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REPUBLIC OF SERBIA

July 2025

2025 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, AND REQUEST FOR MODIFICATION OF TARGETS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF SERBIA

In the context of the 2025 Article IV Consultation, First Review Under the Policy Coordination Instrument, and Request for Modification of Targets, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 30, 2025 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 30, 2025, following discussions that ended on June 11, 2025, with the officials of the Republic of Serbia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 20, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Serbia.

The documents listed below have been or will be separately released:

Selected Issues.

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

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Washington, D.C.

IMF Executive Board Concludes the 2025 Article IV Consultation with the Republic of Serbia and Completes the First Review Under the Policy Coordination Instrument

FOR IMMEDIATE RELEASE

- Serbia's prudent macroeconomic policies have supported economic resilience in an uncertain global environment. After a brief slowdown in early 2025, growth is expected to reaccelerate in 2026 and 2027.
- The authorities are maintaining fiscal discipline and implementing macro-critical structural reforms under the Policy Coordination Instrument, having completed the first review. While Serbia faces domestic and external uncertainties, it has built strong buffers to withstand potential shocks.
- Reinvigorating reforms to improve the business environment and governance would help sustain Serbia's strong growth over the medium term.

Washington, DC – June 30, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the 2025 Article IV Consultation with the Republic of Serbia and completed the first review of Serbia's performance under the Policy Coordination Instrument (PCI).[1] The authorities have consented to the publication of the Staff Report prepared for the consultation and the review.[2]

Serbia's macroeconomic performance remains resilient amid a challenging global environment. IMF staff projects real GDP growth at 3 percent in 2025, rising to 4 percent in 2026 and 4.5 percent in 2027. Headline inflation has returned to National Bank of Serbia's target band (3 percent +/-1.5 percentage points), driven by declining energy prices and moderating core inflation. The monetary policy stance is appropriately restrictive.

Despite increased public investment, the fiscal deficit remains under control due to strong revenue performance and prudent management of current spending. While the current account deficit has widened, reflecting higher imports supporting the public investment drive and weak external demand, international reserves remain ample.

Fiscal structural reforms are progressing, including in further strengthening public financial management and public investment management. Energy sector reforms are also advancing but more remains to be done to ensure financial sustainability and operational efficiency in

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Serbia page.

state-owned energy enterprises. Reinvigorating reforms to strengthen the business environment and improve governance is important for supporting Serbia's growth rates over the medium term.

Downside risks to the outlook are elevated. A global slowdown and further geoeconomic fragmentation could weigh on exports and foreign direct investment. Domestically, heightened political tensions could erode consumer and investor confidence. But Serbia is well-positioned to manage potential shocks— international reserves and government deposits are high, public debt is declining, and banks are well-capitalized and liquid.

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

"Serbia's prudent macroeconomic policies and strong engagement with the IMF have delivered impressive results. Growth has been resilient, and fiscal and external buffers have strengthened. Reflecting these accomplishments, Serbia received its first-ever investment grade sovereign rating in 2024. Under the Policy Coordination Instrument (PCI), the Serbian authorities have continued their commitment to sound economic policies and structural reforms.

"In light of easing inflation and heightened domestic and external challenges, the planned fiscal expansion focused on growth-enhancing investment, can help cushion the near-term slowdown while boosting medium-term growth. Fiscal policy anchored to the deficit target, which safeguards hard-earned fiscal credibility and contains pressures on current spending, is critical. As the current investment cycle winds down, gradual fiscal consolidation is needed to rebuild buffers against external shocks. Advancing fiscal structural reforms remains essential, particularly to strengthen public financial management, enhance governance and transparency in public investment management, and address emerging fiscal risks.

"A restrictive monetary policy stance remains appropriate until disinflation is firmly sustained. While banks have been resilient and systemic risks remain contained, financial intermediation would benefit from additional improvements in regulatory and supervisory frameworks, including by closer alignment with EU standards. Continued progress on strengthening AML/CFT is also important.

"Further energy reforms remain crucial for securing sustainable and stable energy supplies. Increases in grid fees and electricity tariffs would improve cost recovery and the financial strength of energy state-owned enterprises and allow for investment in a more diversified and less carbon-intensive energy mix.

"Serbia faces medium-term challenges including from population aging. Enhancing productivity will be critical to sustaining income convergence with advanced economies. This will require structural and governance reforms to attract higher value-added FDI and domestic private investment to support growth. Improving the business environment will require measures to enhance commercial judicial frameworks, foster innovation, and strengthen governance."

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They commended Serbia's prudent macroeconomic policies and strong commitment to reforms and welcomed the satisfactory performance under the Policy Coordination Instrument. Noting the heightened domestic and external risks to the outlook, Directors emphasized the importance of sustaining fiscal discipline, rebuilding buffers to shocks, and increasing productivity to support more sustainable growth.

Directors underscored that a fiscal deficit of 3.0 percent of GDP or lower would allow for priority investment spending, while preserving hard won credibility. They recognized the authorities' commitment to adhere to the wage and pension special fiscal rules, which should help to keep public debt firmly on a downward path and support investor confidence. Directors welcomed the focus on ensuring transparent, accountable, and efficient government operations. Measures to improve public financial and investment management and fiscal risk management will help to maintain fiscal discipline, while ensuring the delivery of quality public investment. Directors also underscored the need to strengthen tax administration capacity. They welcomed the authorities' commitment to addressing domestic arrears and preventing the accumulation of new arrears.

Directors agreed on the need to maintain a monetary policy tightening bias to achieve sustained disinflation. While noting that the banking sector has been resilient and systemic risks remain contained, Directors stressed the need for continued efforts to enhance regulatory and supervisory frameworks, including through closer alignment with EU standards. Continued efforts to strengthen AML/CFT frameworks are also important.

Directors highlighted that energy sector reforms remain essential to secure sustainable and stable energy supplies and support decarbonization. Accordingly, they welcomed the authorities' commitment to strengthen the financial viability of energy state owned enterprises and support investment in a more diversified energy mix. In this regard, ensuring cost recovery through increased household electricity tariffs is important.

Directors agreed that ambitious structural and governance reforms are critical to achieving strong and sustainable medium term growth. Noting the impact of the aging population, Directors stressed the need to enhance employment opportunities for women and youth and to ensure better matching of skills with evolving labor market demands. They also supported intensified efforts to improve the business environment, including by enhancing commercial judicial frameworks, fostering innovation, and improving governance. Continued efforts to reduce corruption are important.

It is expected that the next Article IV consultation with the Republic of Serbia will be held on the 24-month cycle.

[3] 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.

Serbia: Selected Economic and Social Indicators, 2024–27

	2024	2025		2026		2027	
	Est.	**PCI Request**	Proj.	**PCI Request**	Proj.	**PCI Request**	Proj.
Output							
Real GDP growth (%)	3.8	**4.2**	3.0	**4.2**	4.0	**4.5**	4.5
Employment							
Unemployment rate (labor force survey) (%)	8.6	**8.5**	8.5	**8.4**	8.4	**8.3**	8.3
Prices							
Inflation (%), end of period	4.3	**3.4**	3.3	**3.3**	3.2	**3.2**	3.2
General Government Finances							
Revenue (% GDP)	40.9	**41.2**	40.9	**40.9**	40.4	**40.9**	40.1
Expenditure (% GDP)	42.9	**44.2**	43.9	**43.9**	43.4	**43.9**	43.1
Fiscal balance (% GDP)	-2.0	**-3.0**	-3.0	**-3.0**	-3.0	**-3.0**	-3.0
Public debt (% GDP)	47.5	**47.7**	46.8	**46.9**	46.5	**46.4**	46.4
Money and Credit							
Broad money, eop (% change)	13.6	**8.0**	7.8	**7.8**	8.0	**8.3**	8.8
Credit to the private sector, eop (% change) 1/	8.5	**7.9**	9.3	**5.7**	9.6	**9.2**	10.5
Balance of Payments							
Current account (% GDP)	-4.7	**-5.1**	-5.4	**-5.2**	-5.6	**-5.5**	-4.5
FDI (% GDP)	5.6	**5.1**	4.4	**4.8**	4.8	**4.7**	4.4
Reserves (months of prospective imports)	7.3	**6.6**	7.0	**6.3**	6.5	**5.9**	6.5
External debt (% GDP)	61.9	**60.3**	61.3	**58.7**	59.3	**55.9**	54.8
Exchange Rate							
REER (% change)	2.3	**...**	...	**...**	...	...	...

Sources: Serbian authorities and IMF staff estimates.
1/ Calculated at a constant exchange rate to exclude the valuation effects.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SERBIA

June 20, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS

EXECUTIVE SUMMARY

Context: Serbia's prudent macroeconomic policies and strong engagements with the IMF have delivered impressive results. Economic growth has been resilient, and fiscal and external buffers have strengthened. After successfully completing an IMF-supported Stand-By Arrangement (SBA), the authorities requested a 36-month, non-financing Policy Coordination Instrument (PCI)— approved in December 2024—to reinforce their commitment to sound policies, support structural reforms, and anchor fiscal discipline. Reflecting these achievements, Serbia received its first-ever investment grade sovereign rating last year. Inflation has gradually declined toward the National Bank of Serbia's mid-point target, and unemployment has fallen to its lowest level in a decade. However, rising headwinds are weakening a cyclical upswing of the economy, and risks are to the downside with heightened domestic and global uncertainty.

Policies under the PCI arrangement: Fiscal policy must stay anchored to the PCI deficit target to preserve hard-won fiscal credibility, support growth-enhancing investment, and manage pressures on current spending. Monetary policy should remain appropriately restrictive until disinflation is firmly sustained. Advancing structural reforms remains essential—particularly to strengthen tax administration and public financial management, enhance governance and transparency in public investment management, address emerging fiscal risks, and pursue energy security.

Program performance: The program is broadly on track. All but one quantitative program target (QT) were met—the government accumulated domestic arrears of 0.2 percent of GDP. It is proposed that the QTs on the ceiling for the accumulation of domestic arrears for June and December 2025 be modified to align with the government's plan to implement control measures and clear these arrears by 2026. Staff recommends completion of the First Review, based on the authorities' adherence to previously agreed Reform Targets and commitments, as well as a strong set of newly agreed and ongoing reforms.

Medium-term challenges and Priorities: As the current investment cycle winds down, gradual fiscal consolidation starting in 2028 is needed to rebuild buffers against external shocks. In parallel, productivity-enhancing reforms are key to attracting higher value added FDI and sustaining income convergence with advanced economies.

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

Discussions were held in Belgrade and virtually during May 19–June 11, 2025. The staff team comprised A. Kyobe (head), L. Cui, A. Geis, A. Nguyen (all EUR), L. Kemoe (SPR), M. Moszoro (FAD), L. Ratnovski (resident representative), D. Obradović and M. Paunović (local economists); and C. Acosta (LEG) also participated. V. Djoković (OED) joined some discussions. L. Azoor and Z. Zhu (EUR) provided support.

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CONTEXT

1. **Serbia's prudent macroeconomic policies and strong engagements with the IMF have yielded impressive results.** Serbia has a strong track record of sound economic management and policy ownership through successive Fund-supported programs. These efforts have contributed to balanced growth, the buildup of fiscal and external buffers, and the strengthening of economic institutions. Reflecting these accomplishments, Serbia received its first-ever investment grade sovereign rating in 2024.

2. **Yet several domestic and external challenges cloud the outlook.** Protests sparked by a tragic infrastructure accident in late 2024 have dampened sentiment. A new government was formed in April 2025, pledging policy continuity, but domestic political tensions linger. Imposed but then repeatedly delayed U.S. sanctions on Serbia's macro-critical oil company NIS, connected to its majority Russian ownership, threaten energy security. Slower growth in the EU, Serbia's largest trading partner, could weaken external demand and FDI, while the announced and then delayed U.S. tariff on Serbian exports may further hurt confidence.

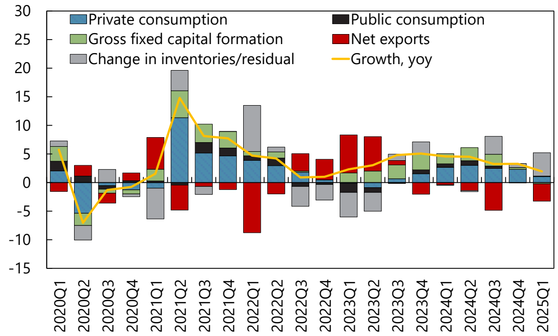
3. **Accelerating structural reforms is critical to addressing current challenges.** Sustained efforts to strengthen the business environment are needed to maintain high FDI inflows and fully capitalize on the ambitious "Leap into the Future—Serbia EXPO 2027" investment program. Equally important is enhancing governance and fiscal transparency in public investment management to ensure these investments are effective. Broader public sector reforms—particularly in State-Owned Enterprises (SOEs)—would improve their corporate governance and reduce fiscal risks. Reforms in the energy sector would enhance its sustainability and security, while improving Serbia's overall economic competitiveness.

RECENT DEVELOPMENTS

4. **Rising headwinds are weakening a cyclical upswing of the economy** (Figures 1 and 2). After strong growth of 3.8 percent year-on-year (y/y) in 2024, economic activity has slowed to 2.0 percent y/y in 2025:Q1, resulting in a modestly negative output gap. Waning economic sentiment and subdued demand in key export markets have weighed on retail and industrial activity and contributed to a buildup in inventories. Domestic demand has remained largely resilient, and imports have continued to expand, supported by a strong labor market, real wage gains, and the government's ambitious investment program.

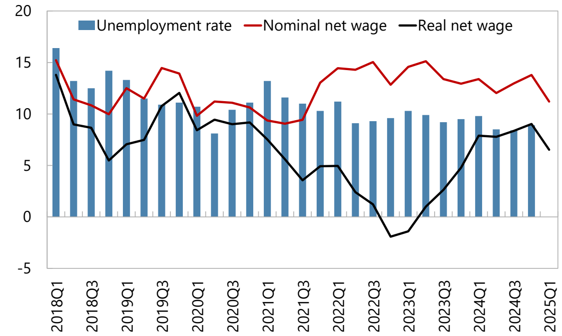
Serbia: Economic Activity Indicators

Serbia: Real GDP and Contributions
(Percent)



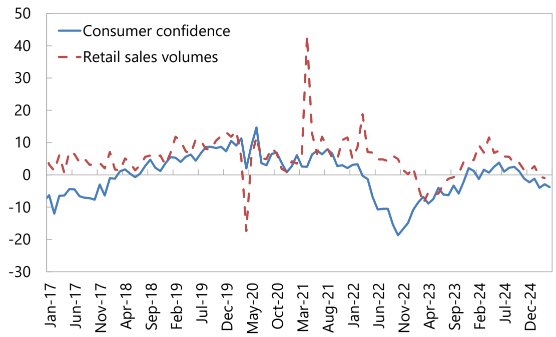
Sources: Haver Analytics and IMF staff calculations.

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



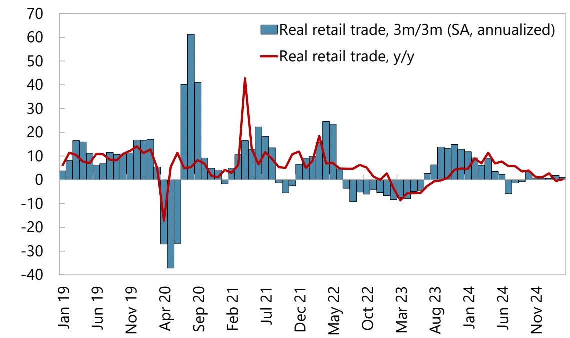
Sources: Haver Analytics and IMF staff calculations.

Serbia: Consumer Confidence and Retail Sales
(Percent, y/y; net percentage balance; as of April 2025)



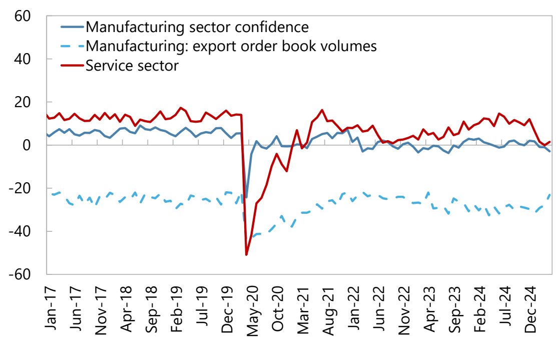
Sources: European Commission and SORS.

Serbia: Real Retail Trade
(Percent; as of March 2025)



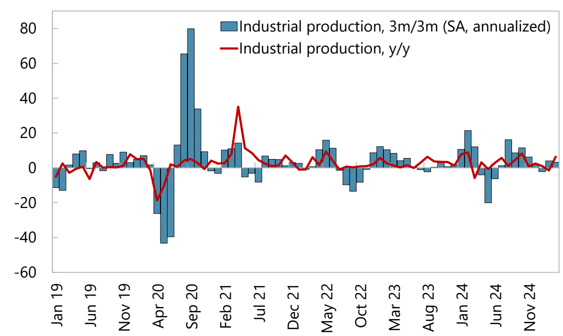
Sources: Haver Analytics, SORS, and IMF staff calculations.

Serbia: Manufacturing and Service Sector Confidence
(Net percentage balance; as of April 2025)



Source: European Commission.

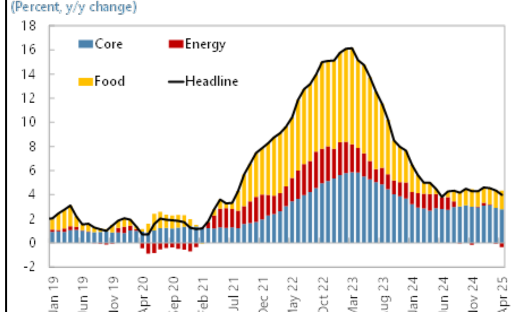
Serbia: Industrial Production
(Percent; as of March 2025)



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

5. **Headline inflation appears to be easing, supported by a resuming slowdown in core inflation** (Figure 4). Despite upward food price pressures, headline inflation has fallen to 4 percent y/y in April, firmly within the National Bank of Serbia's (NBS) tolerance band (3 percent +/-1.5 percentage points), reflecting lower energy prices and easing core inflation (5.0 percent).

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



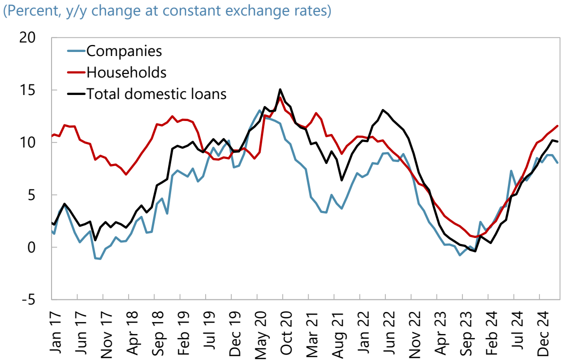
Source: SORS.

6. The fiscal deficit remained contained, despite increased capital spending. In 2024, infrastructure investment increased markedly from 2023 as "Leap into the Future-EXPO 2027" projects[1] take shape. Revenues remained strong as projected, but current spending was under-executed relative to the revised budget, particularly in goods and services. The general government fiscal deficit remained at 2.0 percent of GDP, well below budget, and public and publicly guaranteed debt declined to below 48 percent of GDP. Preliminary data for January to April 2025 indicate slower revenue growth alongside robust capital spending, with the 3 percent deficit target on track.

7. Amid a widening of the current account deficit, international reserves have declined from record highs but remained adequate (Figure 5). In the context of increased investment and weak external demand, strong imports and weak exports reduced the goods and services balance, while rising dividend repatriation weighed on primary income, resulting in a higher current account deficit. Amid elevated uncertainty, FDI has slowed, but continued to fully cover the current account deficit in 2024. Portfolio inflows and remittances have also eased, albeit from high levels. By April 2025, gross international reserves had fallen to 27.7 billion (147 percent of the IMF's ARA metric), down from a record €29.3 billion at end-2024, but are still projected to register a net accumulation by end-2025. Despite the higher current account deficit, the 2024 external position is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex III).

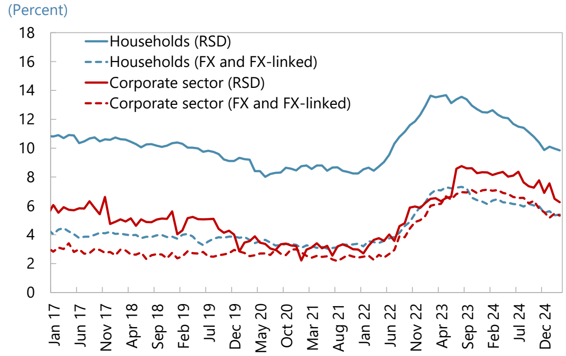
8. Banks are resilient, and credit growth has accelerated. Banks maintain ample capital and liquidity buffers, supported by still high interest margins and profits. The non-performing loan ratio declined to a record-low of 2.3 percent at 2025:Q1 (Table 10). Credit growth was supported by easing financing conditions and recovering credit demand. Dinarization progress continues, with dinar deposits accounting for 45 percent of total corporate and household deposits in April 2025.

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



Source: NBS.

Serbia: Bank Lending Interest Rates
(Percent)



Source: NBS.

OUTLOOK AND RISKS

9. Intensifying headwinds have weakened growth amid gradually receding inflation and an elevated current account deficit.

[1] See IMF (2024) CR24/337, Box 1.

- **Growth** is projected to slow to 3 percent in 2025, falling below Serbia's potential growth, as a deteriorating external environment and domestic political tensions weigh on near-term activity. A recovery is expected in 2026 and 2027, with growth rising to 4 and 4½ percent, respectively, driven by the government's investment program, the ramp-up of new manufacturing capacity, and tourism revenues associated with EXPO 2027. From 2028 onward, growth is anticipated to converge to potential as investment and consumption normalize post-EXPO.

Text Table 1. Serbia: Key Macroeconomic Variables, 2023–30

		2023	2024	2025	2026	2027	2028	2029	2030
Real GDP growth	*Current*	3.8	3.8	3.0	4.0	4.5	3.5	4.0	4.0
(percent)	*PCI request*	3.8	3.8	4.2	4.2	4.5	3.5	4.0	
CPI, average	*Current*	12.4	4.7	3.9	3.2	3.5	3.0	3.0	3.0
(percent)	*PCI request*	12.4	4.6	3.7	3.3	3.3	3.0	3.0	
CPI, eop	*Current*	7.6	4.3	3.3	3.2	3.2	3.0	3.0	3.0
(percent)	*PCI request*	7.6	4.0	3.4	3.3	3.2	3.0	3.0	
Current account	*Current*	-2.3	-4.7	-5.4	-5.6	-4.5	-5.4	-5.2	-5.0
(percent of GDP)	*PCI request*	-2.3	-4.4	-5.1	-5.2	-5.5	-5.5	-5.2	
Reserves	*Current*	153.3	164.9	162.7	151.6	147.6	145.6	142.5	142.4
(percent of ARA metric)	*PCI request*	153.0	163.6	161.5	149.1	143.0	139.9	138.4	
Fiscal balance	*Current*	-2.0	-2.0	-3.0	-3.0	-3.0	-2.5	-2.5	-2.0
(percent of GDP)	*PCI request*	-2.0	-2.7	-3.0	-3.0	-3.0	-2.5	-2.5	
Gross public debt 1/	*Current*	48.8	47.5	46.8	46.5	46.4	45.9	45.5	44.7
(percent of GDP)	*PCI request*	48.4	48.0	47.7	46.9	46.4	46.1	45.7	

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

1/ Public and publicly guaranteed debt.

- **Inflation** is projected to gradually decline toward NBS's mid-point target of 3 percent. In the near term, easing core inflation and lower energy prices are expected to be partially offset by drought-related food price pressures. With continued labor market tightness, strong domestic demand, and temporary supply-side pressures linked to EXPO, headline inflation is expected to converge to the 3 percent target only over the medium term.

- The **current account** deficit is expected to remain elevated, driven by the import-intensive nature of infrastructure investment, weaker export performance amid softening external demand, and ongoing dividend repatriation. International reserves are projected to decline relative to the IMF's ARA metric on expected moderation in FDI inflows and a higher current account deficit, but they are expected to remain above the midpoint of the adequacy range through 2030.

10. The outlook is subject to considerable downside risks from heightened domestic and global challenges (Annex II).

- **Domestic risks.** Prolonged protests could lower growth by further weakening sentiment among consumers, firms, and foreign investors. The potential activation of sanctions against NIS may trigger fuel supply shortages and undermine confidence, with possible severe effects on economic activity and capital flows. The risk is manageable, however, if the government intervenes swiftly to avoid supply disruptions. Additional government spending to address social pressures in the lead-up to parliamentary elections—scheduled for 2027, if not earlier—could jeopardize fiscal targets and widen the current account deficit. Accumulation of additional arrears and materialization of fiscal risks from PPPs could also weigh on the budget (para. 22). Inflation could be reignited by adverse weather affecting agricultural outputs and food prices, potential disruptions to domestic fuel supplies if sanctions against NIS take effect, and a surge in public spending. Higher inflation may also contribute to elevated wage growth amid a tight labor market, potentially eroding competitiveness. Continued political uncertainty could stall progress on structural reforms.

- **Global risks.** Global trade disputes and geoeconomic fragmentation could negatively impact Serbia's open economy, primarily through spillovers from weaker growth in the euro area. Sensitivity analysis based on a scenario in the April 2025 World Economic Outlook[2] suggests that GDP growth could decline from the baseline by around 0.2 percentage point in both 2025–26, while the current account deficit could widen by 0.1 percentage point in 2025 and 0.3 percentage point in 2026. International reserves would remain at comfortable levels under the ARA metric. Fiscal deficits and public debt would be only marginally affected. Implementing measures to boost productivity, attract FDI, and increase economic diversification and export competitiveness would strengthen Serbia's resilience to protracted trade tensions (paragraphs 39–41). Additionally, escalating regional conflicts—particularly if accompanied by commodity price spikes—could reduce growth prospects and trigger renewed inflation.

Authorities' Views

11. The authorities broadly agreed with staff's assessment of the outlook and associated risks, while maintaining a slightly more optimistic growth trajectory, driven by expanding manufacturing export capacities and strong tourism during EXPO. They noted that accelerated public investment execution would bolster economic activity though it would also sustain elevated import levels. Inflation is set to decline steadily toward the target, with price pressures expected to remain contained during EXPO. The authorities expressed confidence in their ability to avoid major energy supply disruptions should sanctions on NIS materialize. They agreed that slowing external demand—particularly from the euro area—remains a key downside risk. The authorities anticipate international reserves to remain at comfortable levels and agreed with staff's assessment of Serbia's external position.

PROGRAM PERFORMANCE

12. The program is broadly on track (Program Statement (PS) Tables 1–2). All but one quantitative program targets (QTs) were met. The end-December 2024 QTs on the fiscal deficit, current primary expenditure, and net international reserves were all met by a wide margin. However, the government accumulated domestic arrears of approximately RSD 24 billion, or 0.2 percent of GDP, mainly by the state-owned road construction and maintenance company, Roads of Serbia

[2] The sensitivity analysis is calibrated on the basis of Scenario A in Box 1.1 of IMF (2025), which accounts for economic divergence across China, Europe, and the United States, intensifying trade tensions, higher global uncertainty, and a tightening of global financial conditions.

(RoS). The authorities have taken corrective actions (see para. 22 and PS para. 7). All standard continuous targets, including those related to the non-introduction of exchange restrictions or multiple currency practices, are met.

13. Structural reforms are progressing, albeit with some delays.

- Pensions have been adjusted in line with the annual indexation mechanism (**continuous RT**), and the authorities have not granted any ad hoc pension increases or payments to pensioners.

- The report on the structure of wages and employment in general government institutions has been completed and published with delay **(end-March 2025 RT)**.

- An updated Energy Investment Plan (EIP) that outlines key investment projects over 2025–27, their measures of return, and sources of financing has been completed and adopted by the government with a two-month delay **(end-March 2025 RT)**.

- Reforms to address staffing in the Serbia Tax Administration (STA) are progressing, but more time is required for the adoption of a strategic HR management plan **(end-July 2025 RT, rescheduled to end-October 2025 RT)** to appropriately reflect staffing needs to implement the commercial off-the-shelf (COTS) IT system.

PROGRAM MODALITIES AND RISKS

14. Serbia continues to meet the criteria for use of the PCI and maintains strong capacity to repay the Fund. The program is fully financed for the next 12 months with also good prospects for the remaining program period. Capacity-to-repay metrics are strong (Table 5b): Fund credit outstanding would reach a maximum of 1.3 percent of GDP, and 3.8 percent of gross reserves in 2025, under the baseline. Debt service to the Fund would peak at 1.2 percent of exports of goods and nonfactor services in 2026–27 before declining. Serbia benefits from market access as shown by regular successful sovereign bond issuances. The authorities continue efforts to resolve a small, disputed outstanding government obligations to Libya related to a 1981 loan.

15. Program conditionality is updated with the authorities' new commitments. It will continue to be monitored semi-annually (PS Tables 1–2):

- QTs on the ceiling on the accumulation of domestic payment arrears for June and December 2025 are proposed to be increased to accommodate the government's planned clearance of arrears by 2026 while implementing measures to prevent future arrears. QTs for end-June 2026 were set, and standard continuous targets remain.

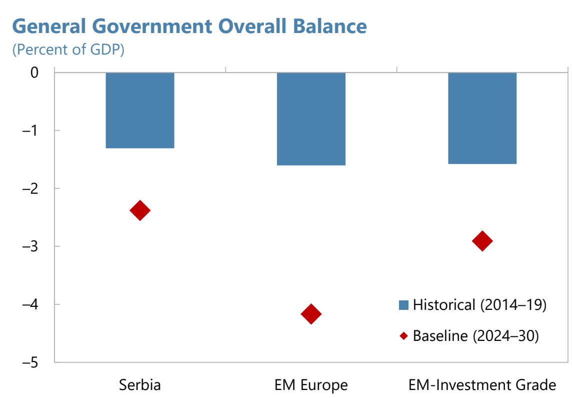
- The following RTs are being proposed reflecting the authorities' updated policy commitments (see Policy discussion): (i) Annual publication of data on the value of procurement under Special Laws (**end-March 2026 RT**); (ii) Based on FAD TA, the Ministry of Finance will publish a report on tax expenditure alongside its Fiscal Strategy for 2027 (**end-July 2026 RT**); (iii) The authorities will take a decision to increase the regulated electricity tariff by 7 percent in October (**end-September 2025 RT**); and (iv) Rescheduled from the original end-July test date, the Serbian Tax Administration will adopt a Human Resource Plan (**end-October 2025 RT**).

16. **Risks to the program remain moderate but could intensify with the electoral cycle.** Main risks include global trade tensions, geoeconomic fragmentation, and the potential for escalating regional conflict. Domestically, rising political tensions ahead of the 2027 elections may also affect the consistent implementation of the program.

