measures at an early stage and implemented a large policy package.
- Containing fiscal risks and preparing contingency measures is critical given the highly uncertain economic outlook.

WASHINGTON, DC – **August 26, 2020** The Executive Board of the International Monetary Fund (IMF) concluded the Fourth Review Under the Policy Coordination Instrument (PCI) for the Republic of Serbia.[1]

The PCI was approved on July 18, 2018 (see Press Release No. 18/299) and aims at maintaining macroeconomic and financial stability, while advancing an ambitious reform agenda to foster rapid growth, job creation, and improved living standards.

The COVID-19 pandemic is negatively impacting Serbia's economic activity. Growth is projected at -3 percent this year, compared to 4.2 percent in 2019, with lower external demand, weaker foreign direct investment and remittances, disruptions in regional and global supply chains, and domestic supply constraints. With the lockdown measures relaxed, the economy has begun to recover, and growth in 2021 is expected to be at 6 percent. Risks to the outlook are substantial given the uncertainty about the evolution of the epidemic. The recent rise in infection rates in Serbia, though from low levels, underscores these risks.

The authorities responded to the pandemic promptly by implementing stringent containment measures and a large package of fiscal, monetary, and financial sector measures. The policy measures were generally well-designed, and appropriately aimed at providing lifelines to households, preserving jobs, boosting healthcare spending, and providing sufficient liquidity to the banking system and relief to borrowers.

While the immediate policy priorities have shifted to supporting the economy through the crisis, the objectives of the PCI, which expires in January 2021, remain ambitious and appropriate. The authorities and staff agreed that going forward it will be critical to contain fiscal risks including from troubled state-owned enterprises. Absent large economic surprises, the fiscal deficit in 2021 should be contained to about 2 percent of GDP, with limited increases in public sector wages and pensions while making room for higher public investment.

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

Executive Board Assessment[2]

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Serbia: Selected Economic and Social Indicators, 2016-2022

