EXECUTIVE BOARD MEETING

EBS/20/136
Correction 2

August 25, 2020

To:	Members of the Executive Board
From:	The Secretary
Subject:	**Republic of Serbia—Fourth Review Under the Policy Coordination Instrument**

Board Action:	The attached correction to EBS/20/136 (8/10/20) has been provided by the staff:
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Pages 55**
Questions:	Mr. Martijn, EUR (ext. 38734) Ms. Marinkov, EUR (ext. 38914) Mr. Dallari, EUR (ext. 37560) Ms. Munkacsi, SPR (ext. 30954)

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 123~~1~~.1~~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.