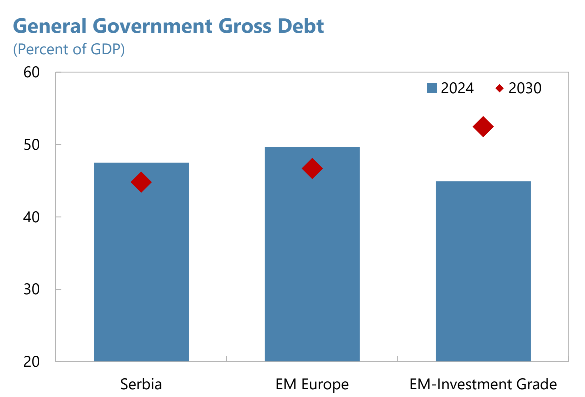
POLICY DISCUSSIONS

A. Fiscal Policy

17. **Despite the more challenging environment, the authorities plan to maintain the fiscal deficit at or below the 3.0 percent of GDP ceiling over the 2025–27 PCI period.**[3] The fiscal envelope agreed under the PCI balances the authorities' priority spending, including on growth-enhancing investment, with maintaining debt on a firmly downward path. Revenue and spending projections reflected the authorities' current plan. The 2025 budget, which targets a 3.0 percent deficit, implies an expansionary fiscal stance that will help cushion the near-term economic slowdown amid easing inflation. It also supports the authorities' ongoing investment push to address infrastructure gaps and prepare for EXPO 2027. The authorities committed to accommodate any potential additional spending within the existing budget envelope, including through further public investment prioritization (PS para. 7). For 2026–27, maintaining the 3 percent deficit would imply a broadly neutral fiscal stance. Adhering to the 3 percent deficit also ensures a primary fiscal deficit supportive of a continued decline in public and publicly guaranteed debt. As a result, public debt remains sustainable (Annex V)—a key factor in sustaining investor confidence amid elevated uncertainty.



Sources: IMF WEO database and IMF staff calculations.



Sources: IMF WEO database and IMF staff calculations.

[3] See IMF (2024) CR24/337.

18. Over the medium term, the authorities agreed that further fiscal consolidation would enhance Serbia's resilience to external shocks—an important priority for a small, open economy. They viewed a gradual adjustment path as achievable, with the deficit narrowing to below 2.5 percent of GDP in 2028–29 and under 2 percent in 2030, supported by the expected tapering of public investment after EXPO. Such a consolidation would also help reduce the current account deficit, cut interest expenses, and maintain Serbia's favorable standing on fiscal aggregates among investment-grade emerging market peers.

19. In addition, the authorities will contain current spending pressures.

20. To safeguard hard-won policy credibility, they reiterated their commitment to following the fiscal rule for formula-based pension increases and avoiding ad hoc pension increases to balance the interests of pensioners and current taxpayers. Once the actuarial analysis of the pension system **(end-March 2026 RT)** is complete, the authorities will consider its implications for long-term pension and healthcare expenditures.

21. Another crucial commitment is the special fiscal rule that caps the general government wage bill at 10 percent of GDP plus adjustments stemming from the statistical expansion of the general government perimeter. The 2024 GDP-rebasing created additional space of about 0.7 percent of GDP for the government wage bill and has supported some wage increases earlier this year, while keeping the wage bill below 10 percent in 2025. For 2026, the government is committed to containing the public wage growth in line with the fiscal rule, while continuing to expand general government coverage to materially relevant entities (i.e. a number of education and health institutions) and accommodate targeted increases to areas that face acute hiring challenges or bring net revenue gains. In addition, the authorities has completed a report on the structure of public employment and wages (**end-March 2025 RT**) (PS para. 16), which the authorities could build on for further reforms. Meanwhile, efforts to digitalize public services and cut red tape can improve service delivery efficiency without increasing government employment.

22. Continued efforts are required to address emerging fiscal risks.

- **Domestic arrears.** In 2024, domestic arrears of about 0.2 percent of GDP were accumulated by the RoS, an SOE included in the general government perimeter. To prevent their recurrence, the authorities, by September 2025, will: (i) improve public financial management starting with an analysis of budget needs and necessary improvements in RoS to strengthen commitment control; and (ii) index tolls to inflation and introduce a new truck toll to increase revenue for road maintenance (PS para. 7). The authorities intend to clear the majority of these arrears by 2026. The authorities are working to strengthen the monitoring of the City of Belgrade's fiscal risks given its implementation of large projects, including through municipal SOEs. More broadly, to improve the monitoring of arrears among budget users (which excludes SOEs), the authorities will expand the coverage of the System for Monitoring and Reporting of Public Revenues and Expenditures (SPIRI) to indirect budget users. This expansion will enable more comprehensive tracking of potential domestic arrears (PS para. 11).

- **Public Private Partnerships (PPPs):** Given the rising importance of PPP projects, the authorities agreed to strengthen the implementation of their PPP Law to ensure that fiscal risks of PPP projects are appropriately assessed and controlled by the Ministry of Finance. The PPP law requires that all PPPs above €50 million—including PPPs at municipal and SOE levels— request approval from the Ministry of Finance (PS para. 13). The ongoing efforts to adopt a PPP reporting template would also help monitor the fiscal risks.

- **Other risks.** The government is ready to implement a contingency plan to prevent disruption of energy supply from NIS should the imposed sanctions be implemented (PS para. 23). They have also committed to rigorous public investment prioritization under this scenario, ensuring that the most growth-enhancing projects are completed while maintaining room for fiscal adjustment. If other downside risks materialize, automatic stabilizers should be allowed to operate. Staff advised that any additional government support should be targeted and temporary.

23. The authorities acknowledged the need to accelerate reforms to strengthen tax administration. STA faces macro-critical HR challenges to hire and train qualified staff in view of an impending large retirement wave and the introduction of the COTS IT system. Supported by IMF TA, the authorities have made robust progress in hiring, with a target of about 1,000 new permanent hires in 2025. However, more is needed to provide sufficient training. Consistent with TA recommendations to allow STA more time to incorporate the COTS IT system into its HR strategy, the authorities request to reschedule the RT on the adoption of STA's strategic HR plan from end-July to end-October 2025 **(rescheduled end-October 2025 RT)**. The authorities have also made progress with risk-based selective auditing in line with recommendations of the updated 2022 Tax Administration Diagnostic Assessment Tool (TADAT) review, while e-fiscalization should improve once e-Invoicing data are used.

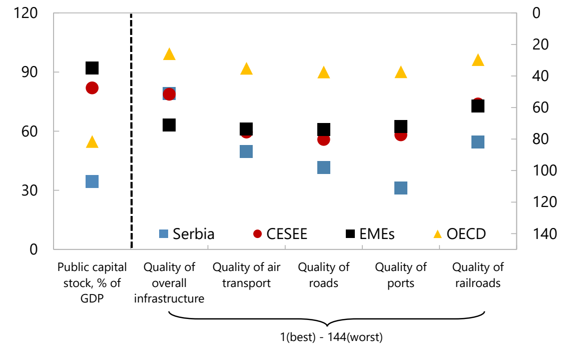
24. Progress has also advanced on tax policy reforms. Based on IMF TA, they intend to prepare their first report on tax expenditure (**new end-July 2026 RT**) and make this report a permanent multiannual feature of the Fiscal Strategy publication in a subsequent revision of the Budget System Law (PS para. 11). Drawing on recent analyses, the authorities decided to eliminate an inefficient tax subsidy for foreign IT companies by end-2025.

25. They are advancing reforms to strengthen fiscal transparency and public investment management while implementing the large investment program.

- **Fiscal Transparency.** The 2025 Fiscal Transparency Evaluation (FTE) found Serbia to perform well relative to peers in areas of fiscal reporting, forecasting, and budgeting, but there are also areas for improvement. The State Audit Institution (external audit) operates in line with international standards. The authorities are consulting with the IMF on addressing several FTE recommendations, including creating a public information website with budget and execution data, and publishing data on government-SOE financial relations and fiscal information by municipality. They plan to publish key fiscal aggregates for two preceding years and medium-term projections starting from the 2026 Revised Fiscal Strategy.

- **Public investment management (PIM).** Strengthening PIM is essential to delivering infrastructure projects with greater transparency and supporting the authorities' efforts to close Serbia's infrastructure gaps with peer countries (Right chart).[4] Further reforms to enhance PIM need to focus on: (a) increasing public investment transparency, building on earlier IMF-supported reforms in publishing the Fiscal Strategy with costing of key public investment projects; and (b) strengthening PIM decision-making through the use of the Public Investment Management System (PIMIS), its integration with SPIRI and the budgeting process, and capacity building in the PIM Department. Building on FTE findings, the authorities will improve the transparency of procurement by annually publishing data on the value of procurement under Special Laws (**new end-March 2026 RT**) given these projects are not required to be published. This will be done in a format consistent with the data published in the Annual Report on Public Procurements for other exempt categories not subject to the Public Procurement Law. To further strengthen PIM transparency and limit fiscal risks, the authorities requested IMF TA for developing templates and implementing processes for: (i) standardized cost-benefit analysis of new major investment projects; and (ii) assessing fiscal costs and risks for new major PPP projects at the approval stage; and in due course are committed to use and publish these analyses during the approval of large investment projects (PS para. 14).

Capital Stock and Infrastructure Quality
(Percent of GDP, LHS; rank, RHS; latest available)



Sources: IMF Investment and Capital Stock Dataset, and World Economic Forum.

Authorities' Views

26. The authorities reaffirmed their commitment to the PCI fiscal deficit target of 3.0 percent of GDP, the special fiscal rules on the public wage bill, and the formula-based pension indexation mechanism. They would accommodate any unforeseen spending needs within the existing budget envelope, including by a further prioritization of public investment projects if required. The authorities also saw gradual fiscal consolidation over the medium term as important to rebuild buffers and enhance economic resilience. They are keen to follow up on the identified structural reform priorities and measures aimed at reinforcing the government's continued commitments for transparency and accountability. They are committed to substantially clearing domestic arrears by 2026 and implementing control measures to prevent future arrears. They expected strong progress from ongoing efforts and new PCI commitments, supported by IMF TA.

B. Monetary and Financial Sector Policies

27. The authorities will maintain a tightening monetary policy bias until there is clear and sustained momentum in disinflation. The de-facto policy rate—the repo rate at which the NBS

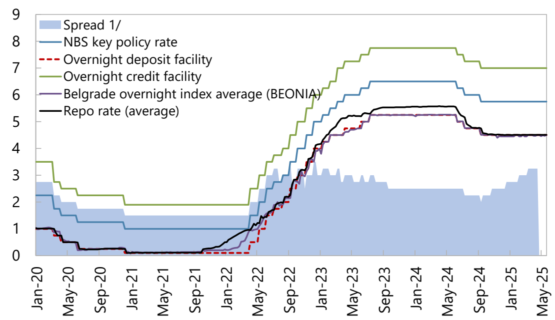
[4] IMF estimate on capital stock is based on the Investment and Capital Stock Dataset. Also, the underlying data for infrastructure quality included non-IMF survey-based information that has subjectivity limitations.

withdraws excess liquidity from the banking system—is broadly in line with the levels implied by the Taylor rule and resuming disinflation is further raising real rates. Staff noted that the National Bank of Serbia (NBS) needs to proceed cautiously, as inflation has yet to be firmly anchored around the target, and upside risks persist from a tight labor market and continued wage growth. Moreover, an uncertain global economic environment is limiting visibility about future inflation dynamics.

Serbia: Monetary Policy and Inflation Indicators

The NBS has kept its policy rates on hold after cutting by a total of 75 basis points in 2024, …

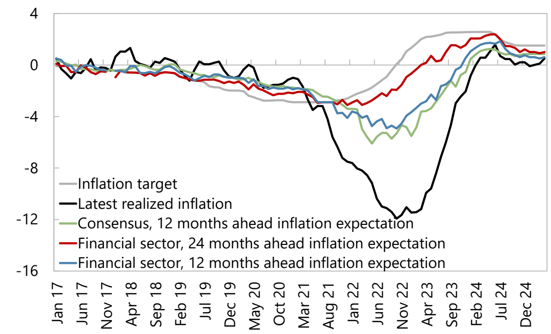
Serbia: Policy Rate
(Percent; as of May 2025)



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

… thereby maintaining de-facto real policy rates at a positive level.

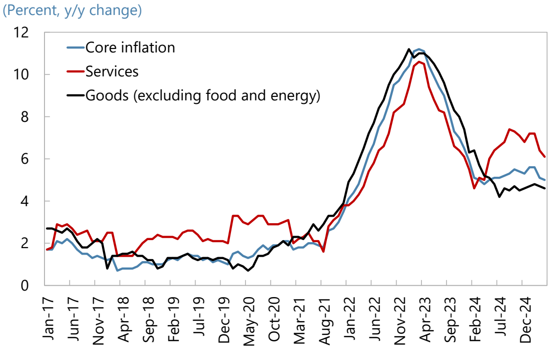
Serbia: De-Facto Real Policy Rate Based on Different Inflation Measures (Percent)



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

But core inflation has only recently resumed its decline …

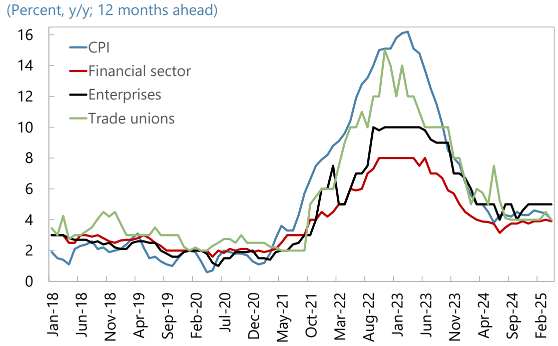
Serbia: Core Inflation Dynamics
(Percent, y/y change)



Sources: NBS and IMF staff calculations.

… while private sector inflation expectations remain above the NBS's 3 percent target.

Serbia: Inflation Expectations
(Percent, y/y; 12 months ahead)



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

28. Systemic risks remain unchanged since the last Article IV consultation in 2023, driven by continued banking sector strength. Capital, liquidity, and profitability of banks remain strong, while NPLs have declined further. The December 2024 regular stress tests demonstrated banks' improved resilience to macroeconomic shocks. Despite an acceleration in credit growth to 11 percent in 2024, the credit-to-GDP ratio is still below its long-term trend due to a major credit slowdown during 2020–23. Meanwhile, the real estate market has remained stable, with property prices growing 5 percent yoy in 2024:Q4. Risks from euroization continued to be addressed by macroprudential measures, including a systemic risk buffer linked to banks' foreign currency-indexed exposures and reserve requirements on foreign currency deposits. Furthermore, non-banking sector remains small with less than 10 percent of total financial sector assets and poses no systemic risks.[5] The insurance sector—the largest non-banking segment—reported positive financial results with stable claim ratios in 2024.

29. Efforts to further strengthen regulatory and supervisory frameworks should continue.

- **Prudential regulations are further strengthened while most pandemic- and energy crisis-related regulatory measures have been phased out.** The interest rate cap on some mortgage loans will be withdrawn by end-2025. Following the introduction of the Net Stable Funding Ratio (NSFR) in 2024, a mandatory minimum leverage ratio of 3 percent—effective from October 2025—was introduced to further align Serbia's regulatory framework with EU standards.

- **Serbia introduced a Bank Resolution Fund (RF) aimed to align with EU standards and complement the existing Deposit Insurance Fund (DIF).** The RF is expected to require bank contributions starting in 2026 to reach a targeted size of 1 percent of covered deposits over the next ten years. The authorities are working on enhancing collaboration between RF and DIF while optimizing the required bank contributions that reflect EU practices and Serbia's banking system needs.

- **Serbia became an official member of the EU's Single Electronic Payment Area (SEPA) payments system in May 2025.** The accession will reduce costs for foreign transactions and facilitate trade, especially if accompanied by the streamlining of reporting requirements under the FX Law. Technical connections between the domestic payment system and SEPA are expected to be completed in 2026.

- **The authorities introduced an appropriately limited scale mortgage guarantee scheme to cut the financial costs for young first-time homeowners in 2025**. The scheme—capped at EUR 400 million (about 0.5 percent of GDP) over four years—reduces the downpayment requirements and provides a capped and subsidized interest rate for the first six years. While noting the financial inclusion objective, staff advised for limiting its scale to contain associated risks.

30. Efforts should also continue to increase access to finance to SMEs and start-ups. Start-ups face obstacles in borrowing from banks, while SMEs face stricter requirements than large firms when borrowing for investment. Access to finance for these firms could be enhanced by improving access to bank lending through improvements in collateral documentation and contract enforcement.

31. The authorities made further progress in addressing recommendation from the 2023 IMF safeguards assessment. Governance arrangements at the NBS have been strengthened with the establishment of an Audit Committee and through a targeted amendment to the NBS Law adopted in early 2025, which clarified the appointment criteria for NBS Council members. In

[5] NBS Annual Financial Stability Report 2023.

addition, the authorities formed a working group that continues to address pending recommendations, including strengthening the risk management function.

32. Serbia has continued to make progress on AML/CFT toward meeting EU standards. In December 2024, the government adopted an updated National Risk Assessment (NRA), which identified emerging vulnerabilities in digital assets and setting out measures to strengthen licensing, supervision, and transaction monitoring. An action plan to implement the NRA was adopted in April 2025. The authorities also enacted and are implementing a new Law on Central Records to address beneficial ownership requirements. On-site visits for the sixth round of MONEYVAL mutual evaluation of Serbia were completed in May 2025, with the final report to be discussed in December 2025. In regard to targeted financial sanctions adopted by the UN, Serbia should ensure their effective implementation and promote full compliance among domestic stakeholders.

Authorities' Views

33. The authorities reaffirmed their commitment to maintaining a restrictive monetary policy stance. They stressed the need for a cautious approach to monetary policy in light of continued volatility in commodity and financial markets, as well as heightened uncertainty surrounding the impact of trade and geopolitical tensions on global growth and inflation. The authorities expressed satisfaction with SEPA accession, which will complement Serbia's national instant payments system. They also noted that the SEPA accession reflected their progress in AML/CFT and will continue to strengthen AML/CFT by implementing the updated NRA. The authorities noted that they will consult with the IMF in case of any expansion to the mortgage guarantee scheme or any other new credit guarantee schemes.

C. Energy Sector and Climate Policies

34. The authorities are making progress on energy sector reforms to further enhance the financial sustainability of energy SOEs while boosting energy security and decarbonization.

- **Staff welcomed the updated Energy Investment Plan that the Government has adopted (end-March 2025 RT) and the planned integration with budget.** It outlined planned energy investment projects along with their internal rates of return, potential financing sources, and expected contributions to decarbonization. In addition, the authorities plan to draw on this plan in the deliberation of the forthcoming 2026 budgeting process that would help integrate energy investment needs in budget, including its multi-year planning.

- **The authorities remain committed to periodically reviewing retail electricity tariffs to ensure cost recovery and financial sustainability of energy SOEs.** Noting the needs to strengthen cost recovery, they have planned a first tariff increase of 7 percent for October 2025 **(new end-September 2025 RT)**. The proceeds will be primarily allocated to increase the financial sustainability of the electricity distribution company Elektrodistribucija Srbije (EDS), including meeting its critical grid investment needs. They are also considering to lower the threshold for the high-cost "red zone" under the existing block tariffs—from 1,600 KWh to 1,200

Kwh per month to support cost recovery. The next tariff adjustment is planned no later than January 2027, following a review of the financial position of energy SOEs.

- **In addition, the authorities are appropriately providing targeted support to poor households.** This is achieved by a system of block tariffs that provide reduced tariffs at low levels of electricity consumption and a targeted subsidy scheme, designed by the World Bank, that supports about 75,000 most vulnerable households.

- **Continued efforts are strengthening the monitoring of domestic payment arrears to energy companies.** To improve revenue collection by energy SOEs, the authorities intend to expand the publication of Elektroprivreda Srbije (EPS) and Serbijagas debtors—from the top 20 to the top 50—by stocks and by flows.

- **The authorities are continuing efforts to enhance energy security by diversifying energy sources through increased renewables while pursuing favorable long-term gas supply**. In 2025, the authorities have concluded a second renewables auction of 645MW across wind and solar projects. While negotiations on a new long-term gas contract with Gazprom are ongoing, the existing contract has been extended by four months to October 2025. The authorities plan to use the summer months to replenish gas stocks in domestic storage facilities. Moreover, they have completed a gas interconnector with Bulgaria that allows gas imports from Azerbaijan for supply diversification.

35. The authorities are considering options for responding to the phasing-in of the EU's Carbon Border Adjustment Mechanism (CBAM) (Annex VI). Under EU CBAM regulations, domestic carbon prices are an eligible means to offset CBAM charges and can also provide revenue to support the green transition of the Serbian economy, particularly in the electricity sector as the largest emitter of greenhouse gases.

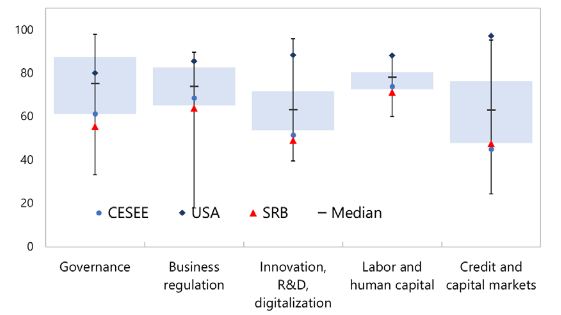
Authorities' Views

36. The authorities highlighted the continued importance of energy sector reforms, including that aligning household electricity tariffs with cost-recovery levels to ensure the financial sustainability and investment capacity of energy SOEs. They also plan to restructure EPS to ensure its higher operational efficiency, while noting difficulties in implementing performance-based incentives for employees within the constraints of the public sector wage framework. The authorities noted the complementarity of developing a strategy for taxing GHG emissions with cushioning the effects of CBAM on the economy.

D. Medium-Term Structural Policies and Governance

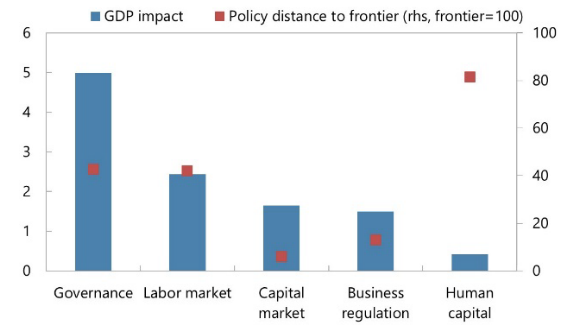
37. Serbia's current growth model may be reaching its limits. Over the past decade, growth has been driven by steady employment gains, high public investment, and strong FDI. However, labor-intensive growth is becoming less viable due to demographic headwinds, while FDI is slowing amid stagnating domestic private investment. Additionally, productivity growth is constrained by significant structural policy gaps. Model simulations suggest that closing the gaps in governance, labor market, capital market, business regulations, and human capital could yield sizable gains in productivity and growth. [6]

Distance to Frontier in Selected Structural Policy Areas
(Percent; Relative to Europe and USA frontier, 2022 or latest available data)



Sources: Fraser Institute; OECD; GTA; Eurostat, Berkeley; IMF, World Bank; and IMF staff calculations.

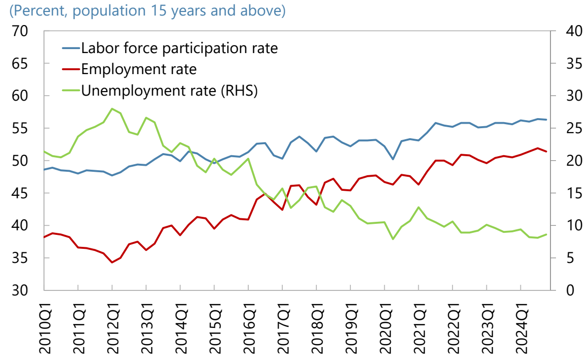
Medium-Term GDP Impact of Selected Structural Reforms
(by closing 50% policy gaps with frontier, percent)



Sources: IMF, OECD, and IMF staff calculations.

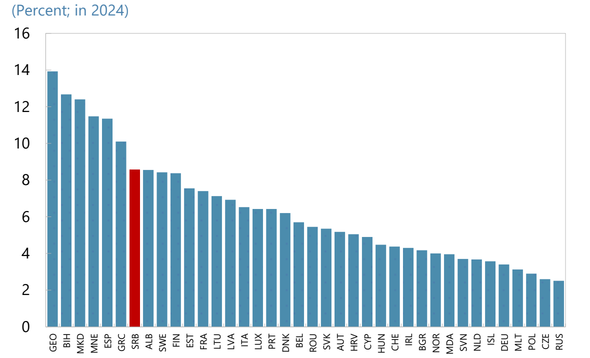
38. Labor market reforms would help productivity growth and offset the drag from aging and emigration. While Serbia has raised its labor force participation (LFP) rate to 56 percent in 2024, more can be done to increase female and youth participation, which remain about 7 and 24 percentage points lower, respectively. This could include introducing more flexible part-time work and expanding childcare support, in line with Serbia's efforts to align its labor laws with the EU. Additional measures could include allowing electronic labor documentation, simplifying regulations for seasonal workers in sectors facing labor shortages, and introducing an electronic sick leave system to improve verification and reduce excessive sick leave and absenteeism. Finally, expanding skill-based education reforms, including stronger industry-school partnerships, modernizing curricula, and strengthening support for quality vocational education, would help better align education outcomes with labor market needs thereby reducing high structural unemployment.

Serbia: Labor Market Indicators
(Percent, population 15 years and above)



Source: SORS.

Unemployment Rate
(Percent; in 2024)



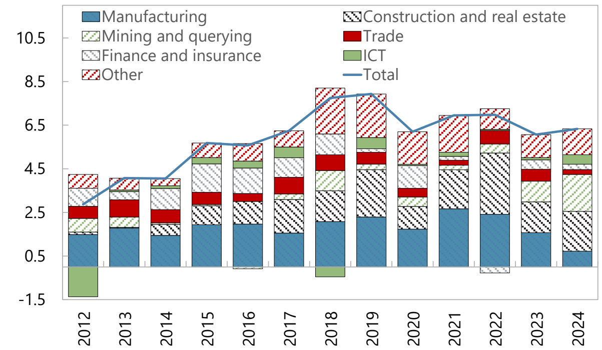
Source: Haver Analytics.

39. To boost productivity, Serbia must maintain its appeal as a destination for foreign direct investment. Over the past decade, FDI has been a key driver of capital formation, but inflows

[6] See SIP "Navigating Serbia's Economic Future: The Crucial Role of Productivity."

have stagnated as a share of GDP since the pandemic, largely due to a decline in manufacturing investment. Unlike Serbia, many Western Balkan and Central and Southeast European peers have seen rising equity inflows and reinvestment, highlighting Serbia's relative weakness in attracting new manufacturing FDI. In a context of heightened global uncertainty and geopolitical tensions, international investors are increasingly sensitive to structural shortcomings when choosing where to invest. Therefore, structural reforms to address these shortcomings (see para. 37 and 39) are also becoming more critical beyond traditional advantages like location and labor costs. The authorities' strategy to attract high-value-added FDI would benefit more from more targeted, fiscally efficient interventions that address specific and well-identified market failures. These efforts should be complemented by improvements in the business environment and continued upgrades to key infrastructure—particularly in logistics and digital capabilities—to close infrastructure gaps, supporting trade and growth (Annex VII).

Serbia: Foreign Direct Investment Inflows by Sector
(Percent of GDP)



Sources: NBS and IMF staff calculations.

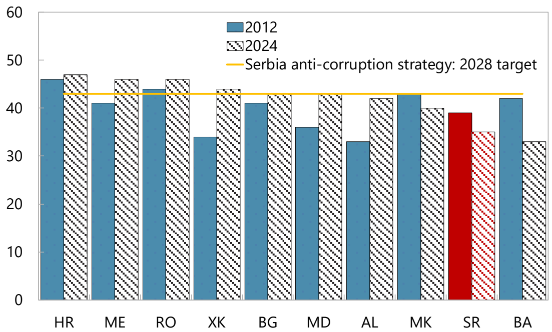
40. Achieving productivity gains will be important for Serbia to capitalize on increased public infrastructure investment. While public investment is appropriately addressing key infrastructure gaps, complementary measures are needed to enable businesses to benefit fully. Staff analysis shows that Serbia suffers from significant structural policy gaps with the frontier countries, and closing these gaps could significantly increase productivity and potential output growth over the medium term. The business environment can be further improved by cutting red tape, for example by simplifying business registration and tax filing and increasing digitalization in public services and in commercial courts. In addition, strengthening the implementation of Serbia's new SOE Governance Law—modelled on OECD principles—would help increase SOE efficiency while leveling the playing field for private firms. Well-targeted strengthening of innovation by revamping government support for R&D and start-ups, improving access to formal bank lending as well as non-bank financing, and enhancing commercial justice (Annex IX) will also help boost productivity.

41. Amid limited progress with tackling the perception of corruption, addressing governance challenges should continue to feature prominently on the authorities' policy agenda (Annex VIII). Efforts to operationalize the anti-corruption strategy adopted in July 2024 should be expedited to improve the detection, prosecution, and control of corruption.[7] Resources and competencies of government institutions should be strengthened to effectively reduce corruption. Such measures would also help advance Serbia's bid to join the EU and meet the recommendations put forward by the Group of States against Corruption (GRECO).

[7] The text charts used non-IMF indicators derived from governance and corruption perception data that are subject to limitations of subjectivity.

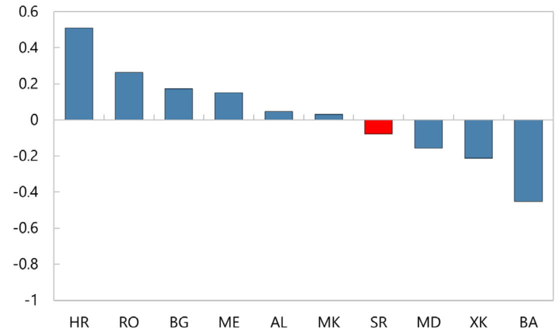
42. Data are assessed as having some shortcomings but are broadly adequate for surveillance (Annex X). The authorities have continued to make progress on government finance statistics reform, and plan to gradually include in budget execution all indirect budget users starting from 2025. They also plan to join the SDDS upon completion of fiscal data reforms. Moreover, the authorities plan to improve financial sector data, including by providing data to the Financial Soundness Indicator database.

Serbia: Corruption Perception
(Index; 0 = worst, 100 = best)



Source: Transparency International.

Governance Indicators
(Average of 6 governance indicators, index from -2.5 to 2.5, higher=better)



Sources: Worldwide Governance Indicators (WGI) and IMF staff calculations.