	2016	2017	2018	2019		2020		2021		2022
				CR 19/369	Est.	CR 19/369	Proj.	CR 19/369	Proj.	Proj.
	(Percent change, unless otherwise indicated)									
Real sector 1/										
Real GDP	3.3	2.0	4.4	**3.5**	4.2	**4.0**	-3.0	**4.0**	6.0	6.0
Real domestic demand (absorption)	1.4	3.9	6.5	**4.6**	5.2	**4.0**	-1.8	**3.6**	8.0	5.9
Consumer prices (average)	1.1	3.1	2.0	**1.9**	1.9	**2.0**	1.5	**2.2**	1.9	2.3
GDP deflator	1.5	3.0	2.1	**3.3**	2.5	**3.4**	3.8	**3.4**	2.3	2.4
Unemployment rate (in percent) 2/	15.9	14.1	13.3	**...**	10.9	**...**	...	**...**	...	...
Nominal GDP (in billions of dinars)	4,521	4,754	5,069	**5,417**	5,411	**5,827**	5,448	**6,264**	5,907	6,414
	(Percent of GDP)									
General government finances										
Revenue 3/	40.8	41.5	41.5	**41.4**	42.1	**40.2**	38.2	**39.8**	41.1	41.4
Expenditure 3/	41.9	40.4	40.9	**42.0**	42.3	**40.7**	46.8	**40.3**	43.2	42.0
Current 3/	37.9	36.7	36.4	**37.2**	37.0	**35.9**	42.3	**35.6**	37.5	36.3
Capital and net lending	3.2	3.1	4.1	**4.5**	5.1	**4.7**	4.3	**4.5**	5.3	5.3
Amortization of called guarantees	0.9	0.6	0.4	**0.2**	0.2	**0.1**	0.2	**0.2**	0.4	0.4
Fiscal balance 4/	-1.2	1.1	0.6	**-0.5**	-0.2	**-0.5**	-8.6	**-0.5**	-2.0	-0.5
Primary fiscal balance (cash basis)	1.7	3.6	2.8	**1.5**	1.8	**1.5**	-6.6	**1.5**	-0.1	1.3
Structural primary fiscal balance 5/	1.7	3.7	2.8	**1.8**	1.6	**1.6**	1.1	**1.6**	1.1	1.1
Gross debt	68.9	58.7	54.5	**52.7**	52.8	**51.4**	59.8	**47.8**	57.0	53.2
	(End of period 12-month change, percent)									
Monetary sector										
Money (M1)	20.3	9.7	20.1	**10.7**	16.3	**9.7**	6.0	**8.6**	12.2	11.1
Broad money (M2)	9.8	3.3	15.0	**8.5**	8.8	**7.4**	5.5	**6.2**	9.0	8.2
Domestic credit to non-government 6/	1.8	4.4	10.1	**7.2**	9.5	**7.3**	6.6	**6.9**	8.4	9.0
	(Period average, percent)									
Interest rates (dinar)										
NBS key policy rate	3.3	3.9	3.1	...	2.3	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	3.1	3.1	2.8	...	3.1	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Balance of payments										
Current account balance	-2.9	-5.2	-4.8	**-5.9**	-6.9	**-5.3**	-6.4	**-5.2**	-6.5	-6.3
Exports of goods	34.9	35.9	35.2	**36.2**	35.8	**36.7**	33.2	**37.7**	33.5	35.1
Imports of goods	-43.4	-46.1	-47.1	**-49.2**	-48.0	**-49.3**	-44.1	**-49.7**	-46.0	-47.8
Trade of goods balance	-8.5	-10.2	-11.9	**-13.0**	-12.2	**-12.6**	-10.9	**-12.0**	-12.6	-12.7
Capital and financial account balance	0.6	4.8	6.7	**8.7**	10.5	**6.7**	6.1	**5.7**	7.3	7.0
External debt (percent of GDP) 7/	76.5	68.9	66.1	**58.4**	66.2	**54.7**	68.6	**51.1**	65.3	61.5
of which: Private external debt	29.4	29.7	30.9	**27.5**	31.7	**25.7**	30.3	**24.3**	29.0	27.4
Gross official reserves (in billions of euro)	10.2	10.0	11.3	**12.5**	13.4	**13.2**	13.2	**13.5**	13.6	14.0
(in months of prospective imports)	5.5	4.7	4.8	**4.9**	6.3	**4.8**	5.6	**4.5**	5.1	4.8
(percent of short-term debt)	345.2	200.3	193.9	**191.5**	250.8	**201.7**	247.9	**205.7**	255.8	262.5
(percent of broad money, M2)	58.7	53.2	52.2	**54.2**	57.8	**53.1**	57.2	**50.4**	54.8	52.0
(percent of risk-weighted metric)	169.5	158.4	164.8	**171.4**	181.1	**170.7**	177.3	**172.6**	180.2	178.5
Exchange rate (dinar/euro, period average)	123.1	121.4	118.3	**...**	117.9	**...**	...	**...**	...	...
REER (annual average change, in percent; + indicates appreciation)	-1.0	2.9	2.8	**...**	1.0	**...**	...	**...**	...	...
Social indicators										
Per capita GDP (in US$)	5,756	6,284	7,246	**7,445**	7,382	**8,086**	7,458	**8,787**	8,442	9,210
Real GDP per capita (percent change)	3.9	2.6	5.0	**3.9**	4.5	**4.4**	-2.6	**4.4**	6.4	6.4
Population (in million)	7.1	7.0	7.0	**7.0**	7.0	**6.9**	6.9	**6.9**	6.9	6.9

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

1/ SORS released revised national accounts in November 2018.

2/ Unemployment rate for working age population (15-64).

3/ Includes employer contributions.

4/ Includes amortization of called guarantees.

5/ Primary fiscal balance adjusted for the automatic effects of the output gap both on revenue and spending as well as one-offs.

6/ At constant exchange rates.

7/ After CR19/369, domestic securities held by non-residents are included in external debt. Historical data were updated since 2015.