Authorities' Views

43. The authorities agreed that investing in education and creating better domestic job opportunities are key to nurturing and retaining talent to support Serbia's labor market. While they view the business environment as generally favorable in a regional comparison, they acknowledged scope for further improvement, including on measures to reduce absenteeism. The authorities attributed the moderation in FDI inflows to cyclical shifts in global demand, the temporary uncertainty connected to domestic political tensions, and to Serbia's gradual transitioning from a low-cost labor-intensive economy to one focused more on higher value-added capital-intensive industries. To support the transition, the authorities are shifting to increased investment in physical infrastructure and the development of industrial zones to attract and support inward FDI. In a more polarized global economic environment, they highlighted the importance of free trade agreements and competitive energy costs as key factors for Serbia's investment appeal. The authorities acknowledged the ongoing need to continue improving legal frameworks and institutional capacity to improve governance and reduce corruption perceptions. They plan to continue improve data provision and reporting.

STAFF APPRAISAL

44. Serbia's macroeconomic performance has been resilient in recent years, despite a series of shocks. Prudent policies, underpinned by close engagement with the Fund, have supported strong and balanced growth, bolstered fiscal and external buffers, and improved fiscal management including the governance of SOEs. As a result, Serbia has further converged to EU income levels and was awarded its first-ever investment grade rating in 2024. Despite the higher current account deficit, the 2024 external position is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

45. Since the approval of the PCI, economic challenges have intensified, and the outlook has weakened. Rising global trade tensions, geoeconomic fragmentation, and domestic political tensions have slowed economic activity and heightened risks. Disinflation is progressing, albeit gradually, amid temporary cost-push pressures and still robust domestic demand. Sluggish demand in key export markets and rising imports, mainly reflecting the execution of the government's ambitious investment program, are weighing on the current account. Possible sanctions on the macro-critical oil company NIS could have severe economic consequences and warrants a contingency plan to enable necessary and swift interventions to prevent a severe disruption. Nevertheless, continued gains in household purchasing power, support from public investment and new manufacturing capacities, and ample fiscal and reserve buffers provide some comfort.

46. Containing fiscal deficits will be essential to maintain credibility and would create room for countercyclical policies if downside risks were to materialize. The fiscal deficit ceiling at or below 3.0 percent of GDP agreed under the PCI over 2025–27 allows for sufficient flexibility to execute priority spending and cushion some slowdown in growth. Strict adherence to wage and pension special fiscal rules would also strengthen fiscal discipline. It is a crucial guidepost to keep public debt on a downward trajectory and support investor confidence. Any additional expenditure needs will have to be accommodated within the ceiling by rigorous public investment prioritization, and budget reallocation. Over 2028–30, moderately narrowing budget deficits would further strengthen Serbia's economic resilience and retain its favorable position among investment grade peers.

47. Additional efforts to ensure transparent, accountable, and efficient government operations need to stay center stage. Recommendations from the recently concluded FTE deserve close consideration. The transparency of public finances has scope to improve, including the management of investment projects where the government's ambitious infrastructure plans call for rigorous cost-benefit analysis, careful fiscal risk assessment, efficient decision-making processes, and sound procurement procedures. In tax administration, a focus on accelerating the resolution of macro-critical staffing issues will be essential, also to fully leverage the benefits of newly procured information systems to strengthen revenue performance. Further improving the integration of budgeting with PIM and public financial management would provide more effective prevention of domestic arrears.

48. Securing sustainable and stable energy supplies while reaching climate goals will require continued reforms. Grid fees and electricity tariffs will have to further adjust to cover costs, improve the financial strength of energy SOEs, and open space for investing into a more diversified energy mix and a more decarbonized economy. Achieving long-term energy sector resilience also demands thoroughly evaluating the financial soundness of large energy investment projects, expedited restructuring of energy SOEs.

49. Achieving sustained disinflation and continued efforts to further bolster Serbia's financial sector resilience remain important. Amid upside risks to inflation, a monetary policy tightening bias will help to ensure sustainable convergence of inflation to the NBS target. Systemic risks for the financial system appear contained, and banks are showing comfortable levels of capital, liquidity, and profitability. But financial intermediation could benefit from additional improvements to regulatory and supervisory frameworks, including by closer alignment with EU standards. Meanwhile, Serbia has continued to make progress on AML/CFT toward meeting EU standards.

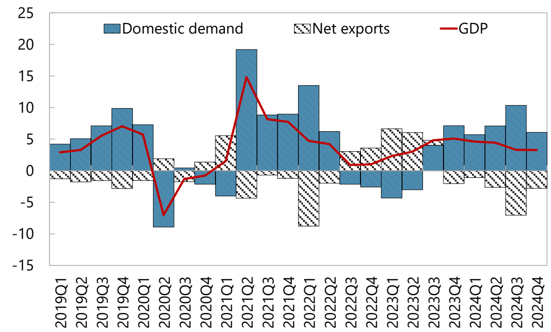
50. Serbia will need to pursue ambitious structural and governance reforms to secure high and sustainable medium-term growth. In the coming years, contributions to potential growth from labor and capital will dwindle amid an ageing population and the public investment drive ahead of EXPO running its course. Implementing policies to bolster employment of women and the young and to facilitate private investment, both from domestic and foreign firms, could compensate for some of the decline. Primarily, however, gains in productivity will shape Serbia's future growth trajectory. Therefore, efforts will have to focus on a better matching of skills with labor market demands, improving administrative and judicial procedures, fostering innovation, reducing the state's footprint in the economy, and addressing governance challenges, including by tackling corruption.

51. Staff supports the authorities' request for completion of the first review under the PCI. Overall program performance has been satisfactory despite one missed QT on domestic arrears. Staff also supports their request to modify the QTs on domestic arrears on account of the authorities' robust corrective actions and the rescheduling of the RT on STA HR plan to reflect time needed to address new challenges. In addition, the next Article IV consultation with Serbia is expected to be held on the 24-month cycle, in accordance with the Decision on Article IV Consultation Cycles (Decision No. 14747-(10/96), as amended).

Figure 1. Serbia: Real Sector Developments

Domestic demand has driven growth …

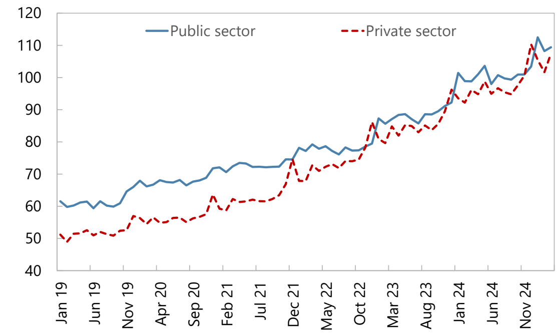
Serbia: Contributions to Growth
(Percent, y/y)



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

… supported by steady gains in purchasing power.

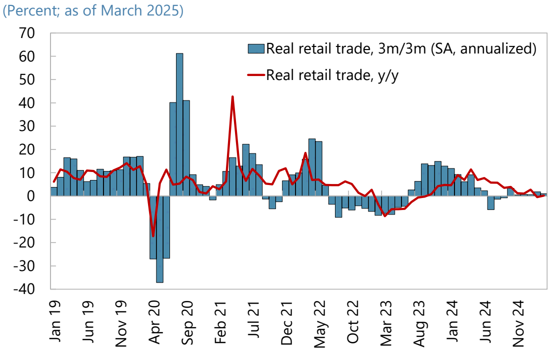
Serbia: Average Monthly Real Net Wages
(Thousands of Dinars)



Sources: SORS and IMF staff calculations.

But momentum in retail sales …

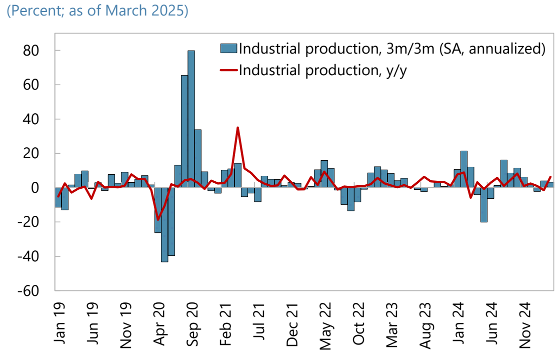
Serbia: Real Retail Trade
(Percent; as of March 2025)



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

… and industrial production has weakened.

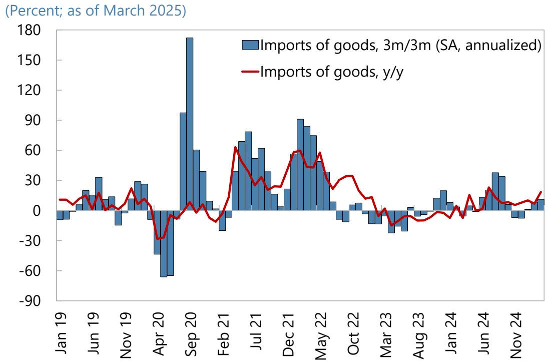
Serbia: Industrial Production
(Percent; as of March 2025)



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

Imports are rising steadily amid execution of public investment projects …

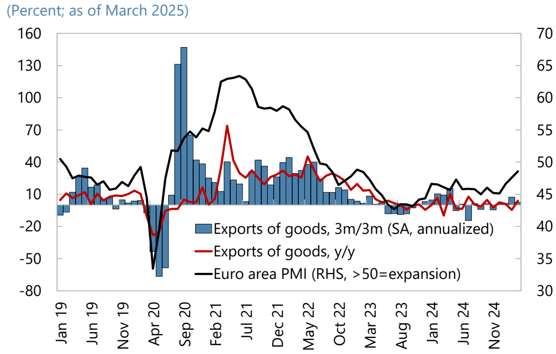
Serbia: Imports of Goods
(Percent; as of March 2025)



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

… while exports have remained sluggish on continued euro area demand weakness.

Serbia: Exports of Goods and Euro Area PMI
(Percent; as of March 2025)

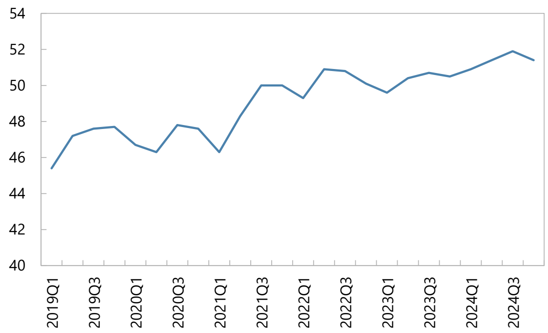


Sources: Haver Analytics, SORS, and IMF staff calculations.

Figure 2. Serbia: Labor Market Developments

Employment has remained near record highs…

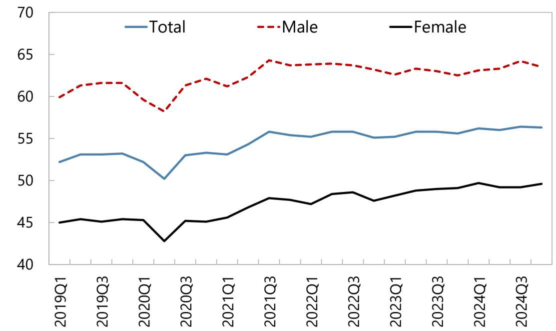
Serbia: Employment Rate
(Percent, 15 years old and more)



Source: SORS.

… and labor force participation continues to improve.

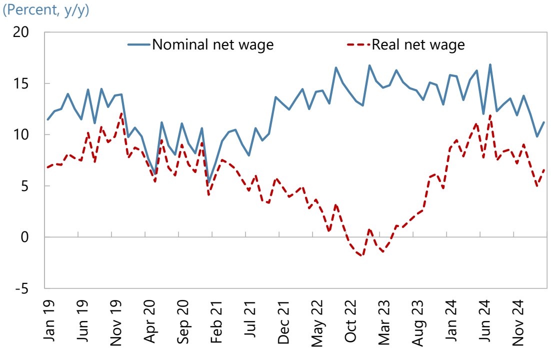
Serbia: Labor Participation Rate
(Percent; 15 year-old and more)



Source: SORS.

Wage growth has started to ease …

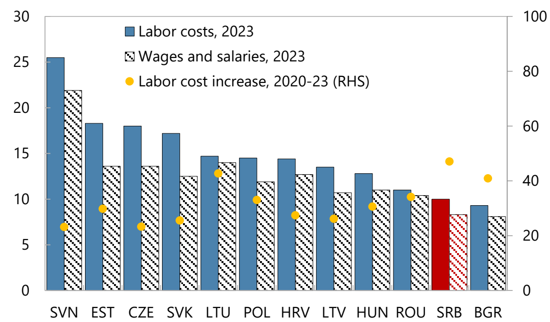
Serbia: Change of Net Wages
(Percent, y/y)



Sources: Haver Analytics and IMF staff calculations.

… and hourly labor costs are below regional peers.

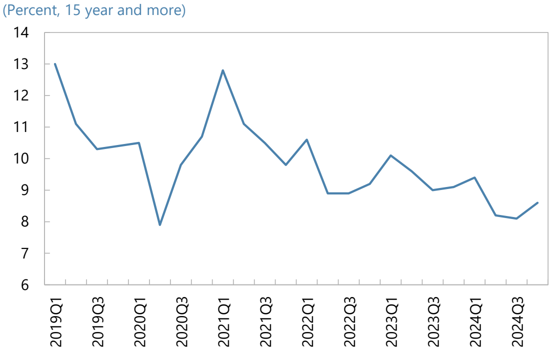
Serbia: Hourly Labor Costs and Wages 1/
(Euro, LHS; percent, RHS)



Sources: Eurostat and IMF staff calculations.
1/ Wages and salaries in industry, construction, and services.

Unemployment is close to historic lows …

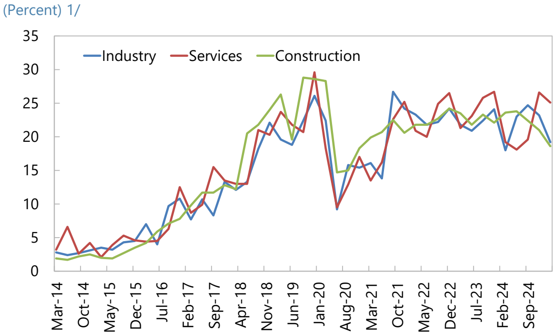
Serbia: Unemployment Rate
(Percent, 15 year and more)



Source: SORS.

… and labor markets remain tight.

Serbia: Labor Market Constraints
(Percent) 1/

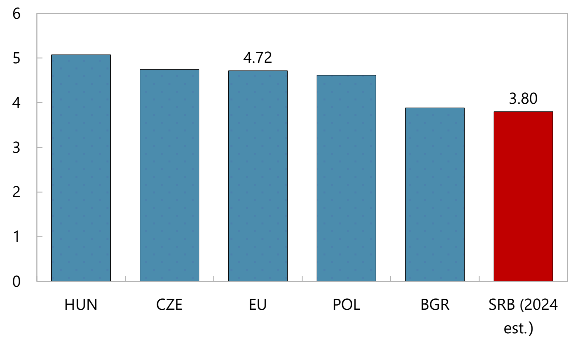


Source: European Commission.
1/ Percent of firms reporting labor as a constraint on activity.

Figure 3. Serbia: Education Spending and Outcomes

In share of GDP, public education spending is lower than in EU peers …

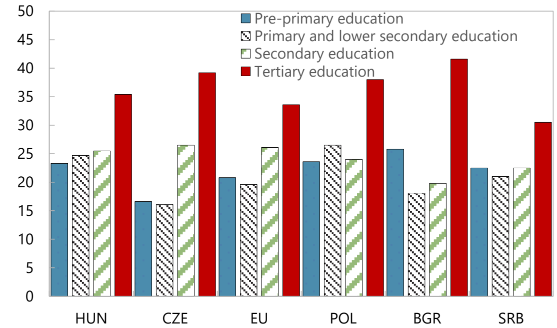
Public Spending on Education
(Percent of GDP; 2022 or latest available)



Sources: UNESCO and national authority.

… but spending per student is broadly similar.

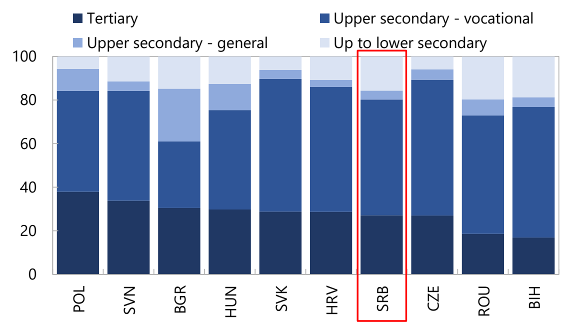
Government Funding per Student by Level of Education
(Percent of GDP per capita; 2019 or latest available)



Sources: Eurostat and WB 2022 Serbia Education Public Expenditure Review.

Education attainment is comparable to peers …

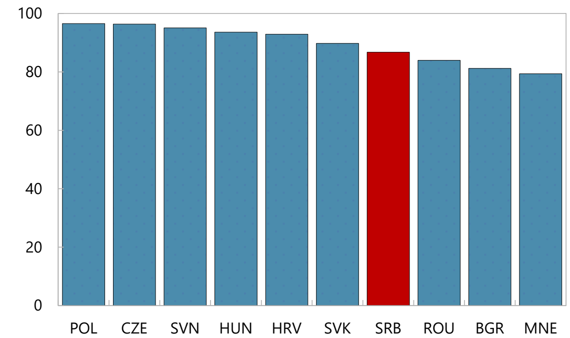
Education Attainment
(Share of population aged 25-64; in 2023)



Note: 2013 data on Upper secondary is not available by vocational and general.
Sources: Eurostat and IMF staff calculations.

… and PISA scores are similar.

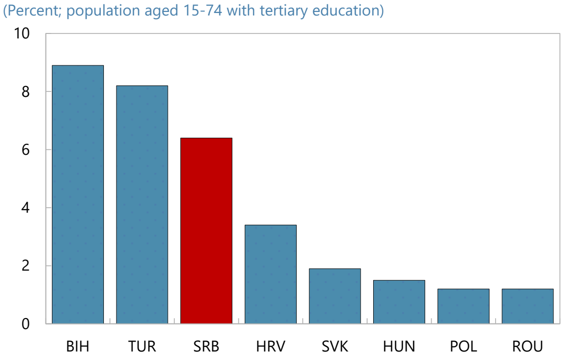
Average PISA Score
(Frontiers=100; in 2022)



Sources: OECD and IMF staff calculations.

Still, unemployment among college graduate is high …

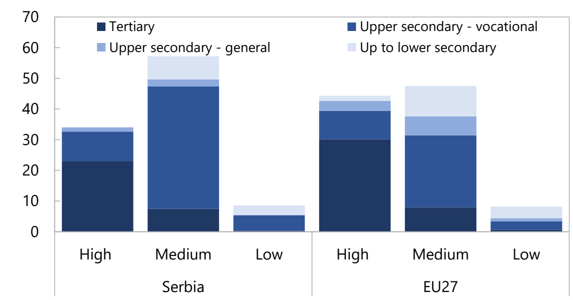
Unemployment with Tertiary Education
(Percent; population aged 15-74 with tertiary education)



Source: Eurostat.

… as more is needed to match skills with labor market demand.

Skill Matching
(Share of total employment by education attainment and occupation skill-level)



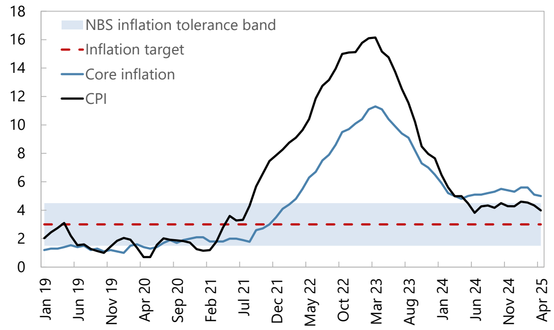
Note: High skills comprise occupation skill level 3 and 4, while medium (low) skills comprise occupation skill level 2 (level 1).
Sources: Eurostat and IMF staff calculations.

Figure 4. Serbia: Inflation and Monetary Policy

Headline and core inflation have resumed their decline …

Serbia: Inflation

(Percent, y/y; as of April 2025)

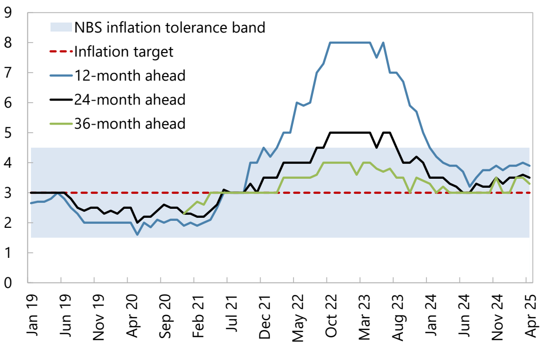


Sources: NBS and IMF staff calculations.

… but financial sector inflation expectations have drifted away from the NBS's 3 percent target.

Serbia: Financial Sector Inflation Expectations

(Percent; as of April 2025)

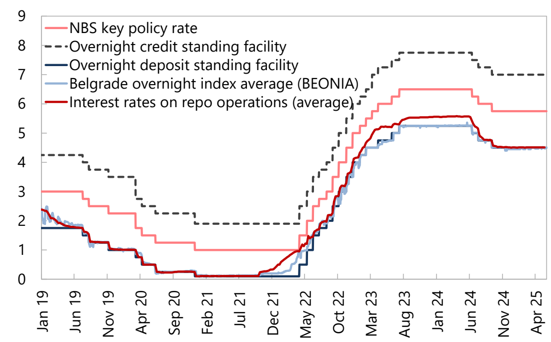


Sources: NBS and IMF staff calculations.

The NBS has paused its monetary easing cycle …

Serbia: Interest Rates

(Percent)

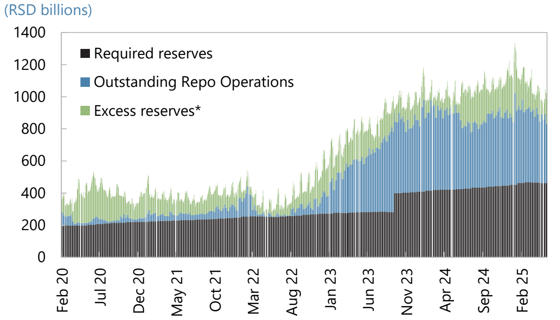


Sources: NBS and Haver Analytics.

… while continuing to absorb excess liquidity by open market operations.

Serbia: Central Bank Deposits and Repo Operations

(RSD billions)



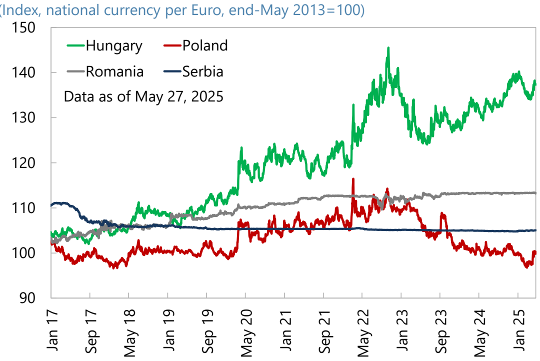
Sources: NBS and IMF staff calculations.

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

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

Exchange Rates

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

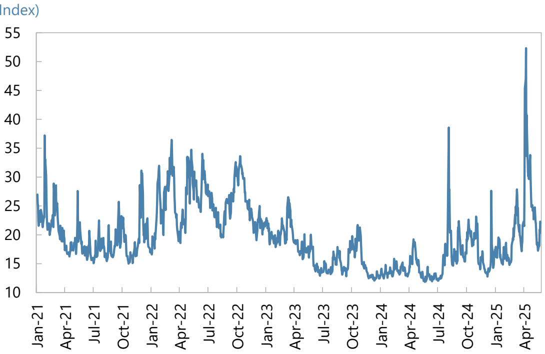


Sources: Bloomberg.

… amid ongoing spikes in global risk aversion.

CBOE Volatility Index (VIX)

(Index)

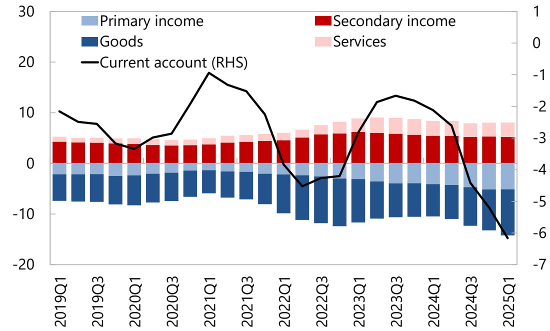


Source: Haver Analytics.

Figure 5. Serbia: Balance of Payments

The current account deficit has deteriorated …

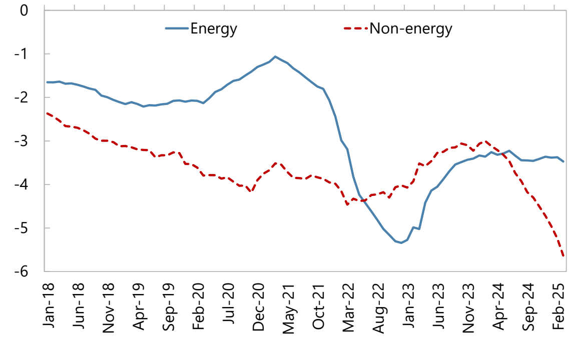
Serbia: Current Account Balance
(Billion of Euros; 4Q moving sum)



Sources: Haver Analytics and IMF staff calculations.

… on strong non-energy imports …

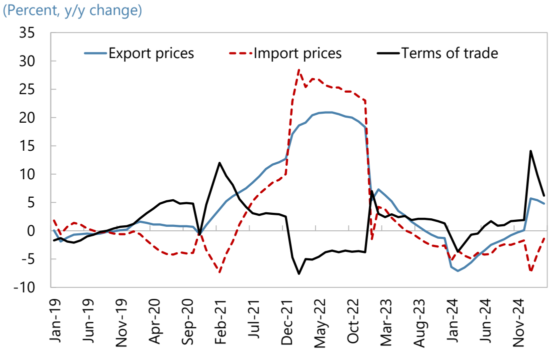
Serbia: Energy and Non-Energy Trade Balances
(Billion of euros; 12m moving sum)



Sources: Haver Analytics and IMF staff calculations.

… but the terms of trade have helped.

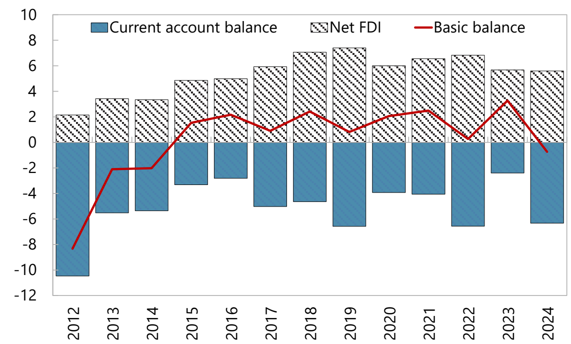
Serbia: Terms of Trade
(Percent, y/y change)



Source: Haver Analytics.

FDI continued to fully cover the current account deficit …

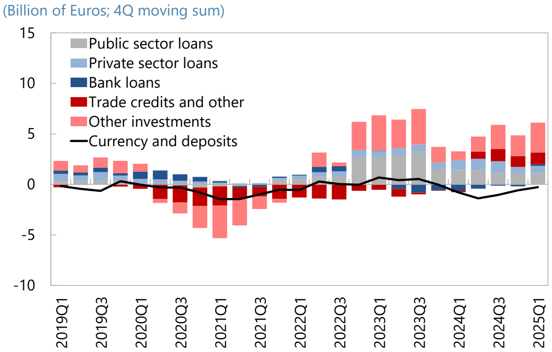
Serbia: Basic Balance
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

… and other investment flows remained strong.

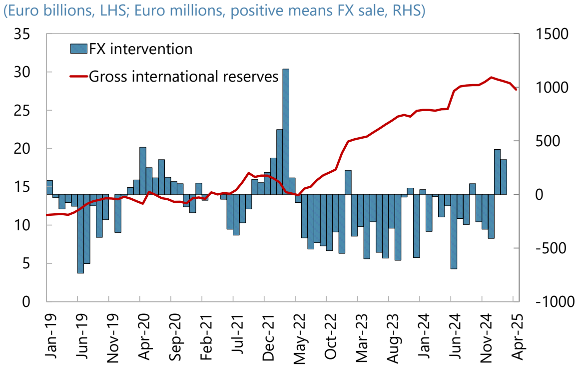
Serbia: Other Investments
(Billion of Euros; 4Q moving sum)



Sources: Haver Analytics and IMF staff calculations.

Foreign reserves have dipped from record highs as the NBS has sold FX amid seasonal demand.

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

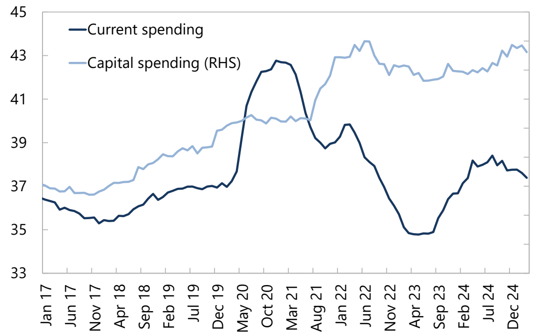


Sources: NBS and Haver Analytics.

Figure 6. Serbia: Fiscal Developments and Financing

Amid higher capital spending, current spending has declined …

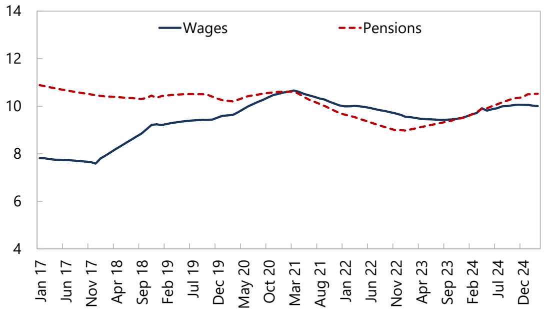
Serbia: Current and Capital Spending
(Percent of GDP, 12M sum)



Sources: Ministry of Finance and IMF staff calculations.

… growth of pensions and public sector wages has continued.

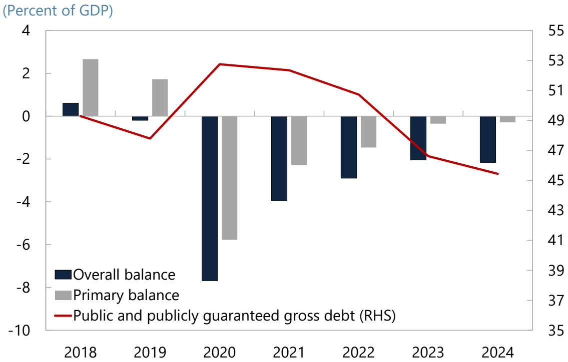
Serbia: Wages and Pensions 1/
(Percent of GDP, 12M sum)



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

The fiscal deficit remained contained, and public debt maintained a declining trend.

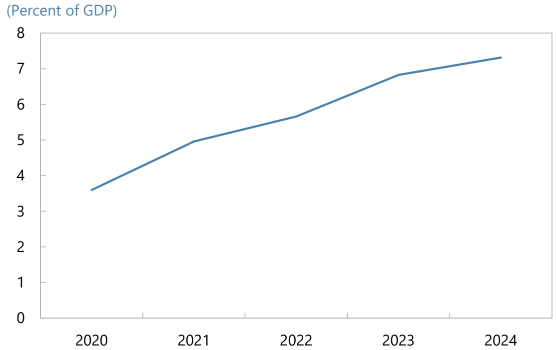
Serbia: Fiscal Balance and Government Debt
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

Government deposits are high.

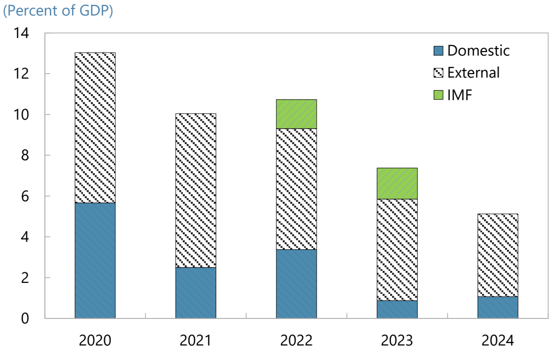
Serbia: Stock of Government Liquid Deposits
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

External financing has continued to dominate.

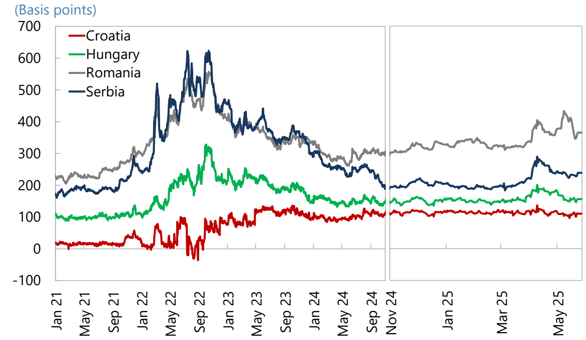
Serbia: Sources of Financing
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

After some recent widening, Serbia's sovereign spreads have moved broadly in line with peers.

Sovereign Risk - Euro EMBIG Spreads
(Basis points)

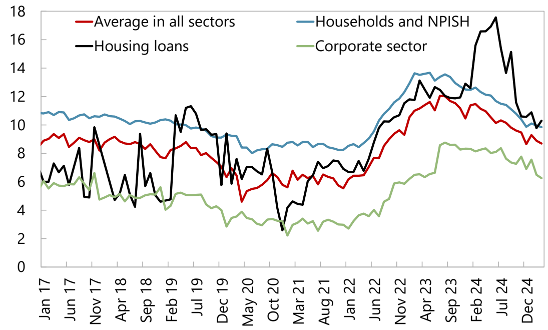


Source: Bloomberg.

Figure 7. Serbia: Selected Interest Rates and Credit Developments

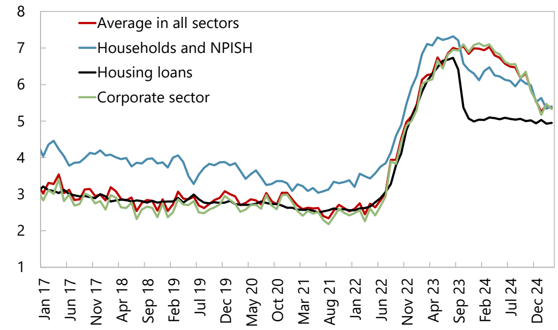
Lending rates have declined, both for dinar lending … *… and foreign currency lending.*

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



Source: NBS.

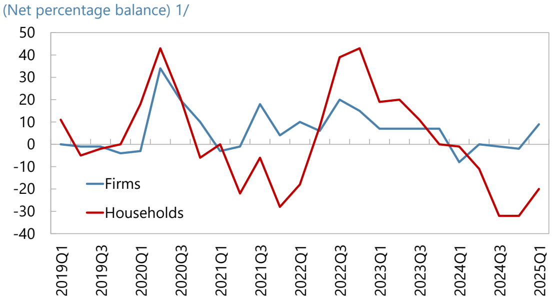
Serbia: Bank Lending Interest Rates (FX and FX-linked)
(Percent)



Source: NBS.

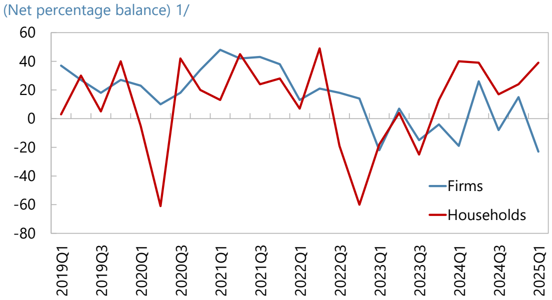
Credit standards have stopped improving … *… amid further strengthening of household credit demand and a decline in borrowing by firms.*

Serbia: Credit Standards
(Net percentage balance) 1/



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

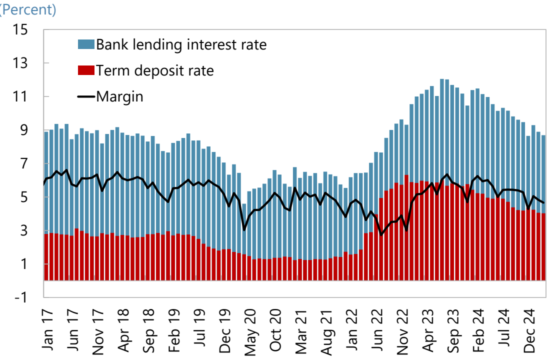
Serbia: Credit Demand
(Net percentage balance) 1/



Source: Haver Analytics.
1/ Percentage of banks reporting higher minus percentage of banks reporting lower credit demand over the past 3 months. A positive balance indicates higher credit demand.

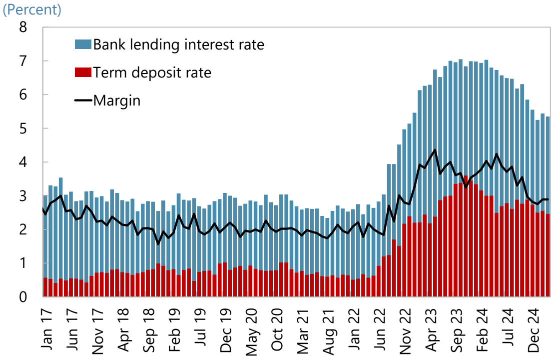
Interest rate margins in domestic currency have slowly declined … *… but have contracted more notably in foreign currency.*

Serbia: Selected Interest Rates (RSD)
(Percent)



Source: NBS.

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



Source: NBS.

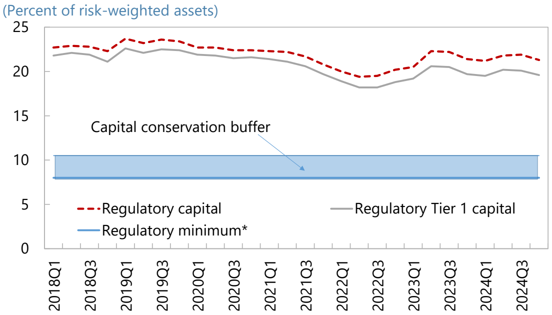
Figure 8. Serbia: Key Banking Sector Indicators

Banks' capital buffers remain strong and well above regulatory thresholds …

… amid record low non-performing loans.

Serbia: Regulatory Capital

(Percent of risk-weighted assets)

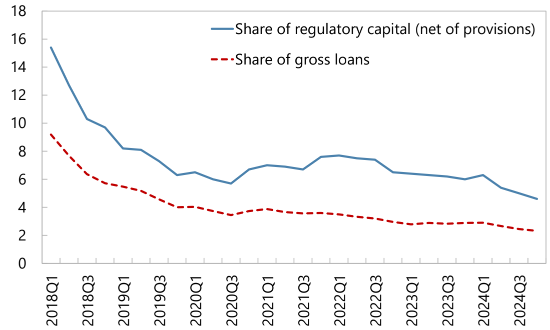


Source: Haver Analytics.

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

Serbia: Non-Performing Loans

(Percent)



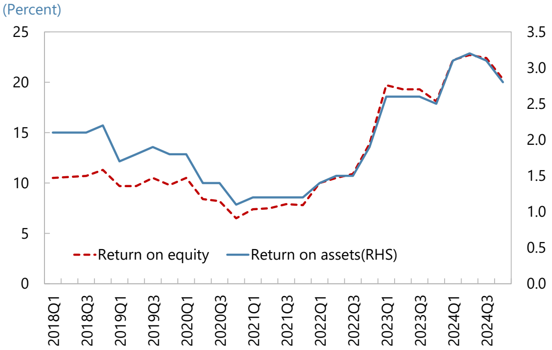
Source: Haver Analytics.

Bank profitability has been strong …

… and open foreign currency positions appear well-managed by hedging.

Serbia: Banking Sector Profitabilty

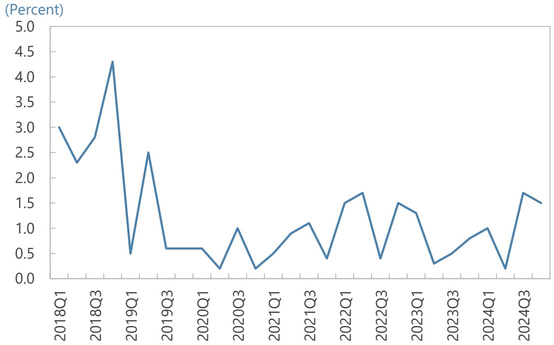
(Percent)



Source: Haver Analytics.

Serbia: Net Open FX Position to Regulatory Capital

(Percent)



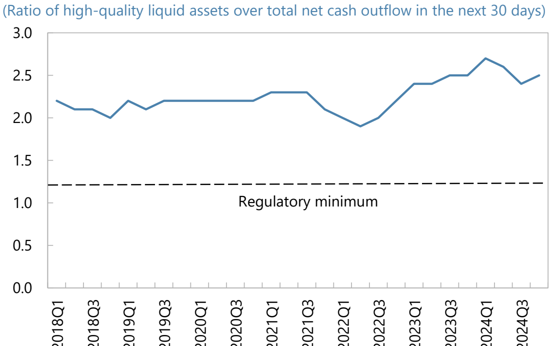
Sources: NBS and Haver Analytics.

Liquidity is ample …

… helped by conservative loan-to-deposit ratios.

Serbia: Liquidity Coverage

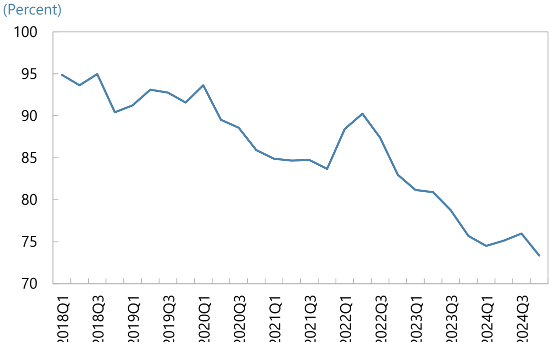
(Ratio of high-quality liquid assets over total net cash outflow in the next 30 days)



Source: Haver Analytics.

Serbia: Loan-to-Deposit Ratio

(Percent)



Source: Haver Analytics.

Table 1. Selected Economic and Social Indicators, 2023–30

	2023	2024		2025		2026		2027		2028	2029	2030
		CR 24/337	Est.	CR 24/337	Proj.	CR 24/337	Proj.	CR 24/337	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)											
Real sector												
Real GDP	3.8	**3.8**	3.8	**4.2**	3.0	**4.2**	4.0	**4.5**	4.5	3.5	4.0	4.0
Real domestic demand (absorption)	1.0	**6.5**	5.2	**4.4**	5.1	**4.4**	4.5	**5.1**	2.8	4.5	3.8	3.8
Consumer prices (average)	12.4	**4.6**	4.7	**3.7**	3.9	**3.3**	3.2	**3.3**	3.5	3.0	3.0	3.0
Consumer prices (end of period)	7.6	**4.0**	4.3	**3.4**	3.3	**3.3**	3.2	**3.2**	3.2	3.0	3.0	3.0
GDP deflator	13.8	**5.0**	5.3	**3.3**	4.1	**3.1**	3.3	**3.2**	3.5	3.0	3.0	3.0
Unemployment rate (in percent) 1/	9.4	**8.6**	8.6	**8.5**	8.5	**8.4**	8.4	**8.3**	8.3	8.2	8.1	8.0
Nominal GDP (in billions of dinars)	8,818	**9,604**	9,639	**10,336**	10,339	**11,108**	11,114	**11,969**	12,026	12,820	13,733	14,717
	(Percent of GDP)											
General government finances												
Revenue 2/	39.4	**40.9**	40.9	**41.2**	40.9	**40.9**	40.4	**40.9**	40.1	40.1	40.1	40.1
Expenditure 2/	41.4	**43.6**	42.9	**44.2**	43.9	**43.9**	43.4	**43.9**	43.1	42.6	42.6	42.1
Current 2/	33.9	**35.7**	35.1	**36.4**	36.2	**36.1**	36.0	**36.1**	35.6	35.4	35.6	35.5
Capital and net lending	7.3	**7.6**	7.5	**7.5**	7.4	**7.5**	7.2	**7.5**	7.4	7.0	6.9	6.4
Amortization of called guarantees	0.3	**0.3**	0.3	**0.3**	0.2	**0.2**	0.2	**0.2**	0.2	0.2	0.2	0.2
Fiscal balance 3/	-2.0	**-2.7**	-2.0	**-3.0**	-3.0	**-3.0**	-3.0	**-3.0**	-3.0	-2.5	-2.5	-2.0
Primary fiscal balance (cash basis)	-0.4	**-0.8**	-0.1	**-0.9**	-0.8	**-0.9**	-0.9	**-1.0**	-1.0	-0.6	-0.7	-0.1
Gross debt (public and publicly guaranteed) 4/	48.8	**48.0**	47.5	**47.7**	46.8	**46.9**	46.5	**46.4**	46.4	45.9	45.5	44.7
of which: Public debt	46.6	**45.7**	45.4	**45.1**	44.7	**43.7**	43.4	**43.0**	42.6	41.9	41.6	41.0
	(End of period 12-month change, percent)											
Monetary sector												
Broad money (M2)	13.1	**9.7**	13.6	**8.0**	7.8	**7.8**	8.0	**8.3**	8.8	7.2	7.7	7.7
Domestic credit to non-government 5/	1.2	**8.6**	8.5	**7.9**	9.3	**5.7**	9.6	**9.2**	10.5	7.9	8.4	8.3
	(End of period, percent)											
Interest rates (dinar)												
NBS key policy rate	6.5	**...**	5.8	**...**	...	**...**	...	**...**	...	...	...	...
Interest rate on new FX and FX-indexed loans	7.0	**...**	5.6	**...**	...	**...**	...	**...**	...	...	...	...
	(Percent of GDP, unless otherwise indicated)											
Balance of payments												
Current account balance	-2.3	**-4.4**	-4.7	**-5.1**	-5.4	**-5.2**	-5.6	**-5.5**	-4.5	-5.4	-5.2	-5.0
Trade of goods balance	-8.6	**-9.6**	-8.2	**-9.8**	-9.9	**-10.0**	-10.1	**-10.4**	-9.5	-9.3	-9.1	-9.0
Exports of goods	37.1	**37.6**	36.2	**38.4**	35.0	**38.8**	34.6	**38.7**	33.9	33.7	33.5	33.2
Imports of goods	-45.8	**-47.2**	-44.5	**-48.2**	-45.0	**-48.8**	-44.7	**-49.2**	-43.4	-43.0	-42.6	-42.1
Capital and financial account balance	7.7	**8.1**	6.7	**7.2**	7.0	**6.5**	6.1	**6.7**	6.8	6.6	6.3	6.7
External debt (percent of GDP)	62.0	**61.8**	61.9	**60.3**	61.3	**58.7**	59.3	**55.9**	54.8	52.1	49.7	48.0
of which: Private external debt	27.5	**27.2**	28.1	**26.2**	27.4	**26.3**	26.7	**25.1**	25.7	25.0	24.4	23.8
Gross official reserves (in billions of euro)	24.9	**28.5**	29.3	**30.3**	30.7	**31.3**	31.0	**32.0**	32.8	34.1	35.5	37.6
(in months of prospective imports)	6.7	**6.8**	7.3	**6.6**	7.0	**6.3**	6.5	**5.9**	6.5	6.4	6.3	6.3
(percent of short-term debt)	547.9	**586.7**	644.4	**623.7**	675.2	**642.5**	680.9	**657.0**	722.0	750.2	780.9	826.2
(percent of risk-weighted metric) 6/	153.3	**163.6**	164.9	**161.5**	162.7	**149.1**	151.6	**143.0**	147.6	145.6	142.5	142.4
Exchange rate (dinar/euro, period average)	117.3	**...**	117.1	**...**	...	**...**	...	**...**	...	...	...	...
REER (annual average change, in percent; + indicates appreciation)	6.4	**...**	2.3	**...**	...	**...**	...	**...**	...	...	...	...
Social indicators												
Per capita GDP (in US$)	12,282	**13,544**	13,545	**14,750**	14,575	**15,980**	15,873	**17,270**	17,286	18,561	20,038	21,643
Population (in million)	6.6	**6.6**	6.6	**6.6**	6.5	**6.5**	6.5	**6.5**	6.4	6.4	6.3	6.3

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

1/ Unemployment rate of the 15-64 year old labor force.

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

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

5/ At constant exchange rates.

6/ The risk-weighted metric is the IMF's ARA metric under fixed exchange rate. Serbia was reclassified as a de facto stabilized exchange rate regime in 2018.

Table 2. Medium-Term Framework, 2023–30

	2023	2024		2025		2026		2027		2028	2029	2030
		CR 24/337	Est.	CR 24/337	Proj.	CR 24/337	Proj.	CR 24/337	Proj.	Proj.	Proj.	Proj.
	(Percent change)											
Real sector												
GDP growth	3.8	**3.8**	3.8	**4.2**	3.0	**4.2**	4.0	**4.5**	4.5	3.5	4.0	4.0
Domestic demand (contribution)	1.1	**6.8**	5.5	**4.7**	5.4	**4.8**	4.9	**5.5**	3.1	4.8	4.1	4.2
Net exports (contribution)	2.7	**-3.1**	-1.7	**-0.5**	-2.4	**-0.6**	-0.8	**-1.1**	1.4	-1.3	-0.2	-0.2
Consumer price inflation (average)	12.4	**4.6**	4.7	**3.7**	3.9	**3.3**	3.2	**3.3**	3.5	3.0	3.0	3.0
Consumer price inflation (end of period)	7.6	**4.0**	4.3	**3.4**	3.3	**3.3**	3.2	**3.2**	3.2	3.0	3.0	3.0
Output gap (in percent of potential)	0.4	**-0.6**	0.5	**-0.1**	-0.2	**0.2**	-0.1	**0.6**	0.4	0.0	0.0	0.0
Potential GDP growth	3.6	**3.6**	3.7	**3.7**	3.8	**3.9**	3.9	**4.0**	4.0	4.0	4.0	4.0
Domestic credit to non-government 1/	1.2	**8.6**	8.5	**7.9**	9.3	**5.7**	9.6	**9.2**	10.5	7.9	8.4	8.3
	(Percent of GDP, unless otherwise indicated)											
General government												
Revenue 2/	39.4	**40.9**	40.9	**41.2**	40.9	**40.9**	40.4	**40.9**	40.1	40.1	40.1	40.1
Expenditure 2/	41.4	**43.6**	42.9	**44.2**	43.9	**43.9**	43.4	**43.9**	43.1	42.6	42.6	42.1
Current 2/	33.9	**35.7**	35.1	**36.4**	36.2	**36.1**	36.0	**36.1**	35.6	35.4	35.6	35.5
of which: Wages and salaries 2/	8.8	**9.5**	9.4	**9.7**	9.9	**9.7**	10.2	**9.8**	10.2	10.2	10.2	10.2
of which: Pensions	8.8	**9.7**	9.6	**10.1**	10.1	**10.2**	10.2	**10.1**	10.0	10.0	10.1	10.1
of which: Goods and services	8.5	**8.8**	8.2	**8.7**	8.8	**8.7**	8.5	**8.8**	8.4	8.5	8.5	8.5
Capital and net lending	7.3	**7.6**	7.5	**7.5**	7.4	**7.5**	7.2	**7.5**	7.4	7.0	6.9	6.4
Amortization of called guarantees	0.3	**0.3**	0.3	**0.3**	0.2	**0.2**	0.2	**0.2**	0.2	0.2	0.2	0.2
Fiscal balance 3/	-2.0	**-2.7**	-2.0	**-3.0**	-3.0	**-3.0**	-3.0	**-3.0**	-3.0	-2.5	-2.5	-2.0
Gross debt (public and publicly guaranteed) 4/	48.8	**48.0**	47.5	**47.7**	46.8	**46.9**	46.5	**46.4**	46.4	45.9	45.5	44.7
of which: Public debt	46.6	**45.7**	45.4	**45.1**	44.7	**43.7**	43.4	**43.0**	42.6	41.9	41.6	41.0
	(Percent of GDP, unless otherwise indicated)											
Balance of payments												
Current account	-2.3	**-4.4**	-4.7	**-5.1**	-5.4	**-5.2**	-5.6	**-5.5**	-4.5	-5.4	-5.2	-5.0
of which: Trade balance	-8.6	**-9.6**	-8.2	**-9.8**	-9.9	**-10.0**	-10.1	**-10.4**	-9.5	-9.3	-9.1	-9.0
of which: Current transfers, net (excl. grants)	7.0	**6.9**	6.3	**6.5**	5.9	**6.2**	5.8	**6.1**	5.6	5.6	5.5	5.5
Capital and financial account	7.7	**8.1**	6.7	**7.2**	7.0	**6.5**	6.1	**6.7**	6.8	6.6	6.3	6.7
of which: Foreign direct investment	5.6	**5.3**	5.6	**5.1**	4.4	**4.8**	4.8	**4.7**	4.4	4.3	4.3	4.3
External debt (end of period)	62.0	**61.8**	61.9	**60.3**	61.3	**58.7**	59.3	**55.9**	54.8	52.1	49.7	48.0
of which: Private external debt	27.5	**27.2**	28.1	**26.2**	27.4	**26.3**	26.7	**25.1**	25.7	25.0	24.4	23.8
Gross official reserves												
(in billions of euros)	24.9	**28.5**	29.3	**30.3**	30.7	**31.3**	31.0	**32.0**	32.8	34.1	35.5	37.6
(in percent of short-term external debt)	547.9	**586.7**	644.4	**623.7**	675.2	**642.5**	680.9	**657.0**	722.0	750.2	780.9	826.2
REER (ann. av. change; + = appreciation)	6.4	**…**	2.3	**…**	…	**…**	…	**…**	…	…	…	…

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

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

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

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

Table 3. Growth Composition, 2023–30

	2023	2024		2025		2026		2027		2028	2029	2030
		CR 24/337	Est.	CR 24/337	Proj.	CR 24/337	Proj.	CR 24/337	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)											
Real GDP												
Gross Domestic Product (GDP)	3.8	**3.8**	3.8	**4.2**	3.0	**4.2**	4.0	**4.5**	4.5	3.5	4.0	4.0
Domestic demand (absorption)	1.0	**6.5**	5.2	**4.4**	5.1	**4.4**	4.5	**5.1**	2.8	4.5	3.8	3.8
Consumption	-0.1	**5.0**	3.8	**4.3**	4.7	**4.1**	3.9	**4.7**	4.1	3.6	3.8	3.8
Non-government	0.5	**4.0**	4.2	**4.2**	3.8	**4.2**	4.2	**4.5**	4.5	3.8	4.0	4.0
Government	-2.4	**8.8**	2.4	**4.8**	7.9	**3.8**	3.0	**5.5**	2.8	3.0	3.2	3.0
Investment	4.9	**11.0**	9.6	**4.5**	6.3	**5.3**	6.0	**6.2**	-0.9	7.1	3.8	4.0
Gross fixed capital formation	9.7	**7.0**	6.5	**5.1**	4.0	**5.3**	4.6	**6.1**	7.0	2.8	4.6	2.9
Non-government	13.0	**3.5**	2.1	**5.5**	4.5	**5.5**	5.5	**6.0**	6.0	4.5	5.0	5.0
Government	2.0	**19.5**	18.0	**3.9**	2.8	**4.7**	2.6	**6.5**	9.3	-1.1	3.8	-2.2
Exports of goods and services	2.7	**5.7**	6.2	**7.6**	4.0	**6.3**	5.3	**5.6**	7.0	2.4	4.4	4.4
Imports of goods and services	-1.6	**9.9**	8.3	**7.5**	7.2	**6.3**	5.9	**6.5**	4.2	3.9	4.1	4.1
	(Contributions to GDP growth, percent)											
Real GDP												
Gross Domestic Product (GDP)	3.8	**3.8**	3.8	**4.2**	3.0	**4.2**	4.0	**4.5**	4.5	3.5	4.0	4.0
Domestic demand (absorption)	1.1	**6.8**	5.5	**4.7**	5.4	**4.8**	4.9	**5.5**	3.1	4.8	4.1	4.2
Net exports of goods and services	2.7	**-3.1**	-1.7	**-0.5**	-2.4	**-0.6**	-0.8	**-1.1**	1.4	-1.3	-0.2	-0.2
Consumption	-0.1	**4.0**	3.0	**3.5**	3.7	**3.3**	3.2	**3.8**	3.3	2.9	3.1	3.1
Non-government	0.3	**2.5**	2.6	**2.6**	2.4	**2.6**	2.7	**2.8**	2.8	2.4	2.5	2.5
Government	-0.4	**1.5**	0.4	**0.9**	1.4	**0.7**	0.5	**1.0**	0.5	0.5	0.6	0.5
Investment	1.2	**2.8**	2.4	**1.2**	1.7	**1.4**	1.7	**1.7**	-0.2	1.9	1.0	1.1
Gross fixed capital formation	2.2	**1.7**	1.6	**1.3**	1.0	**1.3**	1.2	**1.6**	1.8	0.7	1.2	0.7
Non-government	2.1	**0.7**	0.4	**1.0**	0.8	**1.1**	1.0	**1.2**	1.1	0.8	0.9	0.9
Government	0.1	**1.0**	1.2	**0.2**	0.2	**0.3**	0.2	**0.4**	0.7	-0.1	0.3	-0.2
Change in inventories	-1.0	**1.1**	0.9	**-0.1**	0.7	**0.1**	0.5	**0.1**	-2.0	1.2	-0.1	0.4
Exports of goods and services	1.6	**3.3**	3.7	**4.6**	2.4	**3.9**	3.2	**3.6**	4.4	1.5	2.7	2.8
Imports of goods and services	-1.1	**6.4**	5.3	**5.1**	4.8	**4.4**	4.1	**4.6**	3.0	2.8	2.9	2.9
	(Percent change, unless otherwise indicated)											
Nominal GDP												
Gross Domestic Product (GDP)	18.2	**8.9**	9.3	**7.6**	7.3	**7.5**	7.5	**7.8**	8.2	6.6	7.1	7.2
Domestic demand (absorption), contribution to GDP growth	12.9	**11.3**	10.0	**8.3**	9.3	**8.1**	8.2	**8.8**	6.9	7.7	7.3	7.3
Net exports of goods and services, contribution to GDP growth	5.3	**-2.4**	-0.6	**-0.7**	-2.0	**-0.6**	-0.7	**-1.0**	1.3	-1.1	-0.1	-0.1
Consumption	12.1	**9.8**	10.4	**8.0**	9.2	**7.6**	7.6	**8.1**	8.0	6.9	7.2	7.1
Non-government	12.7	**8.3**	9.6	**7.8**	7.8	**7.6**	7.6	**7.9**	8.1	6.9	7.1	7.1
Government	10.3	**15.3**	13.4	**8.7**	13.9	**7.3**	7.7	**8.9**	7.6	6.8	7.4	7.1
Investment	10.3	**14.1**	6.8	**7.2**	7.9	**7.8**	8.1	**8.5**	1.5	9.1	5.8	6.1
Gross fixed capital formation	15.5	**11.8**	10.5	**7.9**	6.5	**7.9**	6.7	**8.8**	9.3	4.7	6.6	4.8
Non-government	17.0	**7.1**	5.5	**8.4**	7.0	**8.1**	7.6	**8.6**	8.3	6.5	7.0	7.0
Government	11.8	**24.0**	23.7	**7.0**	5.2	**7.6**	4.6	**9.4**	11.6	0.7	5.6	-0.5
Exports of goods and services	7.2	**9.3**	7.6	**9.9**	6.1	**8.7**	7.4	**8.0**	9.3	4.6	6.5	6.7
Imports of goods and services	-1.3	**12.6**	8.1	**10.0**	9.0	**8.8**	7.8	**8.7**	6.2	6.1	6.2	6.2
Memorandum items												
Nominal GDP (billions of dinars)	8,818	**9,604**	9,639	**10,336**	10,339	**11,108**	11,114	**11,969**	12,026	12,820	13,733	14,717
GDP deflator (percent)	13.8	**5.0**	5.3	**3.3**	4.1	**3.1**	3.3	**3.2**	3.5	3.0	3.0	3.0

Sources: SORS; and IMF staff estimates and projections.

Table 4a. Balance of Payments, 2023–30 1/
(Billions of Euros)

	2023	2024		2025		2026		2027		2028	2029	2030
		CR 24/337	Est.	CR 24/337	Proj.	CR 24/337	Proj.	CR 24/337	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.8	**-3.6**	-3.9	**-4.5**	-4.8	**-5.0**	-5.3	**-5.6**	-4.6	-5.9	-6.1	-6.3
Trade of goods balance	-6.5	**-7.8**	-6.8	**-8.6**	-8.8	**-9.5**	-9.6	**-10.7**	-9.7	-10.2	-10.7	-11.3
Exports of goods	27.9	**30.8**	29.8	**33.9**	31.0	**36.9**	32.9	**39.7**	34.9	37.0	39.3	41.8
Imports of goods	-34.4	**-38.7**	-36.6	**-42.6**	-39.7	**-46.3**	-42.5	**-50.3**	-44.6	-47.2	-50.1	-53.1
Services balance	3.0	**2.5**	2.8	**2.7**	3.1	**3.0**	3.3	**3.2**	4.6	3.9	4.3	4.7
Exports of nonfactor services	13.0	**13.9**	14.5	**15.3**	16.0	**16.6**	17.5	**18.1**	20.2	20.6	22.1	23.7
Imports of nonfactor services	-10.1	**-11.4**	-11.7	**-12.6**	-12.9	**-13.7**	-14.2	**-14.8**	-15.6	-16.7	-17.8	-19.0
Income balance	-3.9	**-4.2**	-5.2	**-4.6**	-4.6	**-4.7**	-4.8	**-4.7**	-5.6	-6.0	-6.4	-7.0
Net interest	-1.2	**-1.8**	-1.7	**-1.8**	-1.8	**-1.6**	-1.9	**-1.3**	-1.8	-1.6	-1.6	-1.4
Others, including reinvested earnings	-2.6	**-2.4**	-3.5	**-2.8**	-2.9	**-3.1**	-2.9	**-3.4**	-3.7	-4.4	-4.7	-5.6
Current transfer balance	5.6	**5.9**	5.3	**6.0**	5.5	**6.2**	5.8	**6.6**	6.1	6.4	6.8	7.3
Official grants	0.3	**0.3**	0.1	**0.3**	0.3	**0.3**	0.3	**0.3**	0.4	0.3	0.4	0.4
Others, including private remittances	5.3	**5.6**	5.2	**5.7**	5.2	**5.9**	5.5	**6.2**	5.8	6.1	6.4	6.9
Capital and financial account balance 1/	5.8	**6.7**	5.5	**6.3**	6.2	**6.1**	5.8	**6.9**	7.0	7.2	7.5	8.4
Capital transfer balance	0.0	**0.0**	0.1	**0.0**	0.1	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Foreign direct investment balance	4.2	**4.4**	4.6	**4.5**	3.9	**4.6**	4.5	**4.8**	4.5	4.8	5.1	5.4
Portfolio investment balance	0.9	**1.0**	0.5	**1.2**	1.3	**2.1**	2.2	**1.4**	1.5	1.3	1.2	1.4
of which: debt liabilities	1.0	**1.0**	0.7	**1.2**	1.3	**2.1**	2.2	**1.4**	1.5	1.3	1.2	1.4
Other investment balance	0.7	**1.3**	0.3	**0.7**	0.9	**-0.5**	-1.0	**0.6**	1.0	1.1	1.2	1.6
Public sector 1/ 2/	1.1	**0.7**	0.7	**0.7**	0.6	**-1.4**	-1.3	**0.9**	0.8	1.1	1.0	1.2
Domestic banks	-0.7	**0.0**	-0.8	**-0.1**	-0.1	**-0.1**	-0.1	**-0.2**	-0.2	-0.4	-0.2	-0.2
Other private sector 3/	0.3	**0.5**	0.4	**0.2**	0.4	**1.0**	0.4	**0.0**	0.4	0.4	0.4	0.6
Errors and omissions	0.2	**0.0**	0.5	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	4.2	**3.0**	2.2	**1.8**	1.4	**1.2**	0.5	**1.3**	2.5	1.3	1.4	2.1
Financing	-4.2	**-3.0**	-2.2	**-1.8**	-1.4	**-1.2**	-0.5	**-1.3**	-2.5	-1.3	-1.4	-2.1
Gross international reserves (increase, -)	-4.7	**-3.6**	-2.8	**-1.8**	-1.4	**-0.9**	-0.3	**-0.7**	-1.9	-1.3	-1.4	-2.1
Memorandum item												
GDP	75.2	**82.0**	82.3	**88.3**	88.4	**95.0**	95.0	**102.4**	102.9	109.7	117.6	126.0

Sources: NBS; and IMF staff estimates and projections.

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

Table 4b. Balance of Payments, 2023–30 1/
(Percent of GDP)

	2023	2024		2025		2026		2027		2028	2029	2030
		CR 24/337	Est.	CR 24/337	Proj.	CR 24/337	Proj.	CR 24/337	Proj.	Proj.	Proj.	Proj.
Current account balance	-2.3	**-4.4**	-4.7	**-5.1**	-5.4	**-5.2**	-5.6	**-5.5**	-4.5	-5.4	-5.2	-5.0
Trade of goods balance	-8.6	**-9.6**	-8.2	**-9.8**	-9.9	**-10.0**	-10.1	**-10.4**	-9.5	-9.3	-9.1	-9.0
Exports of goods	37.1	**37.6**	36.2	**38.4**	35.0	**38.8**	34.6	**38.7**	33.9	33.7	33.5	33.2
Imports of goods	-45.8	**-47.2**	-44.5	**-48.2**	-45.0	**-48.8**	-44.7	**-49.2**	-43.4	-43.0	-42.6	-42.1
Services balance	3.9	**3.0**	3.4	**3.1**	3.5	**3.1**	3.5	**3.2**	4.5	3.5	3.6	3.7
Income balance	-5.1	**-5.1**	-6.3	**-5.3**	-5.2	**-5.0**	-5.0	**-4.6**	-5.4	-5.5	-5.4	-5.6
Current transfer balance	7.5	**7.2**	6.4	**6.8**	6.2	**6.6**	6.1	**6.4**	5.9	5.9	5.8	5.8
Official grants	0.4	**0.4**	0.1	**0.4**	0.4	**0.4**	0.4	**0.3**	0.3	0.3	0.3	0.3
Others, including private remittances	7.0	**6.9**	6.3	**6.5**	5.9	**6.2**	5.8	**6.1**	5.6	5.6	5.5	5.5
Capital and financial account balance 1/	7.7	**8.1**	6.7	**7.2**	7.0	**6.5**	6.1	**6.7**	6.8	6.6	6.3	6.7
Capital transfers balance	0.0	**0.0**	0.1	**0.0**	0.1	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Foreign direct investment balance	5.6	**5.3**	5.6	**5.1**	4.4	**4.8**	4.8	**4.7**	4.4	4.3	4.3	4.3
Portfolio investment balance	1.2	**1.2**	0.6	**1.3**	1.4	**2.2**	2.4	**1.4**	1.5	1.2	1.0	1.1
Other investment balance	0.9	**1.6**	0.4	**0.8**	1.0	**-0.5**	-1.0	**0.6**	1.0	1.0	1.0	1.3
Public sector 1/ 2/	1.4	**0.9**	0.9	**0.7**	0.7	**-1.5**	-1.4	**0.8**	0.8	1.0	0.9	0.9
Domestic banks	-0.9	**0.0**	-0.9	**-0.2**	-0.2	**-0.1**	-0.1	**-0.2**	-0.2	-0.3	-0.2	-0.2
Other private sector 3/	0.5	**0.6**	0.4	**0.2**	0.5	**1.1**	0.4	**0.0**	0.4	0.4	0.4	0.5
Errors and omissions	0.3	**0.0**	0.7	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0
Overall balance	5.6	**3.7**	2.6	**2.0**	1.6	**1.2**	0.5	**1.3**	2.4	1.2	1.2	1.6
Financing	-5.6	**-3.7**	-2.6	**-2.0**	-1.6	**-1.2**	-0.5	**-1.3**	-2.4	-1.2	-1.2	-1.6
Gross international reserves (increase, -)	-6.3	**-4.4**	-3.4	**-2.0**	-1.6	**-1.0**	-0.3	**-0.7**	-1.8	-1.2	-1.2	-1.6
	(Percent change, unless otherwise indicated)											
Memorandum items:												
Nominal growth of exports of goods	3.7	**10.5**	6.8	**10.0**	3.8	**8.6**	6.3	**7.6**	6.0	6.2	6.2	6.2
Nominal growth of import of goods	-5.1	**12.4**	6.3	**10.0**	8.6	**8.8**	7.0	**8.7**	4.9	5.8	6.0	6.0
Volume growth of exports of goods	5.1	**6.8**	6.7	**7.7**	1.7	**6.2**	4.3	**5.3**	3.8	4.0	4.0	4.0
Volume growth of import of goods	-2.4	**9.7**	8.2	**7.5**	6.8	**6.3**	5.1	**6.5**	2.9	3.7	4.0	3.9
Trading partner import growth	-1.1	**1.7**	1.8	**3.7**	1.0	**3.7**	2.5	**3.5**	3.1	3.5	3.3	3.4
Export prices growth	-1.3	**3.5**	0.1	**2.1**	2.0	**2.3**	1.9	**2.2**	2.1	2.1	2.1	2.1
Import prices growth	-2.8	**2.4**	-1.7	**2.3**	1.7	**2.3**	1.8	**2.1**	2.0	2.1	2.0	2.0
Change in terms of trade	1.5	**1.0**	1.8	**-0.2**	0.3	**0.0**	0.1	**0.1**	0.1	0.1	0.1	0.1
Gross official reserves (in billions of euro)	24.9	**28.5**	29.3	**30.3**	30.7	**31.3**	31.0	**32.0**	32.8	34.1	35.5	37.6
(In months of prospective imports of GNFS)	6.7	**6.8**	7.3	**6.6**	7.0	**6.3**	6.5	**5.9**	6.5	6.4	6.3	6.3
(in percent of short-term debt)	547.9	**586.7**	644.4	**623.7**	675.2	**642.5**	680.9	**657.0**	722.0	750.2	780.9	826.2
(in percent of broad money, M2)	65.0	**65.2**	67.2	**64.1**	64.9	**61.2**	60.6	**57.8**	59.3	57.5	55.7	55.1
(in percent of risk-weighted metric) 4/	153.3	**163.6**	164.9	**161.5**	162.7	**149.1**	151.6	**143.0**	147.6	145.6	142.5	142.4
GDP (billions of euros)	75.2	**82.0**	82.3	**88.3**	88.4	**95.0**	95.0	**102.4**	102.9	109.7	117.6	126.0

Sources: NBS; and IMF staff estimates and projections.

1/ Excluding net use of IMF resources.

2/ Includes SDR allocations in 2021.

3/ Includes trade credits (net).

4/ The risk-weighted metric is the IMF's ARA metric for the fixed exchange rate. Serbia was reclassified as a de facto stabilized exchange rate regime in 2018.

Table 5a. External Financing Requirements and Sources (Baseline), 2023–30
(In billions of euros)

	2023	2024	2025	2026	2027	2028	2029	2030
		Est.			Proj.			
Total financing requirement	**10.4**	**11.4**	**9.4**	**12.2**	**13.0**	**12.4**	**12.5**	**11.5**
Current account deficit	1.8	3.9	4.8	5.3	4.6	5.9	6.1	6.3
Debt amortization	3.8	4.7	3.2	6.6	6.5	5.2	5.0	3.2
Medium and long-term debt	2.6	4.3	2.7	6.6	6.5	5.2	5.0	3.2
Public sector	1.5	1.6	1.6	4.8	5.0	3.8	3.4	2.8
Of which: IMF	0.0	0.0	0.0	0.5	0.6	0.1	0.0	0.0
Of which: Eurobonds	0.0	0.3	0.0	0.0	2.1	1.7	1.6	1.0
Of which: Domestic bonds (non-residents)	0.3	0.4	0.4	0.5	0.5	0.7	0.6	0.5
Commercial banks	0.5	0.6	0.5	0.8	0.6	0.7	0.2	0.1
Corporate sector	0.6	2.1	0.7	1.1	1.0	0.7	1.4	0.3
Short-term debt	1.2	0.3	0.5	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.8	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Corporate sector	0.4	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Change in gross reserves (increase=+)	4.7	2.8	1.4	0.3	1.9	1.3	1.4	2.1
Total financing sources	**9.9**	**10.7**	**9.4**	**12.4**	**13.6**	**12.4**	**12.5**	**11.5**
Capital transfers	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	4.2	4.6	3.9	4.5	4.5	4.8	5.1	5.4
Portfolio investment (net) 1/	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing (excl. except. financing)	7.2	6.7	6.4	8.5	6.6	6.0	6.2	5.2
Medium and long-term debt	6.0	6.3	5.9	8.5	6.6	6.0	6.2	5.2
Public sector 2/	3.6	3.0	3.6	5.5	3.9	3.6	3.4	3.6
Of which: Eurobonds	1.6	1.4	1.1	2.3	2.3	2.0	1.7	1.6
Of which: Domestic bonds (non-residents)	0.3	0.4	0.6	0.7	0.7	0.9	0.8	0.6
Commercial banks	1.1	0.2	0.5	0.8	0.6	0.5	0.3	0.1
Corporate sector	1.3	3.1	1.7	2.1	2.0	1.9	2.5	1.6
Short-term debt	1.2	0.3	0.5	0.0	0.0	0.0	0.0	0.0
Other net capital inflows 3/	-1.5	-0.4	-1.0	-0.6	2.5	1.6	1.2	0.9
o/w trade credit and currency and deposits	-0.2	-0.6	-0.8	-0.8	-0.9	-0.9	-1.0	-0.8
Total financing needs	**0.5**	**0.7**	**0.0**	**-0.2**	**-0.6**	**-0.1**	**0.0**	**0.0**
Exceptional financing (net)	**0.5**	**0.7**	**0.0**	**-0.2**	**-0.6**	**-0.1**	**0.0**	**0.0**
IMF	0.2	0.1	0.0	-0.5	-0.6	-0.1	0.0	0.0
Development partners, *by debtor:* 4/	0.3	0.6	0.0	0.3	0.0	0.0	0.0	0.0
General government	0.1	0.3	0.0	0.3	0.0	0.0	0.0	0.0
SOEs (from IFIs)	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves (**without** except. financing)	23.4	27.1	28.5	29.0	31.5	32.8	34.2	36.2
as % of ARA Metric	144.0	152.6	151.1	142.0	141.4	139.9	137.2	137.4
Gross international reserves (**with** except. financing)	24.9	29.3	30.7	31.0	32.8	34.1	35.5	37.6
as % of ARA Metric	153.3	164.9	162.7	151.6	147.6	145.6	142.5	142.4
Debt service	5.2	6.5	5.2	8.4	8.0	6.6	6.3	4.3
Interest	1.4	1.9	1.9	1.7	1.5	1.4	1.2	1.1
Amortization	3.8	4.7	3.2	6.6	6.5	5.2	5.0	3.2

Sources: NBS, and IMF staff estimates and projections.

1/ Only includes equity securities and financial derivatives.
2/ Excluding IMF.
3/ Includes all other net financial flows and errors and omissions.
4/ Exceptional financing is provided by the World Bank, AFD, KfW, EBRD and Cassa Depositi e Prestiti (see MEFP). Some loans are disbursed to the budget and are public debt, others are disbursed to SOEs in the energy sector and are publicly guaranteed debt.

Table 5b. Indicators of Capacity to Repay the Fund, 2023–30

	2023	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
Fund repurchases and charges 1/								
In millions of SDRs	73	89	68	495	521	74	31	31
In millions of euros	90	110	83	611	644	91	39	39
In percent of exports of goods and NFS	0.2	0.2	0.2	1.2	1.2	0.2	0.1	0.1
In percent of GDP	0.1	0.1	0.1	0.6	0.6	0.1	0.0	0.0
In percent of quota	11.1	13.6	10.3	75.6	79.5	11.3	4.8	4.8
In percent of total external debt service	1.7	1.7	1.6	7.3	8.0	1.4	0.6	0.9
In percent of gross international reserves	0.4	0.4	0.3	2.0	2.0	0.3	0.1	0.1
Fund credit outstanding (end-period)								
In millions of SDRs	949	949	949	516	41	-	-	-
In millions of euros	1,162	1,189	1,169	637	51	-	-	-
In percent of exports of goods and NFS	2.8	2.7	2.5	1.3	0.1	-	-	-
In percent of GDP	1.5	1.4	1.3	0.7	0.0	-	-	-
In percent of quota	145.0	145.0	145.0	78.8	6.3	-	-	-
In percent of total external debt	2.5	2.3	2.2	1.1	0.1	-	-	-
In percent of gross international reserves	4.7	4.1	3.8	2.1	0.2	-	-	-
Memorandum items:		(In millions of euros, unless otherwise indicated)						
Exports of goods and NFS	40,956	44,281	46,966	50,419	55,117	57,625	61,398	65,483
Quota (in millions of SDRs)	654.8	654.8	654.8	654.8	654.8	654.8	655.8	656.8
GDP	75,203	82,319	88,375	95,038	102,876	109,705	117,551	126,015
Total external debt service	5,207	6,525	5,164	8,375	8,040	6,632	6,258	4,269
Public sector external debt	25,963	27,813	29,902	30,963	29,916	29,747	29,737	30,572
Total external debt	46,652	50,982	54,142	56,321	56,373	57,205	58,410	60,500
Total external debt stock excluding IMF	45,475	49,804	52,964	55,679	56,320	57,202	58,407	60,498
Gross international reserves	24,909	29,295	30,695	30,955	32,823	34,106	35,501	37,560

Source: IMF staff estimates.

1/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.

Table 6a. General Government Fiscal Operations, 2023–30 1/

(Billions of RSD)

	2023	2024		2025		2026		2027		2028	2029	2030
		CR 24/337	Est.	CR 24/337	Proj.	CR 24/337	Proj.	CR 24/337	Proj.	Proj.	Proj.	Proj.
Revenue	3,473	**3,928**	3,944	**4,257**	4,227	**4,541**	4,491	**4,892**	4,826	5,135	5,507	5,898
Taxes	3,079	**3,486**	3,497	**3,764**	3,746	**4,061**	4,030	**4,398**	4,368	4,664	5,011	5,373
Personal income tax	348	**398**	403	**429**	437	**465**	468	**504**	511	545	582	624
Social security contributions 2/	1,061	**1,221**	1,225	**1,352**	1,365	**1,467**	1,490	**1,600.7**	1,630.2	1,752	1,898	2,038
Taxes on profits	272	**292**	297	**298**	285	**314**	307	**336**	325	341	366	392
Value-added taxes	843	**954**	952	**1,047**	1,018	**1,133**	1,097	**1,223**	1,210	1,286	1,374	1,473
Excises	367	**417**	415	**423**	426	**456**	441	**493**	452	482	515	552
Taxes on international trade	81	**88**	89	**95**	96	**102**	103	**110**	112	118	125	134
Other taxes	107	**115**	116	**120**	120	**123**	124	**131**	128	141	151	160
Non-tax revenue	343	**399**	414	**447**	429	**431**	406	**445**	403	416	441	469
Capital revenue	9	**7**	11	**7**	15	**8**	15	**9**	15	15	15	15
Grants	43	**36**	21	**39**	38	**40**	40	**41**	41	41	41	41
Expenditure	3,654	**4,189**	4,136	**4,568**	4,537	**4,874**	4,824	**5,250**	5,186	5,456	5,850	6,191
Current expenditure	2,988	**3,433**	3,382	**3,761**	3,748	**4,013**	4,004	**4,324**	4,276	4,541	4,882	5,226
Wages and salaries 3/	775	**910**	907	**1,000**	1,023	**1,074**	1,128	**1,170**	1,221	1,301	1,394	1,494
Goods and services	751	**843**	795	**898**	909	**963**	949	**1,048**	1,014	1,086	1,169	1,252
Interest	149	**186**	180	**217**	223	**231**	235	**235**	237	241	249	273
Subsidies	214	**243**	239	**267**	241	**262**	248	**286**	259	279	299	321
Transfers	1,099	**1,251**	1,260	**1,377**	1,352	**1,484**	1,444	**1,586**	1,546	1,635	1,771	1,887
Pensions	774	**931**	930	**1,043**	1,042	**1,128**	1,130	**1,209**	1,204	1,279	1,388	1,488
Other transfers 4/	325	**320**	331	**335**	310	**356**	314	**377**	342	355	383	399
Capital expenditure	568	**704**	703	**754**	740	**811**	774	**887**	863	869	918	914
Net lending	74	**21**	23	**23**	28	**25**	24	**17**	24	23	27	29
Amortization of activated guarantees	24	**31**	28	**31**	22	**26**	23	**23**	22	22	23	22
Fiscal balance	-180	**-260**	-192	**-311**	-310	**-333**	-333	**-358**	-360	-321	-342	-293
Financing	180	**260**	192	**311**	310	**333**	333	**358**	360	321	342	293
Privatization proceeds	0	**0**	0	**0**	0	**0**	0	**0**	0	0	0	0
Equity investment	0	**0**	0	**0**	0	**0**	0	**0**	0	0	0	0
Domestic	-273	**-1**	-42	**130**	118	**261**	246	**304**	308	173	211	90
External	302	**231**	204	**181**	192	**102**	116	**125**	123	153	131	202
Program	1	**6**	6	**24**	24	**28**	28	**29**	29	9	9	8
Project	152	**165**	166	**178**	178	**201**	201	**236**	237	253	251	269
Bonds and loans	270	**189**	189	**124**	124	**320**	320	**313**	314	245	200	189
IMF resources (net)	0	**0**	0	**0**	0	**0**	0	**0**	0	0	0	0
Amortization	-120	**-130**	-157	**-145**	-134	**-448**	-433	**-454**	-457	-353	-329	-263
Memorandum items:												
Gross wages and salaries	670	**786**	770	**862**	862	**925**	952	**1008**	1,030	1,098	1,176	1,260
Government deposits (stock)	602	**654**	705	**604**	653	**463**	513	**396**	450	369	364	394
Gross debt (public and publicly guaranteed) 5/	4,306	**4,605**	4,575	**4,934**	4,839	**5,208**	5,171	**5,556**	5,574	5,890	6,247	6,577
Public debt	4,110	**4,392**	4,380	**4,657**	4,622	**4,856**	4,825	**5,151**	5,126	5,369	5,709	6,029
Publicly guaranteed debt	196	**214**	195	**277**	217	**352**	346	**405**	448	521	538	548
Nominal GDP	8,818	**9,604**	9,639	**10,336**	10,339	**11,108**	11,114	**11,969**	12,026	12,820	13,733	14,717

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

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

2/ Includes employer contributions.

3/ Includes severance payments. Includes employer contributions.

4/ Excludes foreign currency deposit payments to households, reclassified below the line.

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

Table 6b. General Government Fiscal Operations, 2023–30 1/

(Percent of GDP)

	2023	2024		2025		2026		2027		2028	2029	2030
		CR 24/337	Est.	CR 24/337	Proj.	CR 24/337	Proj.	CR 24/337	Proj.	Proj.	Proj.	Proj.
Revenue	39.4	40.9	40.9	41.2	40.9	40.9	40.4	40.9	40.1	40.1	40.1	40.1
Taxes	34.9	36.3	36.3	36.4	36.2	36.6	36.3	36.7	36.3	36.4	36.5	36.5
Personal income tax	3.9	4.1	4.2	4.1	4.2	4.2	4.2	4.2	4.2	4.3	4.2	4.2
Social security contributions 2/	12.0	12.7	12.7	13.1	13.2	13.2	13.4	13.4	13.6	13.7	13.8	13.8
Taxes on profits	3.1	3.0	3.1	2.9	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.7
Value-added taxes	9.6	9.9	9.9	10.1	9.8	10.2	9.9	10.2	10.1	10.0	10.0	10.0
Excises	4.2	4.3	4.3	4.1	4.1	4.1	4.0	4.1	3.8	3.8	3.8	3.8
Taxes on international trade	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other taxes	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Non-tax revenue	3.9	4.2	4.3	4.3	4.1	3.9	3.7	3.7	3.3	3.2	3.2	3.2
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.5	0.4	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Expenditure	41.4	43.6	42.9	44.2	43.9	43.9	43.4	43.9	43.1	42.6	42.6	42.1
Current expenditure	33.9	35.7	35.1	36.4	36.2	36.1	36.0	36.1	35.6	35.4	35.6	35.5
Wages and salaries 3/	8.8	9.5	9.4	9.7	9.9	9.7	10.2	9.8	10.2	10.2	10.2	10.2
Goods and services	8.5	8.8	8.2	8.7	8.8	8.7	8.5	8.8	8.4	8.5	8.5	8.5
Interest	1.7	1.9	1.9	2.1	2.2	2.1	2.1	2.0	2.0	1.9	1.8	1.9
Subsidies	2.4	2.5	2.5	2.6	2.3	2.4	2.2	2.4	2.2	2.2	2.2	2.2
Transfers	12.5	13.0	13.1	13.3	13.1	13.4	13.0	13.2	12.9	12.8	12.9	12.8
Pensions	8.8	9.7	9.6	10.1	10.1	10.2	10.2	10.1	10.0	10.0	10.1	10.1
Other transfers 4/	3.7	3.3	3.4	3.2	3.0	3.2	2.8	3.1	2.8	2.8	2.8	2.7
Capital expenditure	6.4	7.3	7.3	7.3	7.2	7.3	7.0	7.4	7.2	6.8	6.7	6.2
Net lending	0.8	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Amortization of activated guarantees	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Fiscal balance	-2.0	-2.7	-2.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-2.5	-2.5	-2.0
Financing	2.0	2.7	2.0	3.0	3.0	3.0	3.0	3.0	3.0	2.5	2.5	2.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.1	0.0	-0.4	1.3	1.1	2.4	2.2	2.5	2.6	1.4	1.5	0.6
External	3.4	2.4	2.1	1.7	1.9	0.9	1.0	1.0	1.0	1.2	1.0	1.4
Program	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.1
Project	1.7	1.7	1.7	1.7	1.7	1.8	1.8	2.0	2.0	2.0	1.8	1.8
Bonds and loans	3.1	2.0	2.0	1.2	1.2	2.9	2.9	2.6	2.6	1.9	1.5	1.3
IMF resources (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
Amortization	-1.4	-1.3	-1.6	-1.4	-1.3	-4.0	-3.9	-3.8	-3.8	-2.8	-2.4	-1.8
Memorandum items:												
Gross wages and salaries	7.6	8.2	8.0	8.3	8.3	8.3	8.6	8.4	8.6	8.6	8.6	8.6
Government deposits (stock)	6.8	6.8	7.3	5.8	6.3	4.2	4.6	3.3	3.7	2.9	2.7	2.7
Gross debt (public and publicly guaranteed) 5/	48.8	48.0	47.5	47.7	46.8	46.9	46.5	46.4	46.4	45.9	45.5	44.7
Public debt	46.6	45.7	45.4	45.1	44.7	43.7	43.4	43.0	42.6	41.9	41.6	41.0
Publicly guaranteed debt	2.2	2.2	2.0	2.7	2.1	3.2	3.1	3.4	3.7	4.1	3.9	3.7
Nominal GDP (billions of RSD)	8,818	9,604	9,639	10,336	10,339	11,108	11,114	11,969	12,026	12,820	13,733	14,717

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

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

2/ Includes employer contributions.

3/ Includes severance payments. Includes employer contributions.

4/ Excludes foreign currency deposit payments to households, reclassified below the line.

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

Table 7. Decomposition of Public Debt and Debt Service by Creditor, 2024–26 1/

(Central government debt, in billions of euros)

	Debt Stock March 2025 (end of period)			Debt Service					
				2024	2025	2026	2024	2025	2026
	(In Euro bln)	(Percent of total debt)	(Percent of GDP)	(In Euro bln)			(Percent of GDP)		
Total	39.1	100.0	44.3	3.1	3.5	5.7	3.8	4.0	6.0
External	27.7	70.9	31.4	1.5	1.4	3.9	1.9	1.6	4.1
Multilateral creditors 2/	8.2	20.9	9.3	0.6	0.6	1.2	0.7	0.7	1.2
IMF	2.4	6.2	2.7						
World Bank	0.0	0.0	0.0						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	5.8	14.7	6.5						
o/w: IBRD	2.2	5.7	2.5						
EIB	1.8	4.6	2.1						
Others (IDA, EU, CEB, EBRD, EUROFIMA, KfW)	1.7	4.5	2.0						
Bilateral Creditors	6.4	16.3	7.2	0.3	0.3	2.3	0.4	0.4	2.5
Paris Club	0.3	0.8	0.3	0.1	0.0	0.0	0.1	0.0	0.0
o/w: PC Germany KfW	0.0	0.0	0.0						
PC United Kingdom	0.0	0.0	0.0						
Non-Paris Club	6.1	15.6	6.9	0.2	0.3	2.3	0.3	0.4	2.4
o/w: UAE	2.2	5.5	2.4						
China	3.1	7.8	3.5						
Russia	0.7	1.7	0.8						
Others	0.2	0.5	0.2						
Bonds	10.3	26.4	11.7	0.3	0.0	0.0	0.4	0.0	0.0
Commercial creditors	2.3	5.9	2.6	0.3	0.4	0.4	0.3	0.4	0.4
Other international creditors	0.5	1.3	0.6	0.0	0.1	0.0	0.0	0.1	0.0
o/w: JICA	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	11.4	29.1	12.9	1.6	2.2	1.8	1.9	2.4	1.9
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	9.1	23.4	10.4	1.4	2.0	1.5	1.7	2.2	1.6
Loans and other domestic debt	2.2	5.7	2.5	0.2	0.2	0.3	0.3	0.2	0.3
Memo items:									
Collateralized debt 3/	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities	1.8	4.6	2.0						
o/w: Public guarantees	1.8	4.6	2.0						
o/w: Other explicit contingent liabilities 4/	0.0	0.0	0.0						
Nominal GDP	88.1			82.3	88.4	95.0			

Source: Serbia Public Debt Management Agency.

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

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

3/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized

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

Table 8. Monetary Survey, 2023–30 1/

	2023	2024 CR 24/337	2024 Est.	2025 CR 24/337	2025 Proj.	2026 CR 24/337	2026 Proj.	2027 CR 24/337	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
	(Billions of RSD, unless otherwise indicated; end of period) 1/											
Net foreign assets 2/	2,700	3,115	3,293	3,343	3,607	3,462	3,635	3,575	3,852	4,001	4,163	4,402
In billions of euro	*23.0*	*26.6*	*28.1*	*28.6*	*30.8*	*29.6*	*31.1*	*30.6*	*33.0*	*34.2*	*35.6*	*37.7*
Foreign assets	3,381	3,819	3,962	4,051	4,148	4,178	4,200	4,291	4,451	4,631	4,832	5,106
NBS	2,933	3,353	3,444	3,561	3,607	3,665	3,636	3,744	3,852	4,001	4,163	4,402
Commercial banks	448	466	517	490	541	513	564	546.6	598.1	630	669	703
Foreign liabilities (-)	-681	-703	-668	-708	-674	-716	-682	-717	-689	-673	-679	-681
NBS	0	-3	0	-3	0	-3	0	0	0	0	0	0
Commercial banks	-680	-700	-668	-705	-674	-713	-682	-717	-689	-673	-679	-681
Net domestic assets	1,789	2,011	1,806	2,195	2,024	2,509	2,423	2,891	2,699	2,966	3,304	3,609
Domestic credit	3,162	3,630	3,473	4,042	3,892	4,523	4,491	5,199	5,211	5,734	6,342	6,879
Government, net	-56	-65	-27	54	66	310	296	599	575	731	916	999
NBS	-675	-758	-758	-704	-706	-558	-566	-487	-501	-420	-414	-443
Claims on government	87	56	95	59	95	62	95	65	95	95	95	95
Liabilities (deposits)	762	814	853	763	801	620	661	552	596	515	510	538
Banks	619	693	731	758	772	868	862	1,085	1,076	1,151	1,331	1,442
Claims on government	703	777	822	842	862	952	953	1,170	1,167	1,242	1,422	1,533
Liabilities (deposits)	84	84	91	84	91	84	91	84	91	91	91	91
Non-government sector	3,254	3,731	3,529	4,024	3,855	4,250	4,224	4,637	4,665	5,032	5,455	5,908
Households	1,474	1,599	1,625	1,722	1,783	1,816	1,958	1,978	2,164	2,345	2,547	2,764
Enterprises	1,733	2,082	1,831	2,247	1,991	2,376	2,178	2,595	2,404	2,582	2,795	3,022
Other assets, net	-1,373	-1,619	-1,666	-1,847	-1,868	-2,014	-2,068	-2,308	-2,511	-2,768	-3,039	-3,270
Capital accounts (-)	-1,220	-1,437	-1,500	-1,639	-1,679	-1,786	-1,853	-2,058	-2,249	-2,470	-2,711	-2,911
Broad money (M2)	4,490	5,126	5,100	5,538	5,529	5,971	5,972	6,466	6,469	6,928	7,447	8,008
Currency in circulation	369	411	400	451	438	494	482	543	533	582	639	702
Demand deposits	1,340	1,490	1,590	1,635	1,743	1,792	1,916	1,971	2,122	2,316	2,542	2,792
Time and saving deposits	516	776	636	852	697	934	766	1,028	848	926	1,016	1,116
Foreign currency deposits	2,264	2,450	2,475	2,600	2,619	2,750	2,776	2,923	2,957	3,100	3,260	3,423
In billions of euro	*19.3*	*20.9*	*21.2*	*22.2*	*22.4*	*23.5*	*23.7*	*25.0*	*25.3*	*26.5*	*27.9*	*29.3*
	(Year-on-year percent change, unless otherwise indicated)											
Memorandum items												
M2	13.1	9.7	13.6	8.0	7.8	7.8	8.0	8.3	8.8	7.2	7.7	7.7
Velocity (M2)	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8
Deposits at constant exchange rate	12.7	9.6	14.2	7.9	7.7	7.7	7.9	8.2	8.6	7.0	7.5	7.6
Credit to non-gov. (current exchange rate)	4.3	8.6	11.3	6.5	7.7	6.7	7.8	7.1	8.3	6.8	7.1	7.1
Credit to non-gov. (constant exchange rates) 3/	4.4	8.7	11.4	6.6	7.7	6.8	7.8	7.1	8.3	6.8	7.1	7.1
Domestic	1.2	8.6	8.5	7.9	9.3	5.7	9.6	9.2	10.5	7.9	8.4	8.3
Households	1.2	8.5	10.3	7.7	9.8	5.5	9.8	9.0	10.6	8.4	8.6	8.5
Enterprises and other sectors	1.2	8.7	7.1	8.0	8.9	5.8	9.4	9.3	10.4	7.5	8.3	8.2
External	10.1	8.7	16.0	4.4	5.4	8.8	5.0	3.6	4.8	5.0	4.8	4.9
Credit to non-gov. (real terms) 4/	-3.1	4.4	6.7	3.0	3.7	3.3	4.4	3.7	4.7	3.7	4.0	4.0
Domestic credit to non-gov. (real terms)	-6.1	4.4	4.0	4.3	5.2	2.2	6.1	5.7	6.7	4.7	5.2	5.2
Households	-6.1	4.3	5.7	4.2	5.7	2.1	6.3	5.6	6.8	5.2	5.4	5.4
Enterprises and other sectors	-6.1	4.5	2.6	4.4	4.8	2.4	6.0	5.8	6.7	4.3	5.1	5.0
External	2.1	4.5	11.1	0.9	1.4	5.3	1.7	0.3	1.2	1.9	1.8	1.9
Deposit euroization (percent of total) 5/	54.9	51.9	52.7	51.1	51.8	50.2	50.8	49.4	49.9	48.9	47.8	46.7
Credit euroization (percent of total) 5/	64.8	63.9	61.9	63.0	61.4	62.1	60.8	61.2	60.3	59.7	59.2	58.7

Sources: NBS; and IMF staff estimates and projections.

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

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

3/ Using constant program RSD/euro exchange rates for converting FX and FX-indexed loans to RSD.

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

5/ Using current exchange rates.

Table 9. NBS Balance Sheet, 2023–30 1/

	2023	2024		2025		2026		2027		2028	2029	2030
		CR 24/337	Est.	CR 24/337	Proj.	CR 24/337	Proj.	CR 24/337	Proj.	Proj.	Proj.	Proj.
	(Billions of RSD, unless otherwise indicated; end of period) 1/											
Net foreign assets	2,933	**3,349**	3,444	**3,558**	3,607	**3,662**	3,635	**3,741**	3,852	4,001	4,163	4,402
In billions of euro	*25.0*	***28.6***	*29.4*	***30.4***	*30.8*	***31.3***	*31.1*	***32.0***	*33.0*	*34.2*	*35.6*	*37.7*
Gross foreign reserves	2,933	**3,353**	3,444	**3,561**	3,607	**3,665**	3,636	**3,744**	3,852	4,001	4,163	4,402
Net domestic assets	-1,525	**-1,842**	-1,776	**-1,966**	-1,791	**-1,879**	-1,656	**-1,797**	-1,679	-1,649	-1,605	-1,617
Net domestic credit	-1,067	**-1,737**	-1,137	**-1,966**	-1,152	**-1,879**	-1,017	**-1,797**	-1,040	-1,011	-966	-979
Net credit to government	-675	**-758**	-758	**-704**	-706	**-558**	-566	**-487**	-501	-420	-414	-443
Claims on government	87	**56**	95	**59**	95	**62**	95	**65**	95	95	95	95
Liabilities to government (-)	-762	**-814**	-853	**-763**	-801	**-620**	-661	**-552**	-596	-515	-510	-538
Reserve money	1,410	**1,508**	1,670	**1,591**	1,816	**1,783**	1,980	**1,944**	2,173	2,352	2,558	2,785
Currency in circulation	369	**411**	400	**451**	438	**494**	482	**543**	533	582	639	702
Commercial bank reserves	696	**705**	873	**724**	957	**848**	1,052	**933**	1,165	1,272	1,395	1,533
Required reserves	410	**302**	452	**320**	474	**339**	502	**360**	535	561	590	619
Excess reserves	287	**403**	421	**404**	483	**509**	550	**573**	630	711	806	914

Sources: NBS; and IMF staff estimates and projections.

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

Table 10. Banking Sector Financial Soundness Indicators, 2021–25

	2021	2022				2023				2024				2025
		Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Capital adequacy														
Regulatory capital to risk-weighted assets	20.8	20.0	19.4	19.5	20.2	20.5	22.3	22.2	21.4	21.2	21.8	21.9	21.3	21.0
Regulatory Tier 1 capital to risk-weighted assets	19.7	18.9	18.2	18.2	18.8	19.2	20.6	20.5	19.7	19.5	20.2	20.1	19.6	19.3
Nonperforming loans net of provisions to regulatory capital	7.6	7.7	7.5	7.4	6.5	6.4	6.3	6.2	6.0	6.3	5.4	5.0	4.6	4.5
Regulatory Tier 1 capital to assets	11.8	11.6	11.4	11.0	11.0	10.9	11.7	11.5	11.0	10.8	11.2	11.2	10.7	10.8
Large exposures to capital	86.0	98.9	104.7	109.3	86.7	87.0	70.0	71.2	85.6	95.9	87.7	89.0	95.7	98.8
Regulatory capital to assets	12.4	12.2	12.2	11.8	11.7	11.7	12.7	12.4	11.9	11.7	12.2	12.1	11.6	11.7
Asset quality														
Nonperforming loans to total gross loans	3.6	3.4	3.3	3.2	3.0	3.0	3.2	3.2	3.2	3.2	2.9	2.7	2.5	2.3
Sectoral distribution of loans (percent of total loans)														
Deposit takers	0.0	0.2	0.8	0.8	0.7	0.8	0.4	0.3	0.2	0.1	0.3	0.1	0.3	0.1
Central bank	1.5	0.4	0.2	1.4	3.3	8.4	10.1	11.7	11.0	11.8	10.0	11.2	9.6	9.8
General government	1.7	1.7	1.9	1.8	2.2	2.2	2.2	2.3	2.7	2.7	2.7	3.1	4.1	4.1
Other financial corporations	0.6	0.6	1.0	0.9	1.1	1.0	1.0	0.9	1.0	1.0	1.1	1.1	1.5	1.4
Nonfinancial corporations	49.3	50.2	49.8	48.8	47.6	44.4	43.4	42.5	43.4	42.2	42.3	41.3	41.6	40.7
Agriculture	3.0	2.8	2.6	2.8	2.8	2.5	2.4	2.3	2.4	2.2	2.1	2.1	2.1	2.0
Industry	15.5	19.5	19.3	19.1	18.4	17.2	16.6	16.2	16.4	16.3	16.4	15.9	15.7	15.1
Construction	4.9	4.9	4.6	4.2	4.1	3.8	4.0	3.8	4.0	3.8	4.0	3.9	4.1	4.0
Trade	12.5	10.9	11.1	11.0	10.7	10.1	9.9	9.5	9.4	9.4	9.3	9.0	9.0	8.9
Other loans to nonfinancial corporations	13.4	12.3	12.1	11.6	11.7	10.7	10.6	10.6	11.2	10.4	10.4	10.5	10.6	10.6
Households and NPISH	45.0	44.7	44.2	43.2	43.2	40.5	40.1	38.9	39.4	39.6	39.3	38.9	39.9	39.7
Households and NPISH of which: mortgage loans to total loans	17.4	17.5	17.3	17.1	17.4	16.3	16.1	15.5	15.5	15.4	15.2	14.9	15.3	15.2
Foreign sector	1.9	2.0	2.1	3.1	2.0	2.8	2.7	3.4	2.3	2.6	4.3	4.3	3.1	4.1
IFRS provision for NPLs to gross NPLs	56.3	56.3	57.0	57.1	58.1	58.4	57.9	58.7	60.5	59.1	60.7	61.8	62.3	61.7
IFRS provision of total loans to total gross loans	3.2	3.1	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.2	3.0	2.9	2.9	2.7
Earnings and Profitability														
Return on assets	1.2	1.4	1.5	1.5	1.9	2.6	2.6	2.6	2.5	3.1	3.2	3.1	2.8	3.1
Return on equity	7.8	10.0	10.5	10.9	13.9	19.7	19.3	19.3	18.1	22.2	22.7	22.4	20.3	21.8
Liquidity														
Customer deposits to total (noninterbank) loans	119.5	113.1	110.8	114.4	120.5	123.2	123.6	127.0	132.1	134.2	133.1	131.6	136.3	131.2
Foreign-currency-denominated loans to total loans	63.2	64.5	65.7	66.6	65.5	62.6	61.4	60.5	59.7	58.5	59.5	57.8	57.2	56.9
Average monthly liquidity ratio	2.1	2.0	1.9	2.0	2.2	2.4	2.4	2.5	2.5	2.7	2.6	2.4	2.5	2.5
Average monthly narrow liquidity ratio	1.7	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Sensitivity to Market Risk														
Net open position in foreign exchange to regulatory capital	0.4	1.5	1.7	0.4	1.5	1.3	0.3	0.5	0.8	1.0	0.2	1.7	1.5	1.3
Foreign-currency-denominated liabilities to total liabilities	61.4	62.7	64.5	63.7	62.1	61.3	60.4	59.5	57.9	58.5	57.5	57.5	55.9	56.5
Classified off-balance sheet items to classified balance sheet assets	39.1	37.9	37.7	37.7	39.6	39.8	40.9	43.2	45.2	45.8	45.8	48.2	48.6	48.6

Source: NBS.

Table 11. Indicators of Monitoring Progress Towards the SDGs

Goals	2010	2015	2020	Latest available
Poverty				
Population living below the international poverty line (% of population)	…	6.6	1.6	1.2 1/
Poverty headcount ratio at national poverty line (% of population)	…	25.9	21.2	20.0 1/
Coverage of social safety net programs (% of population)	11.3	13.4	…	…
Government expenditure on education (% of GDP)	3.9	…	…	3.2 2/
Prevalence of undernourishment (% of population)	2.5	2.5	2.5	2.5 2/
Income Inequality				
Gini index	…	40.5	35.0	33.1 1/
Health and Education				
Maternal mortality ratio (per 100,000 live births)	13.0	9.0	…	…
Mortality rate under-five (per 1,000 live births)	7.6	6.3	5.5	5.1 2/
People using safely managed drinking water services (% of population)	74.7	74.9	75.0	75.1 2/
People using safely managed sanitation services (% of population)	28.3	27.1	25.8	25.4 2/
Mortality from CVD, cancer, diabetes or CRD between exact ages 30 and 70 (%)	24.6	22.2	…	…
Gender parity index for primary and secondary enrollment (ratio)	1.0	1.0	1.0	1.0 1/
Inclusion				
Proportion of seats held by women in national parliaments (%)	21.6	34.0	38.8	34.8 3/
Firms with female in managerial positions (% of firms)	34.6	30.9	32.6	37.1 3/
Access to electricity (% of population)	99.7	99.9	100.0	100.0 2/
Unemployment (% of total labor force)	19.2	17.7	9.0	8.3 3/
Share of youth not in education, employment or training, total (% of youth population)	21.2	20.4	16.2	12.4 3/
Climate				
Total greenhouse gas emissions per year (million tons of CO2 equivalent)	63.8	62.5	63.6	62.6 2/
Carbon dioxide emissions per unit of GDP (kg of CO2 per constant 2017 US$)	0.4	0.4	0.4	…
Global Partnership				
Net official development assistance and official aid received (millions of constant 2021 US$)	701.4	360.7	514.6	558.0 2/

Sources: SORS and World Bank.

1/ in 2021; 2/ in 2022; 3/ in 2023.

Table 12. Schedule of Reviews Under the Policy Coordination Instrument, 2025–27 1/

Program Review	Review Date
Board Discussion of the PCI Request	
First Review	April 1, 2025
Second Review	October 1, 2025
Third Review	April 1, 2026
Fourth Review	October 1, 2026
Fifth Review	April 1, 2027
Sixth Review	October 1, 2027

1/ At the approval of the PCI

Table 13. Quantitative Program Targets 1/

	2024			2025				2026
	End-Dec.			End-Jun.		End-Dec.		End-Jun.
	CR 24/337 QT	Actual	Status	CR 24/337 QT	Adj. Prog.	CR 24/337 QT	Adj. Prog.	QT
I. Quantitative Targets (QTs, semi-annually)								
1 Ceiling on the general government fiscal deficit (in billions of dinars) 2/ 3/	263.0	191.9	met	161.9	161.9	314.0	314.0	174.7
2 Ceiling on current primary expenditure of the Serbian Republican Budget including net lending, excluding capital expenditure and interest payments (in billions of dinars) 2/	1,643.0	1,606.3	met	923.1	923.1	1,827.4	1,827.4	999.0
3 Floor on Net International Reserves (in billions of euros) 4/	11.6	21.8	met	11.9	11.9	12.8	12.8	14.0
4 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 5/	1.0	24.0	not met	1.0	25.0	1.0	20.0	15.0
II. Continuous Targets								
5 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros) 6/	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0

1/ As defined in the Program Statement, and the Technical Memorandum of Understanding.
2/ Cumulative since the beginning of a calendar year.
3/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees. A surplus is reported with a negative sign.
4/ Calculated consistent with Gross International Reserves at 100 percent of the ARA metric. Actual refers to a preliminary estimate.
5/ Net cumulative change since the start of the calendar year, measured as the change in the stock at the test date and at the start of that year.
6/ Small unsettled government obligations with Libya on a 1981 loan remain under dispute.

Table 14. Reform Targets

Description	Target Date	Status	Objectives
Fiscal			
1. Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law, and there will be no ad hoc pension increases and cash payments to pensioners.	Continuous	Met	Achieving fiscal objectives and supporting the credibility of the fiscal rule.
2. Conduct and publish a comprehensive actuarial analysis of the pension system.	End-March 2026		Ensuring long-term fiscal sustainability and supporting the credibility of the fiscal rule.
3. Publish a report on the structure of wages and employment in general government institutions covered by the Iskra registry.	End-March 2025	Not met, implemented with a delay.	Strengthening government HR policies and the effectiveness of the government and supporting the credibility of the fiscal rule.
4. Adoption of the Serbian Tax Administration (STA) Human Resources Plan by the government to ensure adequate staffing levels and skills composition over 2025–28, as assessed by the STA Steering Committee to be consistent with effective operation of STA.	End-October 2025	Rescheduling proposed.	Strengthening the tax administration and achieving fiscal objectives.
5. Annual publication of data on the value of procurement under Special Laws.	End-March 2026	New	Strengthening the transparency of public procurement.
6. The Ministry of Finance publishes a report on tax expenditure.	End-July 2026	New	Strengthening revenue mobilization and achieving fiscal objectives.
Other			
7. Approval by the Government of the updated Energy Investment Plan that outlines key investment projects over 2025–27, their measures of return, and sources of financing.	End-March 2025	Not met, implemented with a delay.	Address the medium- to long-term viability of energy SOEs and associated fiscal risks, enhance security of electricity production, and formalize a key aspect of the climate strategy.
8. A decision to increase the regulated electricity tariff by at least 7 percent as of October 2025.	End-September 2025	New	Strengthening energy sector sustainability and control fiscal risks.

Annex I. Response to Past Policy Advice

2023 Article IV Recommendation	Status
Fiscal Policy	
Keep fiscal policy tight to help reduce debt and help monetary policy to deal with inflation.	Fiscal deficit target met and public debt-to-GDP ratio declined in 2024.
Implement measures to offset expenditure hikes, keep ad hoc spending to a minimum, and avoid deviation from the fiscal rule.	No deviation from the fiscal rule but some ad hoc spending such as for agriculture and healthcare.
Continue strong public debt management that increases the share of dinar denominated debt and use more long maturity borrowing to limit gross financing needs.	Average maturity increased, with some increase in the share of dinar denominated debt.
Make good progress in a range of fiscal structural reforms: Increase the coverage of fiscal account to include all materially relevant general government bodies; Closely manage public investment projects to ensure value for money and to contain fiscal risks; Strengthen fiscal risk management, including the capacity of the Fiscal Risks Monitoring department; Complete phased implementation of the public wage and employment register; strengthen the system for targeting and enforcement in social benefit administration; advance tax administration reforms including e-fiscalization for VAT, procure new IT system, and improve and change management and HR strategy development.	Revenue administration reforms progressed but the staffing hiring challenge remain; public investment management improved with some gaps; fiscal data coverage reform is in progress.
Monetary and Exchange Rate Policies	
Continue to tighten monetary policy to lower inflation and strengthen dinarization.	Policy tightened to lower inflation with stable dinarization.
Maintain the de-facto stabilized exchange rate regime remains appropriate and consider greater flexibility over time.	Maintained the stabilized exchange rate regime with no significant change in flexibility.
Financial Sector Policies	
Continued close monitoring of risks and conduct a gap analysis on the legal framework for banks.	Implemented.
Phase out regulatory relaxation measures to deal with adverse shocks.	Implemented.
The Deposit Insurance Agency makes good progress in selling its legacy assets.	Implementation in progress.
Structural Policies	
Increase energy tariff appropriately to help limit the energy subsidies to SOEs and reduce arrears.	Good progress in gas and electricity tariffs to strengthen the financial position of energy SOEs, but underlying problems remain.
Undertake major energy investments in the electricity sector and enhance energy security.	Implemented some investment but with security gaps remain.
Reform energy sector SOEs.	Action plan approved with implementation in progress.

2023 Article IV Recommendation	Status
Implement the new SOE governance law.	The SOE law was passed, modelled on OECD principles, and implementation started.
Further improve the investment climate for businesses.	Implementation in progress.
Prepare for the EU Carbon Border Adjustment Mechanism.	Preparation started.
Further reduce size of the informal economy.	Implemented.
Further strengthening anti-corruption framework.	Progress was made in the AML/CFT framework and in anti-corruption initiatives, but significant gaps remain on beneficiary ownership regulations.

Annex II. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Global Conjunctural Risks			
Trade policy uncertainty or shocks.	**High** Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**Medium** Rising protectionism and sanctions would adversely affect Serbia's open economy. The EU is a key export market while Russia plays an important role in the energy sector. While the effects of U.S. tariffs are expected to be manageable, shocks to EU market access and the provision of energy inputs from Russia could have sizable impacts.	• Tighten monetary and fiscal policy in the event of reaccelerating inflation and/or a large-scale drawdown of international reserves with rising depreciation pressures. • Accelerate reforms to secure further progress with EU accession negotiations. • Intensify efforts to diversify export markets and energy supplies. • Improve the business environment to maintain Serbia's status as an attractive FDI destination and to support domestic firms within the framework of a market and rules-based economy.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Sovereign debt distress.	**High** Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	**Medium** Access to the Eurobond market for the government may be curtailed. But near-term risks from capital outflows by non-residents appear manageable due to rather limited integration into global financial markets and capital inflows being dominated by FDI.	• Maintain stable financing relations with bilateral creditors. • Maintain stability-oriented macroeconomic policies, advance structural reforms, and ensure a predictable regulatory regime to retain confidence in the Serbian economy. • Continue the lengthening of government debt maturities.
Tighter financial conditions and systemic instability.	**Medium** Higher-for-longer interest rates and term premia amid looser financial regulation, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium** Tighter global financial conditions and lower capital inflows may complicate the financing of the current account deficit and weaken external buffers. The financing costs for the government in Eurobond markets could rise. Rising risk aversion among parent banks may affect the operations of their Serbian subsidiaries, potentially hampering the provision of credit to the economy.	• Maintain stability-oriented macroeconomic policies and ensure a predictable regulatory regime to retain confidence in the Serbian economy. • Tighten monetary and fiscal policy in the event of a large-scale drawdown of international reserves and emerging depreciation pressures. • Further improve Serbia's strong regulatory and supervisory frameworks for the banking sector to close any remaining gaps. • Intensify collaboration with home supervisors to improve the monitoring and

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
			assessment of risks in banks with Serbian subsidiaries. • Accelerate the development of domestic capital markets.
Regional conflicts.	**Medium** Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High** Spillovers from regional conflicts could affect Serbia's open economy by impacting trade flows, including fossil fuel supplies, domestic food and energy prices, and foreign investor confidence. In the event of adverse developments, demand for fiscal support, such as from households or the state-owned energy sector, may rise and weaken the fiscal position.	• Calibrate monetary policy to cushion the economic impact of large-scale demand or supply shocks and prevent the emergence of second-round effects. • Intensify efforts to diversify energy supplies and, if needed, follow a national rationing plan to allocate available supplies. • Allow automatic fiscal stabilizers to operate. • Target support to vulnerable households. • Adjust energy tariffs in accordance with changes in costs.
Global Structural Risks			
Deepening geoeconomic fragmentation.	**High** Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green	**High** Rising protectionism may adversely affect Serbia's open economy. The EU is a key export market. A downgrade of preferential economic access to EU markets as a candidate country could have negative effects on	• Take measures to ensure globally diversified trade and financing flows. • Maintaining stability-oriented macroeconomic policies and improve the business environment to maintain Serbia's status as an attractive

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
	transition, and lower trade and potential growth.	trade and foreign direct investment flows. **Medium (Positive)** Serbia may benefit from near-shoring of business activities but positive effects are likely to be short-lived and may disappear should geopolitical blocs evolve.	FDI destination and to support domestic firms within the framework of a market and rules-based economy.
Climate change.	**Medium** Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium** Serbia is exposed to droughts (adversely impacting food supply and electricity generation), landslides, waterlogging (adversely affecting coal production and electricity generation), and earthquakes. Domestic coal and hydroelectric capacity provide some independence from global energy market developments while ongoing reforms have strengthened energy sector resilience.	• Strengthen disaster preparedness by building further capacity for fiscal risk management and incorporating contingency reserves in the budget. • Implement Serbia's Integrated National Energy and Climate Plan and transparently communicate any changes at an early stage.
		Domestic Risks	
Social discontent.	**Medium** Protest continue or intensify, despite the formation of a new government, resulting in ongoing political uncertainty and a further erosion of consumer, business, and foreign investor confidence.	**High** Prolonged or escalating unrest may further weaken economic activity and adversely affect foreign direct investment inflows and portfolio investment into government securities. Additional fiscal spending pressures may	• Pursue equitable and inclusive macroeconomic policies. • Strengthen policy accountability by improving public consultation and transparency.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
		materialize to restore social peace and maintain political stability.	• Cushion potentially adverse effects of necessary structural change on vulnerable groups with targeted but temporary support to facilitate the transition.
Domestic policy errors or loss of fiscal discipline.	**Medium** Looser fiscal policy on the back of intensifying spending pressures, and escalating costs and/ or lower than expected benefits from ambitious public investment plans. **Medium** Structural reform delays. Selective market interventions that impede contractual freedoms, create planning uncertainty, and heighten macro-financial risks.	**High** Loss of fiscal discipline could jeopardize the investment grade rating, increase the financing costs for the government, raise imports, weigh on international reserves, and create inflationary pressures. Higher inflation and current account deficits could prompt the central bank to tighten monetary policy, resulting in a less desirable policy mix. **High** Structural reform delays and market interventions could weaken growth prospects and the attractiveness of Serbia as a destination for foreign direct investment.	• Take prompt corrective action by prioritizing fiscal spending, adhere to fiscal rules and deficit objectives, and accelerate improvements to medium-term budgeting. • Strengthen public investment management by evaluating investment project performance to help with the phasing and prioritization of investment plans. • Re-prioritize structural reforms with well-defined action plans and front-loaded corrective action. • Refrain from market-distorting policies and phase-out existing measures.
Energy sector reform delays.	**Medium** Political pressure and governance challenges in energy SOEs delay measures to enhance efficiency, diversify energy supplies, and advance the green transition.	**High** Deteriorating finances of state-owned electricity, gas, and transmission providers may heighten fiscal risks, weaken energy security, harm international	• Take corrective action in the context of ongoing energy sector reforms. • Further adjust energy tariffs to ensure full cost recovery and enable sufficient investment spending for

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
		competitiveness, and delay the green transition.	energy infrastructure upgrades. • Further strengthen the governance of key energy SOEs, also by insulating management from political interference. • Implement, and as needed update, a prioritized energy sector strategy with well-defined roles for the government, SOEs and the private sector.
NIS sanctions.	**Medium** Disruption of domestic fuel supplies if sanctions on Serbia's only oil refiner NIS take effect.	**High** Fuel shortages would affect a wide range of industries and public services with adverse repercussions on economic growth, inflation, and foreign investor confidence, likely requiring far-reaching contingency and support measures with the potential to weaken fiscal and external buffers.	• Renewed monetary tightening in the event of re-intensifying inflationary pressures and second round effects. • Take measures to contain fuel consumption and allocate fuel supplies to priority users in accordance with Serbia's energy crisis plan. • Allow automatic stabilizers to work. • Target support to vulnerable households.

Annex III. External Sector Assessment

Overall Assessment: *Serbia's external position was broadly in line with the level implied by fundamentals and desirable policies in 2024. Lower net exports of services, a pickup in dividend repatriations, and a slowdown in remittance inflows led to a worsening of the current account deficit in 2024, moving it close to the norm. Net FDI remained relatively strong and continued to fully finance the current account. The EBA-Lite current account model points to a lower gap (0.6 percent) than in 2023 (2.6 percent). Risks to external stability appear contained, given sizable international reserve buffers and relatively long external debt maturities.*

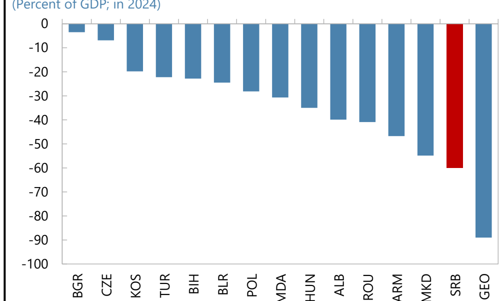
Potential Policy Responses: *Macroeconomic and structural policies should continue to foster external stability. Fiscal prudence should continue. Structural reforms to improve the business environment and infrastructure quality, and boost productivity and economic diversification will be critical for external competitiveness. These reforms should also create the condition for a gradual move to more exchange rate flexibility, an important driver of external stability.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) improved to -60 percent of GDP in 2024 from its peak of -93 percent of GDP in 2020, mainly due to the GDP denominator effect, with nominal dollar GDP increasing rapidly since 2020. However, Serbia's NIIP remains more negative than its regional peers, mainly due to its large stock of FDI liabilities. The improvement in the NIIP in recent years is mostly because of a 34-percentage point of GDP decline in gross liabilities and a 5-percentage point increase in reserve assets. Debt liabilities declined by 11 percent since 2020, to 50 percent of GDP at end-2024, and are mostly composed of long-term instruments.

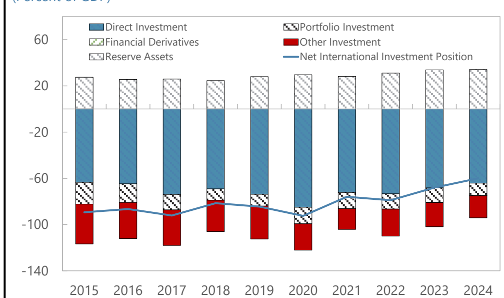
Assessment. Under the baseline scenario, external debt is expected to decline in the medium term, mostly on account of automatic debt dynamics. Reserves assets are expected to continue increasing as FDI and other investment flows increase in Euro terms. As a result, the NIIP is expected to continue improving.

Net International Investment Position
(Percent of GDP; in 2024)



Sources: Haver Analytics, IMF WEO database, and IMF staff calculations.

Serbia: Net International Investment Position
(Percent of GDP)



Sources: Haver Analytics, IMF WEO database, and IMF staff calculations.

2024 (% GDP)	NIIP: -60.0	Gross Assets: 60.8	Debt Assets: 20.4	Gross Liab.: 120.8	Debt Liab.: 50.5

Current Account

Background. Following a narrowing of the current account deficit in 2023 amid better terms of trade, strengthening net exports, and strong remittances, Serbia's current account (CA) widened in 2024. The widening CA deficit was driven by a decline in the services surplus on strong tourism import, a pickup in dividend repatriations, and a slowdown in remittance inflows. Net FDI inflows as a percent of GDP stabilized at their 2023 level and continued to fully finance the CA deficit in 2024. Serbia's CA deficit is expected to increase markedly in 2025–26 before gradually declining to 5 percent of GDP in the medium term.

Assessment. The CA model suggests that the external position was broadly in line with the level implied by fundamentals and desired policies. An adjustor is included to account for exceptional imports related to the ramp up of EXPO-2027-related investments.[1] The estimated CA gap decreased to 0.6 percent of GDP in

2024, 2.0 percentage points lower than in 2023. The estimated CA gap consists of the CA norm (-4.3 percent of GDP) and the cyclically-adjusted CA (-3.7 percent of GDP). The authorities' policies in 2024 (accelerated reserve accumulation, tighter fiscal stance, and lower health expenditure gaps relative to the rest of the world) contributed to narrowing the gap.

Serbia: Model Estimates for 2024 (In Percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-4.7**	
Cyclical contributions (from model) (-)	-0.4	
Additional temporary/statistical factors (-)	-0.9	
Natural disasters and conflicts (-)	0.3	
Adjusted CA	**-3.7**	
CA Norm (from model) 2/	**-4.3**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-4.3**	
CA Gap	**0.6**	**-5.0**
o/w Relative policy gap	3.6	
Elasticity	-0.4	
REER Gap (in percent)	**-1.6**	**13.2**

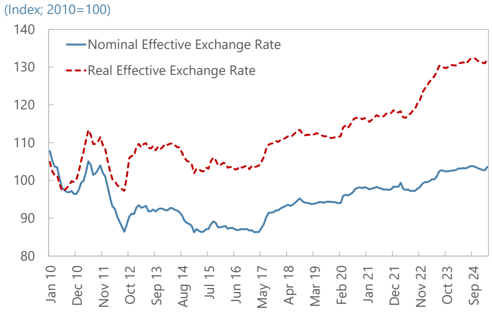
1/ Based on the EBA-lite 3.0 methodology.
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The Serbian dinar appreciated by 2.4 percent in real effective terms in 2024, largely on account of higher inflation than in trading partners. The dinar remained stable against the euro in 2024 as the NBS intervened on the FX market to counter appreciation pressures. Against the U.S. dollar, the dinar depreciated by 6.2 percent.

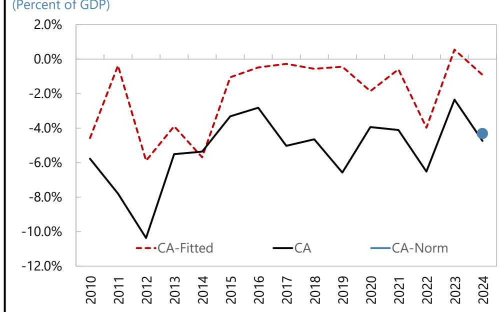
Assessment. Despite FX interventions to counter appreciation pressures in 2024, the REER model suggests a real exchange rate overvaluation of 13.2 percent. However, given large REER model estimation uncertainties, the bottom-line real exchange rate assessment relies on the CA model instead of on the REER model. Based on the estimated CA gap and an elasticity of -0.4, it suggests an undervaluation of 1.6 percent. Given a still-high level of dinarization, the de facto stabilized exchange rate regime has served well as an anchor for the private sector. But a gradual return to a more flexible exchange rate over the medium term would be more consistent with the inflation targeting regime and would provide an important shock absorber. This move should be supported by ongoing policy reforms, including promoting the dinarization of the economy.

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



Source: IMF INS database.

Serbia: Current Account (%GDP): Actual, Fitted, and Norm
(Percent of GDP)



Source: IMF staff calculations.

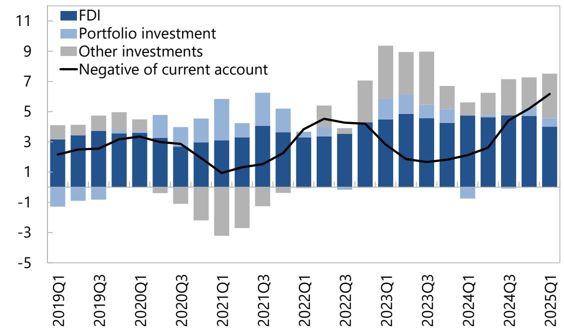
Capital and Financial Accounts: Flows and Policy Measures

Background. Net FDI has driven Serbia's financial account flows, averaging 6.1 percent of GDP since 2020. Smaller portfolio and other financial flows are primarily the result of government euro bond transactions and trade credit. In 2024, net FDI inflows stood at 5.6 percent of GDP.

Assessment. Over the medium term, net FDI inflows are expected to fall as a percent of GDP. Reforms to improve productivity, governance and the business environment should remain a priority, as should continuing to address remaining infrastructure gaps.

Serbia: Financial Account Composition

(Billion of Euros; 4Q moving sum)



Sources: Haver Analytics and IMF staff calculations.

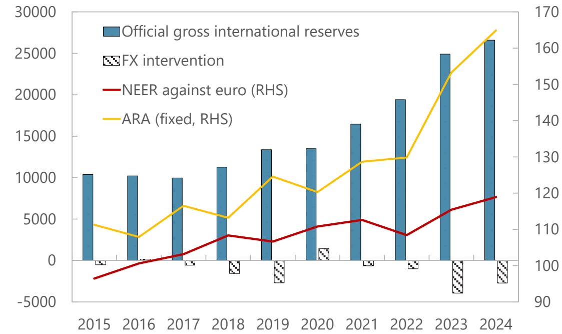
FX Intervention and Reserves Level

Background. Gross international reserves have increased markedly, from about 106 percent of the ARA metric in 2017 to 165 percent in 2024. Reserves mainly comprise foreign exchange holdings in the form of liquid investment grade securities and foreign exchange deposits, although gold holdings have also increased in recent years.

Assessment. Reserve levels are assessed as adequate over the projection horizon. Even at Serbia's high level of euroization, reserves at over 60 percent of M2 provide ample buffers. Under the baseline, international reserves are projected to increase in euro terms over the medium-term. The level of reserves in terms of the ARA metric is, however, expected to decline and settle at around 135–145 percent.

Serbia: FX Intervention and Reserves

(In million euro, positive means FX sale, LHS; 2010=100, RHS)



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

[1] The adjustor is approximated using an estimate of EXPO-related spending in 2024, and the elasticity of public investment to public imports.

Annex IV. External Debt Sustainability Assessment

Serbia's external debt is assessed to be sustainable over the medium term. Despite a current account deterioration in 2024, external debt declined and is projected to remain on a downward path. Stress tests suggest that external debt dynamics are sensitive to real exchange rate shocks, given the share of external debt denominated in foreign currencies. It is important, therefore, to continue with prudent macroeconomic policies, maintaining adequate fiscal buffers, and structural reforms to support external resilience.

1. **External debt declined in 2024 and is projected to continue declining over the medium term.** Serbia's current account (CA) deficit in 2024 was fully covered by FDI inflows. So, external debt dynamics were mostly driven by external government borrowing (euro bond issuances), and, to a lesser extent, private corporate sector borrowing. The external debt ratio is projected to increase by 2.1 ppts of GDP in 2025, mostly reflecting expected increase in external public and private borrowing, before gradually declining. Gross financing needs are projected to increase to 13.4 percent of GDP in 2026 and decline to about 8 percent of GDP by 2030.

Annex IV. Table 1. Serbia: External Debt Sustainability Framework, 2020–30

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2020	2021	2022	2023	2024			2025	2026	2027	2028	2029	2030	Debt-stabilizing non-interest current account 6/
Baseline: External debt	72.5	65.6	69.4	63.5	59.6			**61.7**	**59.2**	**54.8**	**52.1**	**49.7**	**48.0**	**-6.6**
Change in external debt	9.1	-6.9	3.7	-5.9	-3.9			2.1	-2.4	-4.4	-2.6	-2.5	-1.7	
Identified external debt-creating flows (4+8+9)	-4.3	-13.4	-1.2	-15.6	-6.4			-2.8	-3.8	-4.4	-2.4	-2.6	-2.6	
Current account deficit, excluding interest payments	2.6	2.8	5.3	0.5	2.5			3.3	3.8	3.0	4.1	4.1	4.1	
Deficit in balance of goods and services	8.4	8.1	11.1	4.7	4.9			6.4	6.6	5.0	5.7	5.5	5.2	
Exports	45.4	51.1	59.8	54.5	53.8			53.1	53.1	53.6	52.5	52.2	52.0	
Imports	53.8	59.2	70.9	59.2	58.7			59.6	59.7	58.6	58.3	57.7	57.2	
Net non-debt creating capital inflows (negative)	-6.0	-6.5	-6.8	-5.6	-5.6			-4.4	-4.8	-4.4	-4.3	-4.3	-4.3	
Automatic debt dynamics 1/	-0.9	-9.6	0.3	-10.6	-3.3			-1.6	-2.8	-3.0	-2.1	-2.4	-2.5	
Contribution from nominal interest rate	1.4	1.3	1.3	1.8	2.3			2.2	1.8	1.5	1.3	1.1	0.9	
Contribution from real GDP growth	0.6	-4.9	-1.7	-2.2	-2.2			-1.7	-2.3	-2.5	-1.8	-1.9	-1.9	
Contribution from price and exchange rate changes 2/	-2.9	-6.1	0.8	-10.2	-3.3			-2.1	-2.3	-2.0	-1.6	-1.5	-1.5	
Residual, incl. change in gross foreign assets (2-3) 3/	13.5	6.5	5.0	9.7	2.4			4.9	1.4	0.0	-0.3	0.2	0.9	
External debt-to-exports ratio (in percent)	159.6	128.4	115.9	116.6	110.7			116.0	111.6	102.2	99.3	95.1	92.4	
Gross external financing need (in billions of US dollars) 4/	7.3	8.1	10.3	7.1	9.6			8.9	13.7	12.8	12.8	12.8	11.1	
in percent of GDP	13.1	12.4	15.4	8.7	10.8	10-Year	10-Year	9.4	13.4	11.5	10.8	10.1	8.1	
Scenario with key variables at their historical averages 5/								**61.7**	**57.4**	**51.9**	**46.3**	**41.4**	**37.4**	**-7.4**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-1.0	7.9	2.6	3.8	3.8	3.3	2.3	3.0	4.0	4.5	3.5	4.0	4.0	
GDP deflator in US dollars (change in percent)	4.7	9.1	-1.1	17.3	5.5	3.1	9.2	3.7	4.0	3.5	2.9	3.1	3.1	
Nominal external interest rate (in percent)	2.2	2.2	1.9	3.2	3.9	2.8	0.6	3.9	3.2	2.7	2.5	2.2	1.9	
Growth of exports (US dollar terms, in percent)	-2.9	32.5	18.8	10.8	8.2	10.1	11.4	5.6	7.9	9.2	4.5	6.5	6.7	
Growth of imports (US dollar terms, in percent)	-4.0	29.7	21.6	1.6	8.6	8.8	12.9	8.5	8.4	6.1	6.0	6.2	6.2	
Current account balance, excluding interest payments	-2.6	-2.8	-5.3	-0.5	-2.5	-2.6	1.7	-3.3	-3.8	-3.0	-4.1	-4.1	-4.1	
Net non-debt creating capital inflows	6.0	6.5	6.8	5.6	5.6	6.1	0.9	4.4	4.8	4.4	4.3	4.3	4.3	

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.

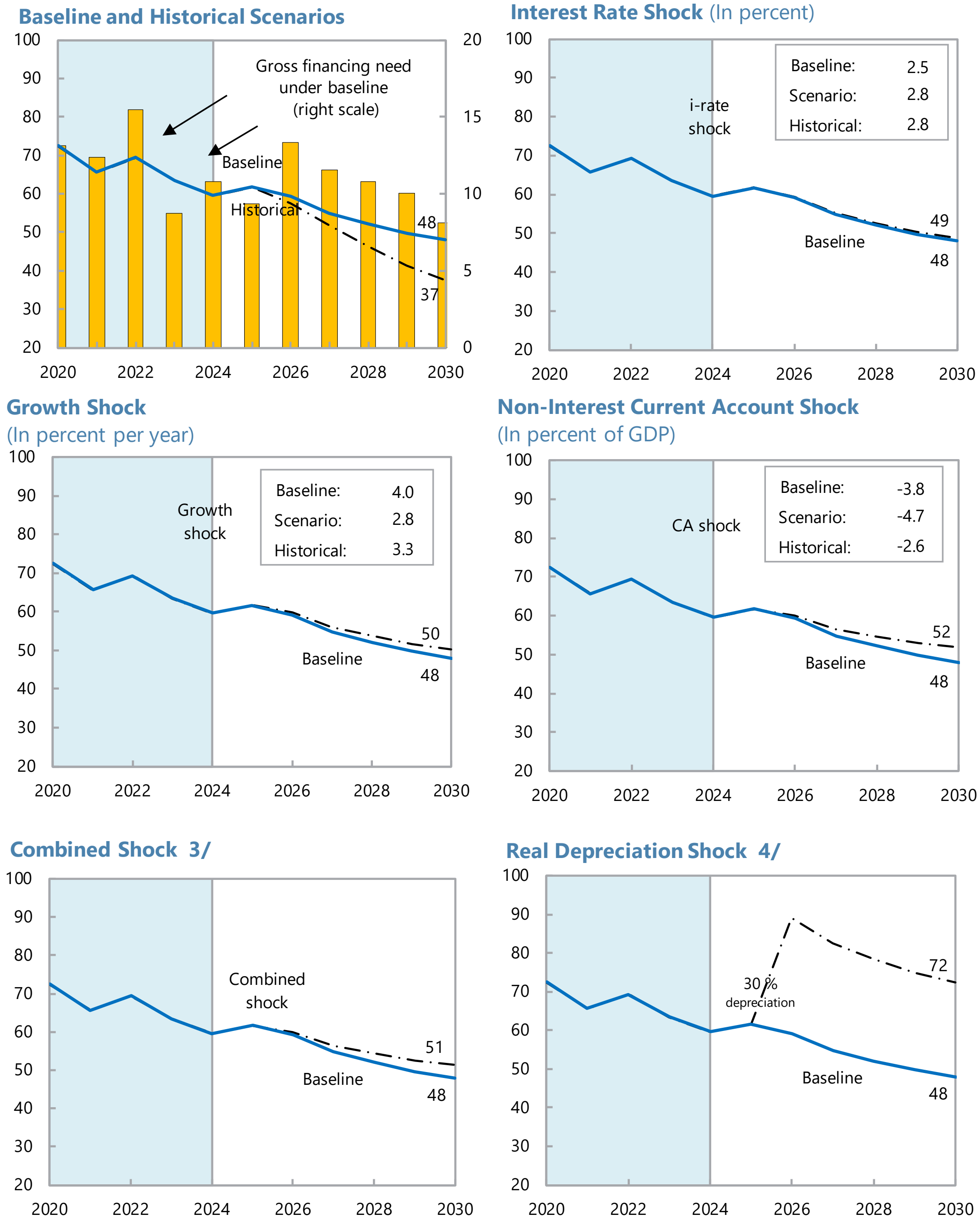
2. **Serbia's external debt composition is mostly long-term and owed by the public sector, limiting risks.** As of end-2024, about 88 percent of external debt on a residual maturity basis was long term, with 53 percent issued by the public sector and 47 percent by the private sector. Short-term external debt is manageable at about 7.4 percent of GDP, but more than 77 percent is private sector exposure. 35 percent of Serbia's external debt is held by IFIs and official bilateral creditors

and almost 65 percent by private creditors, which includes a substantial portion of euro bonds. Local currency debt held by nonresidents stands at less than 1.5 percent of GDP.

3. Projected economic growth, a narrowing current account deficit, and automatic debt dynamics are key factors driving the expected decline in Serbia's external-debt-to-GDP ratio. Real GDP growth is expected to decrease from 3.8 percent in 2024 to 3.0 percent in 2025, but rebound afterwards and peak at 4.5 percent in 2027 before returning to its potential of around 4 percent by the end of the projection horizon. The current account deficit is expected to peak at 5.6 percent of GDP in 2026 and decline to about 5 percent of GDP in 2030 as the goods balance improves post 2027 EXPO. Net FDI inflows as a percentage of GDP are projected to decline gradually from elevated levels, but should continue to support the decline in external debt.

4. The external debt path is sensitive to potential real exchange rate depreciation shocks. As shown in the shock scenarios (Figure 1), a 30 percent real depreciation of the dinar in 2025 would cause the external debt-to-GDP ratio to surge to almost 90 percent of GDP in 2026, before falling to 72 percent by 2030.

Annex IV. 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 2025.

Annex V. Sovereign Risk and Debt Sustainability Analysis

Annex V. Figure 1. Serbia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting sizable fiscal and external buffers. But rising current spending pressures and a bold public investment agenda are hampering more ambitious debt reduction. Financing is manageable, also reflecting a robust creditor base. Rising pension liabilities will require pension reform to underpin longer-term fiscal sustainability.
Near term 1/	...	...	
Medium term	Low	Moderate	Medium term risks for public debt sustainability are assessed to be moderate, despite the mechanical signal yielding a low risk rating at the margin. Ambitious public investment plans and rising current spending pressures are widening the deficit. Still, public debt continues to decline on robust economic growth and some drawdown of ample government deposits. Fiscal financing risks appear manageable, helped by comfortable average debt maturities, a large share of official financing, liquid domestic banks, and effective debt management.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Moderate	Long term risks are moderate. The pension system is helped by rising female retirement ages, retirement of smaller age cohorts, stagnating life expectancy, and scope for further employment gains. But absent mitigating measures, a shrinking and aging population will put pressures on public finances in the long term.
Sustainability assessment 2/		Sustainable	Debt is sustainable. Debt is projected to continue to decline and GFNs appear manageable. But disciplined fiscal expenditure prioritization is key, amid rising current spending pressures and large public investment outlays. Fiscal-structural and SOE reforms need to be sustained to further lower fiscal risks.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Serbia is at a moderate overall risk of sovereign stress and debt is sustainable. Fiscal and external buffers are sizeable, but rising current spending pressures and an ambitious public investment agenda are widening the deficit and slow the public debt decline. Maintaining confidence will require disciplined fiscal expenditure prioritization, sustained progress with fiscal-structural and SOE reforms to ensure further fiscal risk reduction, and continued prudent public debt management. In the long term, debt sustainability risks from an ageing population will need mitigating measures.

Source: Fund staff.

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

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

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

Annex V. Figure 2. Serbia: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

Sector	#	Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	except Serbia's two road funds
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	No	not applicable
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

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

Reporting on Intra-Government Debt Holdings

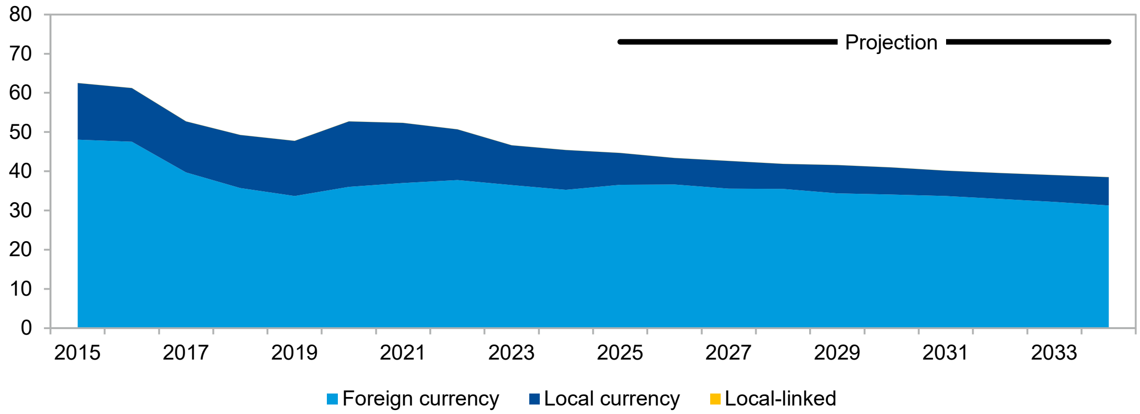
Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

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

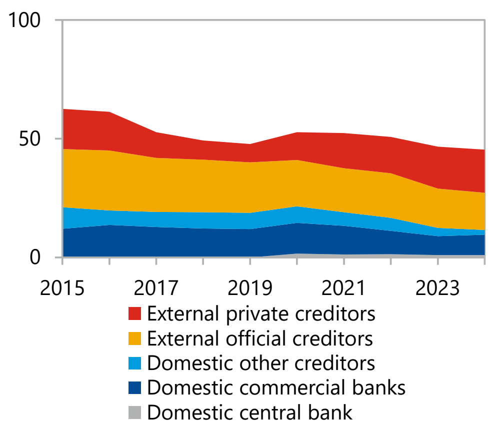
Commentary: Serbia's debt coverage and disclosure is consistent with standard recommendations.

Annex V. Figure 3. Serbia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)

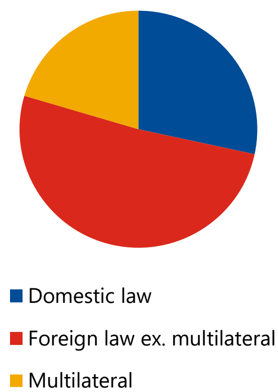


Public Debt by Holder (Percent of GDP)



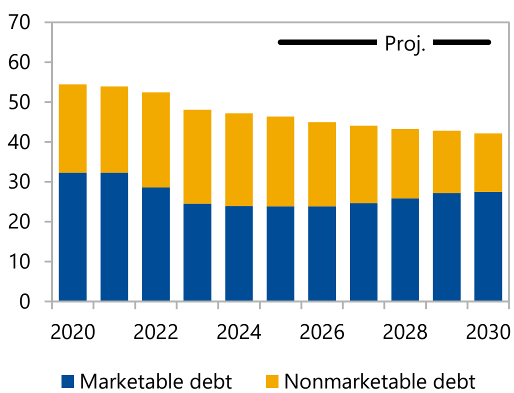
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (Percent)



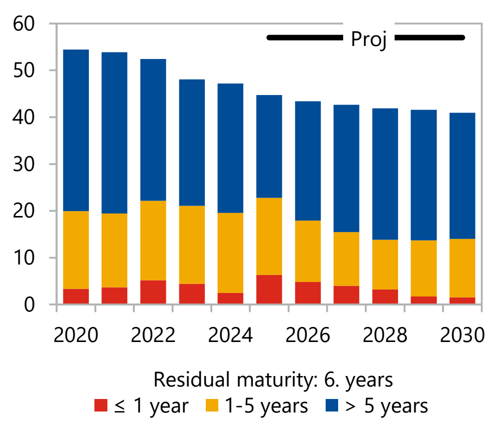
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

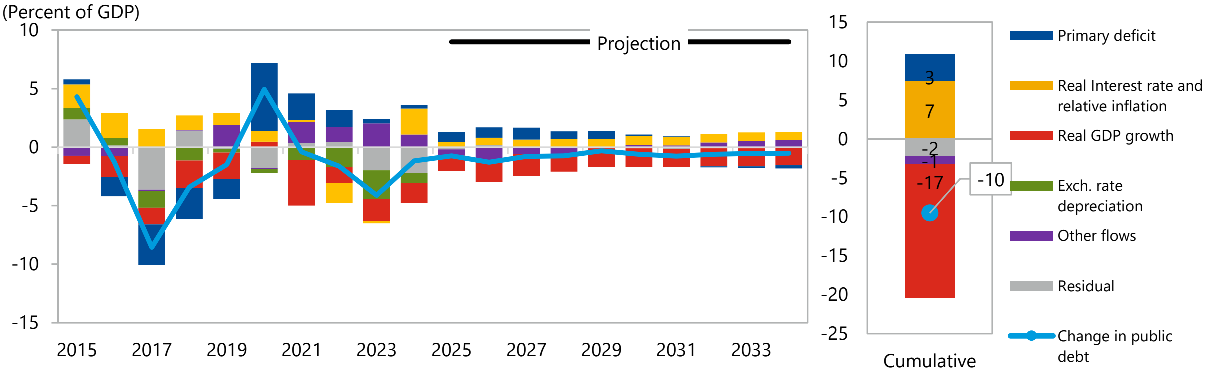
Commentary: Public debt is projected to remain on a declining path with increasing shares of marketable and long-term instruments. Around half of public debt is governed by foreign law and debt holdings by external private creditors have increased in recent years.

Annex V. Figure 4. Serbia: Baseline Scenario

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	45.4	44.7	43.4	42.6	41.9	41.6	41.0	40.2	39.6	39.0	38.5
Change in public debt	-1.2	-0.7	-1.3	-0.8	-0.7	-0.3	-0.6	-0.8	-0.6	-0.5	-0.5
Contribution of identified flows	1.1	-0.5	-1.5	-0.7	-0.8	-0.3	-0.5	-0.6	-0.5	-0.4	-0.5
Primary deficit	0.3	0.8	0.9	1.0	0.6	0.7	0.1	0.1	-0.1	-0.2	-0.3
Noninterest revenues	40.9	40.9	40.3	40.1	40.0	40.0	40.0	40.0	40.0	40.0	40.1
Noninterest expenditures	41.2	41.7	41.2	41.1	40.6	40.7	40.1	40.1	39.9	39.9	39.8
Automatic debt dynamics	-0.3	-0.9	-1.1	-1.2	-0.8	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8
Real interest rate and relative inflation	2.2	0.4	0.6	0.6	0.7	0.7	0.8	0.7	0.7	0.7	0.7
Real interest rate	1.5	-0.1	0.2	0.2	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Relative inflation	0.8	0.6	0.4	0.5	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Real growth rate	-1.7	-1.3	-1.7	-1.9	-1.5	-1.6	-1.6	-1.6	-1.5	-1.5	-1.5
Real exchange rate	-0.8	...	...	...	...	...	...	...	...	...	...
Other identified flows	1.1	-0.5	-1.3	-0.5	-0.6	0.0	0.2	0.2	0.4	0.5	0.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	1.1	-0.5	-1.3	-0.5	-0.6	0.0	0.2	0.2	0.4	0.5	0.6
Contribution of residual	-2.2	-0.2	0.2	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Gross financing needs	7.5	6.3	8.4	7.3	6.8	6.3	4.5	4.8	4.9	4.7	4.8
of which: debt service	7.3	5.5	7.5	6.3	6.2	5.6	4.3	4.8	4.9	4.8	5.0
Local currency	1.7	2.5	1.9	0.4	1.5	0.9	1.1	1.6	1.6	1.6	1.9
Foreign currency	3.8	2.9	5.6	5.9	4.7	4.7	3.3	3.2	3.3	3.2	3.1
Memo:											
Real GDP growth (percent)	3.8	3.0	4.0	4.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0
Inflation (GDP deflator; percent)	5.3	4.1	3.3	3.5	3.0	3.0	3.0	2.8	2.8	2.8	2.8
Nominal GDP growth (percent)	9.3	7.3	7.5	8.2	6.6	7.1	7.2	6.9	6.9	6.9	6.9
Effective interest rate (percent)	4.4	3.9	3.9	3.9	4.0	4.0	4.2	4.2	4.1	4.2	4.2

Contribution to Change in Public Debt

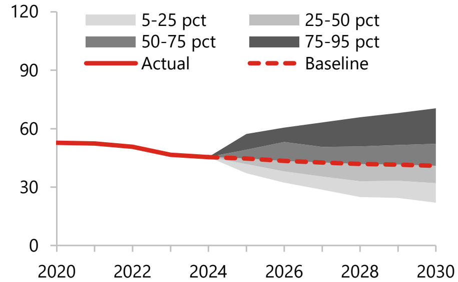
(Percent of GDP)



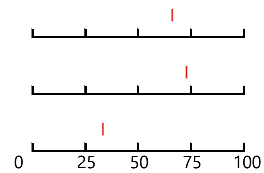
Commentary: Public debt is projected to remain on a declining path, supported by steady growth and some drawdown of ample government deposits. The primary deficit is anticipated to widen in the coming years, driven by current spending pressures and an ambitious public investment agenda.

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

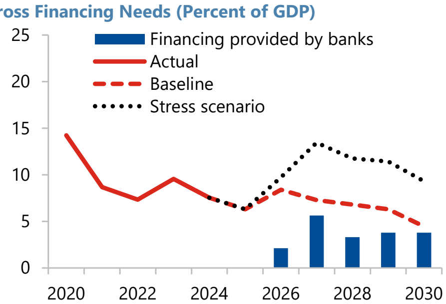
Final Fanchart (Percent of GDP)



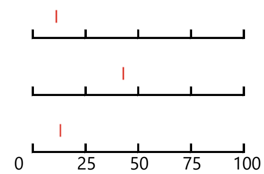
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	48.4	0.7	
Probability of debt non-stabilizaiton *(percent)*	12.6	0.1	
Terminal debt-to-GDP x institutions index	23.6	0.5	
Debt fanchart index (DFI)		1.3	
Risk signal: 3/		**Moderate**	



Gross Financing Needs (Percent of GDP)



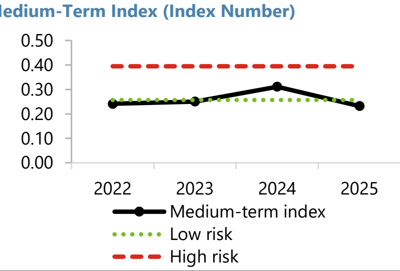
	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	6.6	2.2	
Initial Banks' claims on the gen. govt *(pct bank assets)*	12.5	4.0	
Chg. In banks' claims in stress *(pct banks' assets)*	7.8	2.6	
GFN financeability index (GFI)		8.9	
Risk signal: 4/		**Moderate**	



Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab.

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.3	0.3	0.5	0.1
GFN finaceability index	8.9	0.2	0.5	0.1
Medium-term index		0.2		
Risk signal: 5/		**Low**		
Final assessment:		**Moderate**		

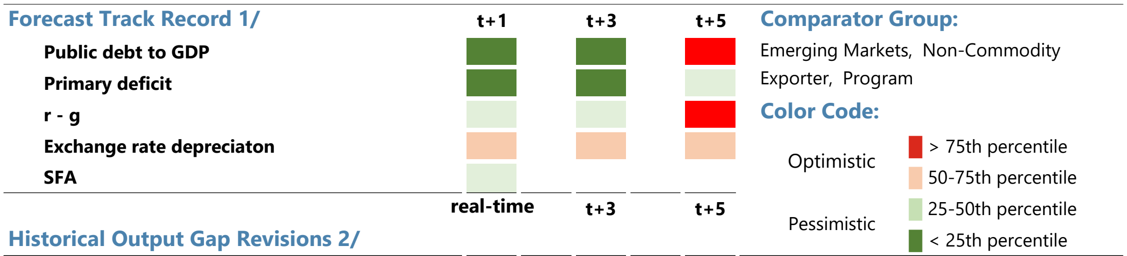
Prob. of missed crisis, 2025-2030, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 45.5 pct.

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

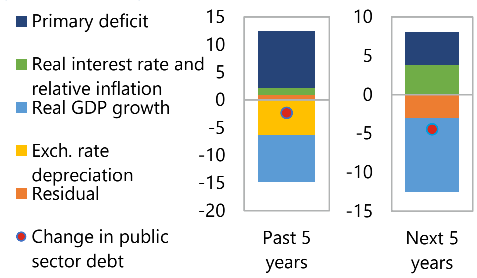
Source: IMF staff estimates and projections.

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

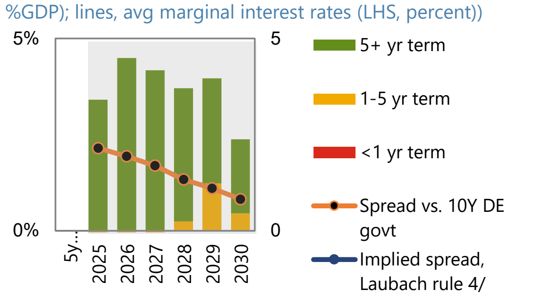
Annex V. Figure 6. Serbia: Realism of Baseline Assumptions



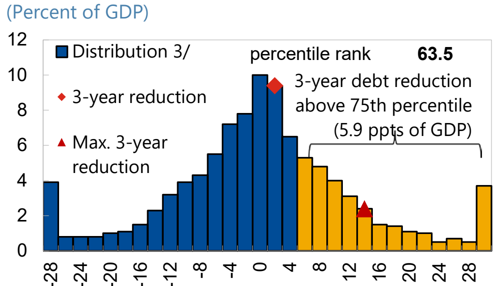
Public Debt Creating Flows
(Percent of GDP)



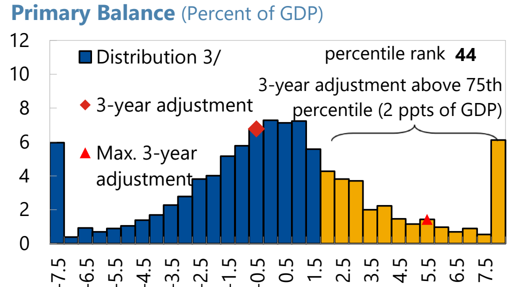
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



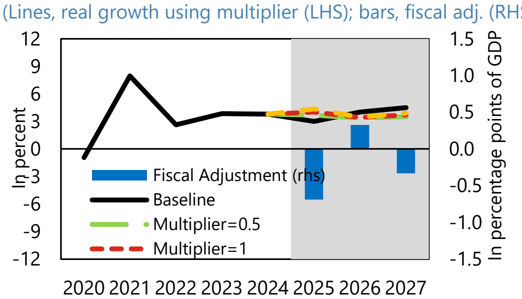
3-Year Debt Reduction
(Percent of GDP)



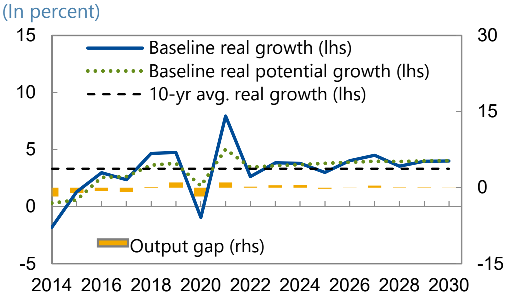
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



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



Real GDP Growth
(In percent)



Commentary: Despite a challenging backdrop, Serbia's growth and policy performance has been strong in recent years. Realism analysis suggests that projected fiscal deficit and public debt trajectories are without systemic biases and broadly in line with history and peers. Medium-term projections are putting potential growth at around 4 percent, driven by productivity catch-up and ongoing capital accumulation.

Source : IMF Staff.

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

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

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

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

Annex V. Figure 7. Serbia: Long-Term Risk Analysis

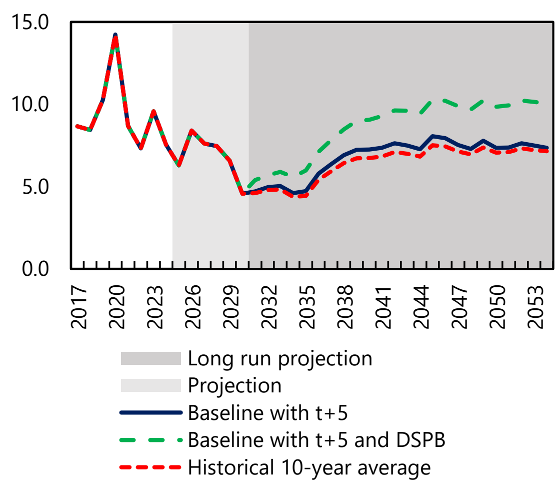
Serbia: Triggered Modules

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

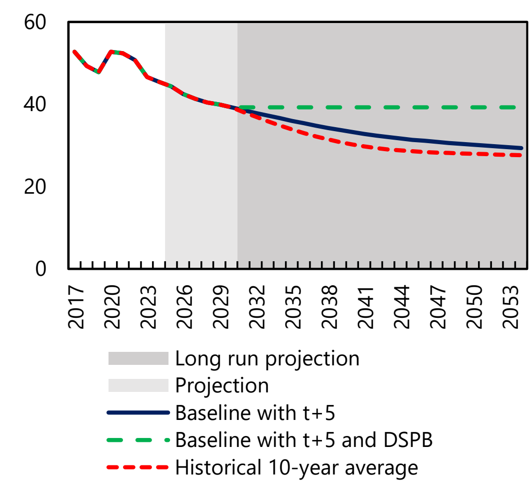
Serbia: Long-Term Risk Assessment: Large Amortization

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

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



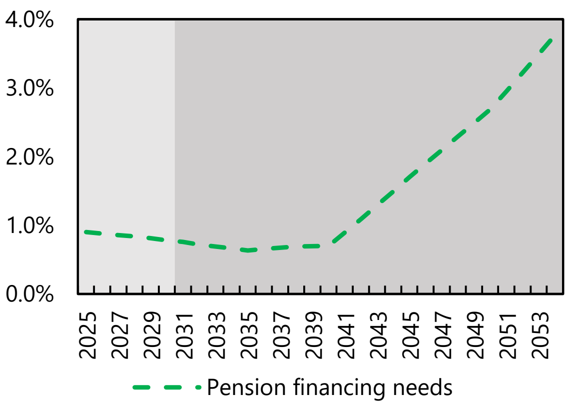
Commentary: In the long term, public debt and gross financing needs remain manageable under scenarios where nominal GDP growth, the primary balance and REER changes are kept in line with 2030 baseline projections or historical 10-year averages, suggesting a low risk for debt sustainability and gross financing needs.

Annex V. Figure 7. Serbia: Long-Term Risk Analysis (concluded)

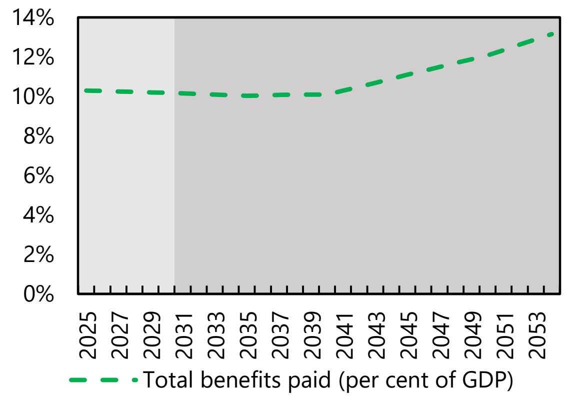
Serbia: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	**30 years**	**50 years**	**Until 2100**
(pp of GDP per year)	1.4%	2.9%	4.1%

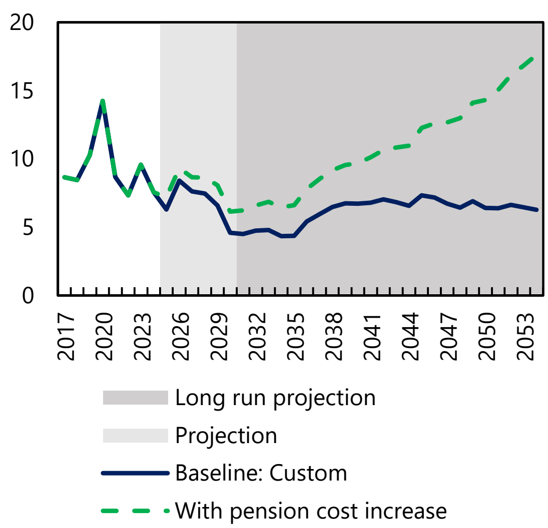
Pension Financing Needs



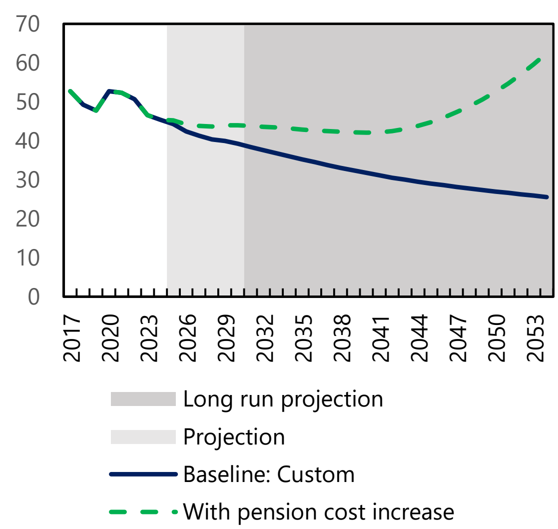
Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

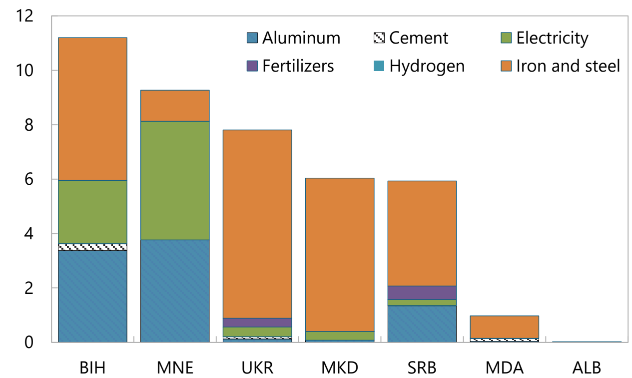


Commentary: The costs of population ageing on the pension system would, absent pension assets and policy reforms, put the public debt to GDP ratio on a rising trajectory in the longer term, pointing to the merits of adopting mitigating fiscal measures or further pension reforms.

Annex VI. Implications of the EU CBAM for Serbia

1. The initial macroeconomic consequences of CBAM appear manageable, but some industries may be more heavily affected. Some 6 percent of Serbia's goods exports are subject to CBAM (mainly iron and steel and aluminum and, to a lesser extent, fertilizers and electricity), less than in many neighbors. Assuming an EU Emissions Trading System carbon price of U.S.$60 per ton of CO_2, Magacho et al. (2022) estimate that CBAM would imply an about 0.5 percent surcharge on the value of Serbia's total goods exports and affect industries accounting for around 4 percent of output, 3.5 percent of employment, and 2.5 percent of wages.[1] Similarly, simulations by UNCTAD (2021) indicate negative real income effects from the CBAM because of a decline in energy-intensive exports.[2]

Serbia: CBAM Exports
(Percent of total exports, 2021)



Sources: UN Comtrade and IMF staff calculations.

2. Economic effects are, however, likely to increase over time while preparations have been weak. Additional industries could fall under the CBAM in the future while its scope may encompass a larger share of indirect emissions, such as from the electricity used in production processes which is still primarily based on coal-fired power. At the same time, nearly half of firms appear unsure about the effects of the CBAM on their business, while close to two fifths are expecting negative effects, including a loss of price competitiveness in EU markets and burdensome reporting requirements.[3] As domestic carbon prices can be offset against CBAM charges, the introduction of a national emissions trading system or the taxation of emissions could mitigate CBAM's negative effects while also supporting the achievement of climate goals. Revenues from such initiatives could be deployed to mitigate any remaining adverse economic impacts from CBAM.

[1] See Magacho, G. Espagne, E. and A Godin (2022), "Impacts of CBAM on EU Trade Partners: Consequences for Developing Countries", Agence Française de Développement Research Papers No. 238, March.

[2] See UNCTAD (2021), "A European Union Carbon Border Adjustment Mechanism: Implications for Developing Countries", July.

[3] See Alihodžić, B., Brašanac, M., Ćulafić, B., Ibrahimi, M., Jovanović, B., Kluge, S., Lalović, O., Manova Stavreska, A., Mima, R., Nikolova, S., Rajič, A., Šelmić, R., Tomić, V., Vasić, J., Zec, A. and A. Zlatanović (2024), "Transforming the Western Balkans Through Near-Shoring and Decarbonisation", September.

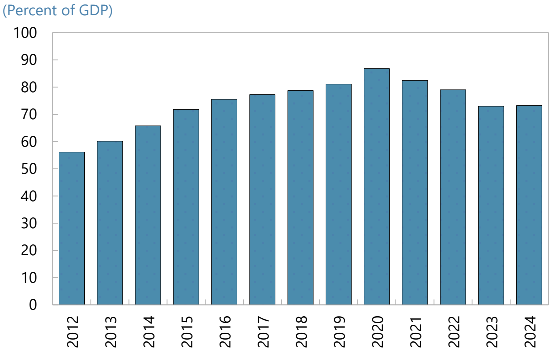
Annex VII. Foreign Direct Investment in Serbia: Developments and Prospects

Following a strong increase in the 2010s, Foreign Direct Investment (FDI) inflows into Serbia have stalled in the post-pandemic period, mainly driven by a decline in manufacturing. At the same time, investment into the mining sector have taken more prominence. Many factors explain the recent trend, including geopolitical considerations, challenges facing the European automotive sector, worsening labor availability and costs, productivity lags, governance issues, and regulatory barriers. Future FDI is projected to decline, emphasizing the need for strategic reforms in governance and regulations, access to finance, and infrastructure to enhance Serbia's investment climate and economic prospects.

A. Historical Developments

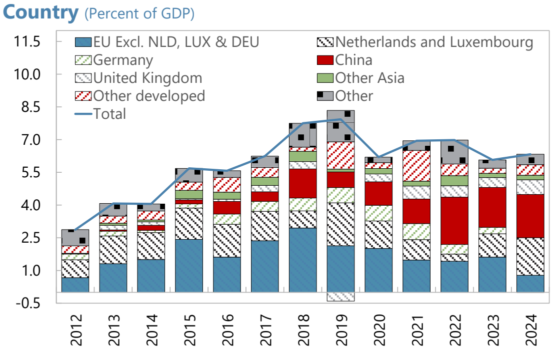
1. FDI inflows into Serbia increased significantly in the last decade. Historically, Serbia has been an attractive destination for FDI. Between 2012 and 2019, FDI inflows more than doubled, increasing from 2.9 percent of GDP to almost 8 percent of GDP.[1] The stock of FDI increased significantly and stood at 81 percent of GDP in 2019, at par with Bulgaria and higher than other Western Balkans (WB) and Central and Southeastern European (CESEE) peers.

Serbia: Foreign Direct Investement Stock
(Percent of GDP)



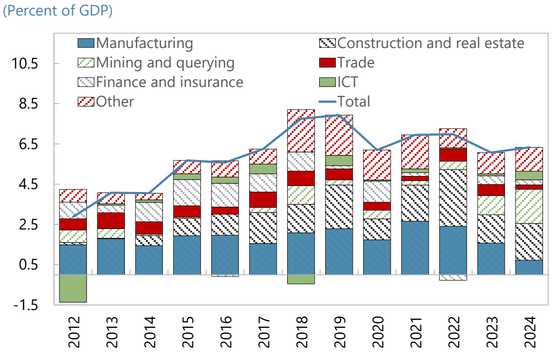
Sources: Haver Analytics and IMF staff calculations.

Serbia: Foreign Direct Investment Inflows by Source Country (Percent of GDP)



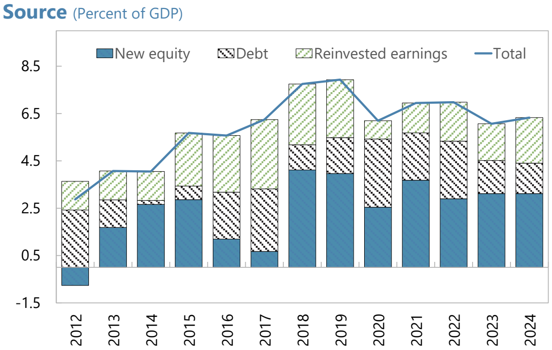
Sources: NBS and IMF staff calculations.

Serbia: Foreign Direct Investment Inflows by Sector
(Percent of GDP)



Sources: NBS and IMF staff calculations.

Serbia: Foreign Direct Investment Inflows by Financing Source (Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

[1] In nominal terms, FDI inflows almost quadrupled during the same period, from €1.0 billion in 2012 to €3.8 billion in 2019.

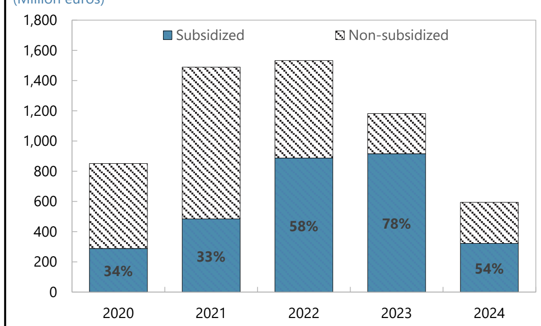
2. This rapid increase was supported by strong inflows into a few key sectors, and mainly from other European countries… During the period 2012–19, FDI flows were mostly concentrated in manufacturing (35 percent of total inflows), Finance and insurance (17 percent), construction and real estate (15 percent), and trade (12 percent). FDI from European countries represented, on average, 86 percent of total FDI inflows into Serbia, with investments from the Netherlands, Luxembourg, and Germany accounting for almost 40 percent of flows from Europe. During this period, about 42 percent of FDI inflows were financed through new equity, 36 percent through reinvested earnings and the remaining through intercompany loans.

3. …And driven by a few important factors:

- **A strategic geographical location**, which provides access to a market of over 500 million consumers across Europe. This advantageous position has made Serbia an appealing destination for investors looking to establish a foothold in the region. Furthermore, Serbia's cost-competitive labor force has been a key attraction for foreign investors, as the average monthly wage in Serbia is among the lowest in the region. Finally, profitability is an important driver of FDI inflows into Serbia. Total dividends more than doubled, from 2.4 percent of GDP in 2012 to 5.1 percent of GDP in 2024, despite a sharp drop during the pandemic. Investors have historically reinvested a large share of their earnings, but this share has declined in recent years.

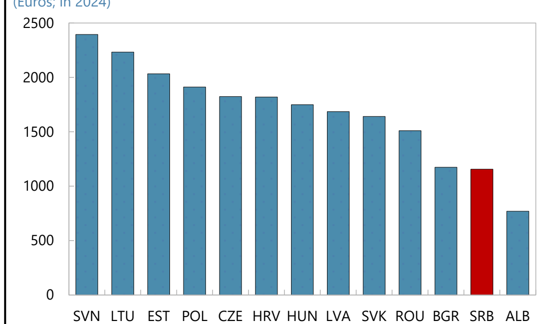
- The existence of **a one-stop shop for investment promotion** has played a crucial role in attracting large firms and projects. The Development Agency of Serbia (RAS) promotes Serbia's investment potential and helps improve competitiveness of the Serbian market.[2] It provides several incentive schemes, mainly to large projects and big manufacturing multinationals, including 15 free economic zones, cash grants, tax reliefs, and subsidies for companies that create jobs and invest in key sectors.

Serbia: FDI Inflows into the Manufaturing Sector
(Million euros)



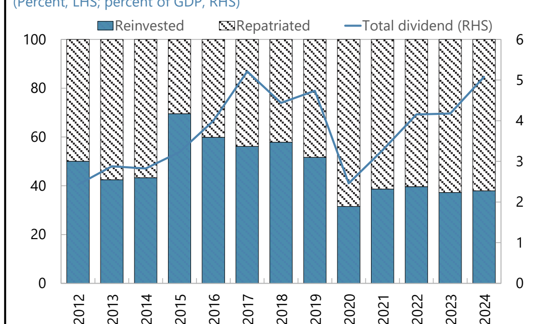
Sources: Ministry of Finance, NBS, and IMF staff calculations.

Serbia: Average Monthly Wages per Employee
(Euros; in 2024)



Sources: Haver Analytics and IMF staff calculations.

Serbia: FDI Profitability and Dividend Distribution
(Percent, LHS; percent of GDP, RHS)



Sources: Haver Analytics and IMF staff calculations.

[2] https://ras.gov.rs/en.

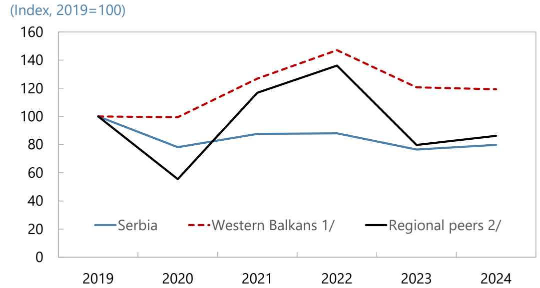
- **A stable macroeconomic environment** helped FDI attractiveness. Serbia has a history of strong macroeconomic performance characterized by balanced growth and strong fiscal and external buffers. Under successive programs with the Fund, it has made solid advances in business-friendly structural reforms, although more progress is needed.

B. Recent FDI Performance and Drivers

4. The above trend has not continued uniformly. The COVID-19 pandemic brought about a significant decline in FDI in many countries, as global uncertainties affected investor confidence. However, the decline in Serbia was less pronounced than in most non-WB CESEE peers, but more than in other WB countries. In the aftermath of the pandemic, Serbia experienced a drop in inflows from traditional European investors—with the exception of the Netherlands, Luxembourg and the United Kingdom.[3] Overall, FDI inflows stagnated and failed to return to pre-pandemic levels. The sectoral composition of FDI also shifted, with high value-added advanced manufacturing facing challenges and giving way to less beneficial sectors like mining, construction, and real estate. Inflows into the finance and insurance sector also declined. In recent years, there has been a discernible increase in FDI from non-European countries, particularly China, while investment from other countries declined.

FDI Dynamics: Serbia vs. Peers

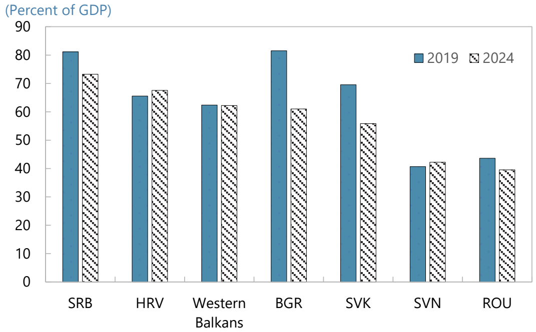
(Index, 2019=100)



Sources: Haver Analytics and IMF staff calculations.
1/ Western Balkans countries excluding Serbia. 2024 data also excludes Bosnia & Herzegovina.
2/ Bulgaria, Croatia, Hungary, Romania, Slovak Rep, and Slovenia.

FDI Stock: Serbia vs. Peers

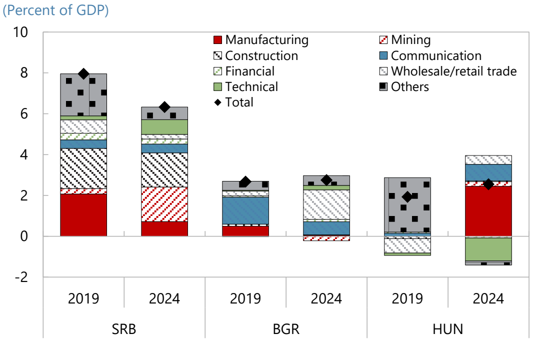
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

FDI Inflows by Sector: Serbia vs. Peers

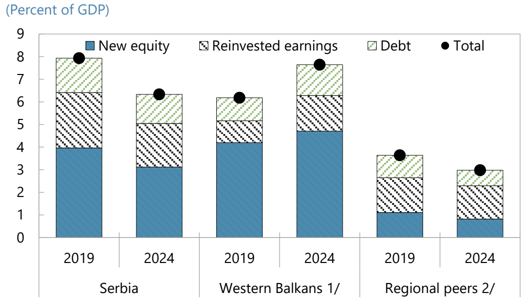
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

FDI Inflows by Financing Source: Serbia vs. Peers

(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.
1/ Western Balkans countries excluding Serbia and Bosnia & Herzegovina.
2/ Bulgaria, Croatia, Romania, Slovak Rep, and Slovenia.

[3] In nominal terms, FDI inflows continued to increase in the post pandemic period, from €3.8 billion in 2019 to €5.2 billion in 2024. An important share of FDI from the Netherlands and Luxembourg can be attributed to investors' tax optimization strategies.

5. FDI in the manufacturing sector—particularly the automotive sector—has suffered from poor economic prospects in Europe. Europe is the main market for the automotive sector in Serbia. But this sector is grappling with a significant transition toward electrification, necessitating substantial investment in new technologies and infrastructure to meet stringent emission regulations. Additionally, increasing competition from global players, particularly Chinese electric vehicle manufacturers, poses a threat to traditional European manufacturers struggling with high production costs and supply chain disruptions. Lastly, the ongoing economic uncertainties, including rising energy prices and geopolitical tensions, further complicate the industry's recovery and future growth prospects.[4] These challenges have led investors to adopt a cautious stance in their investment decision.

6. Serbia's weaker manufacturing FDI and new equity financing post-pandemic contrasts with rising inflows of new equity and reinvestment trends in other WB and CESEE peers.[5] Foreign investment grew faster in other WB and CESEE countries than in Serbia. While the decline in manufacturing FDI is not unique to Serbia, it does not appear to be affecting all countries in the region. For instance, FDI inflows into the manufacturing sector in Hungary at end-2024 stood just marginally below their pre-pandemic levels, and in Slovenia, their share in total FDI more than doubled from 22 percent in 2019 to 46 percent at end-2023. The story is similar when considering the sources of financing for FDI. The post-pandemic decline in the inflow of new equity into Serbia from foreign investors, and their decisions to repatriate higher shares of their earnings contrast with the increase in all sources of FDI financing in other WB countries in recent years. A similar decline as in Serbia is observed from the average non-WB CESEE country, but a more in-depth analysis reveals that new equity inflows and reinvested earnings have increased in the post-pandemic period in countries like Bulgaria and Croatia. The change in the FDI stock also shows that the decline in Serbia is not generalized. The stocks of FDI in the average WB country, in Croatia, and in Slovenia were close to their pre-pandemic levels at end-2024 but were significantly lower in Bulgaria and Slovakia.

7. A look at Serbia's situation on other important FDI drivers shows that it now needs to rethink its strategy to remain an attractive destination for foreign investors. In addition to the FDI drivers indicated above, the literature points to some additional factors that are important for FDI attractiveness.[6] These includes geopolitical considerations, strong financial institutions that can help domestic firms access the necessary capital to engage with foreign firms effectively, low regulatory barriers, strong institutional frameworks, an available and *adequately* educated labor force, and strong physical and digital infrastructures. Serbia appears to be lagging in many of these areas:

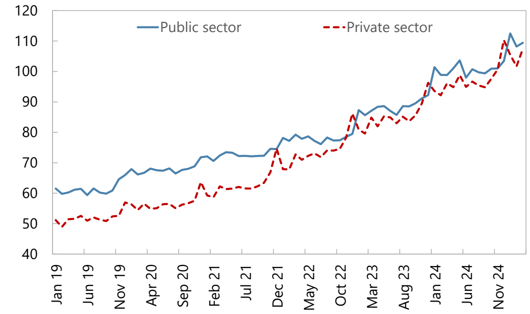
[4] See European Parliamentary Research Service (2024).

[5] Serbian peers with higher per capita income levels (e.g., Bulgaria, Hungary) continue to see increases in FDI inflows. Therefore, the analysis presented here supports the view that stalling FDI inflows in Serbia are more reflective of underlying geopolitical, economic and institutional weaknesses as presented below than a consequence of its gradual convergence to higher income status, even though, as shown in Annex II of IMF country report No 23/243, convergence to higher income levels could play a non-negligible role.

[6] Alfaro (2017); Balasubramanyam, Salisu and Sapsford (1996); Bergougui and Murshed (2023); IMF (2023); Kolstad and Villanger (2008); McCloud and Kumbhakar (2012); Mehic, Silajdzic, and Babic-Hodovic (2013).

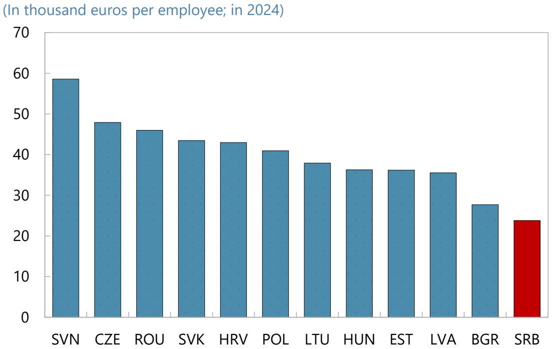
- **Labor.** Despite offering a highly educated and cost-competitive workforce, Serbia lags behind regional peers on productivity. The decline in the labor intensity of new manufacturing FDI projects shows that this low productivity could have played a role in deterring foreign investment in manufacturing as observed in recent years, due to the mismatch between skills and market demands. Besides, labor shortages across the spectrum of the workforce—low and high-skilled—are increasingly a constraint to FDI while fast wage growth in recent years has started to erode Serbia's the competitiveness as an FDI destination. Moreover, university closures amid ongoing students' protests will exacerbate labor shortages in the near-term, particularly in high-skill professions like engineers, which puts at risk future investment in much-needed R&D and technology-intensive projects.

Serbia: Average Monthly Real Net Wages
(Thousands of Dinars)



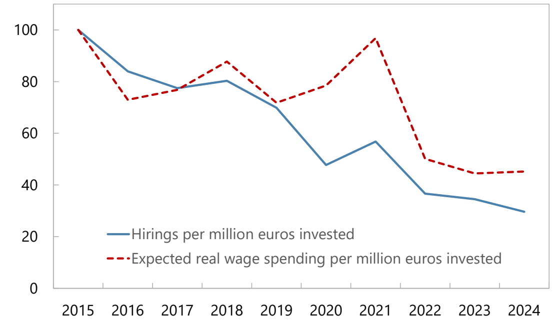
Sources: SORS and IMF staff calculations.

Labor Productivity Level: Serbia vs. Peers
(In thousand euros per employee; in 2024)



Sources: Haver Analytics and IMF staff calculations.

Serbia: Labor Intensity of New Manufacturing FDI
(Index, 2015=100)



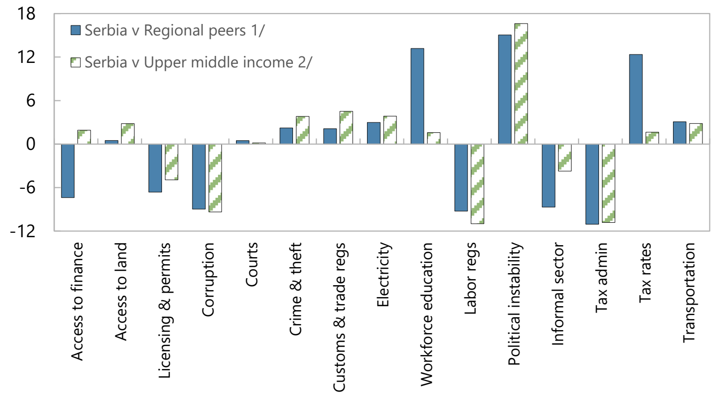
Sources: Ministry of Finance, SORS, and IMF staff calculations.

- **Business environment.** Focusing on firms with 10 percent or more foreign ownership, the World Bank Enterprise Survey (WBES) reveals that access to finance, regulatory barriers in the labor sector, bureaucratic issues (licensing and permits, and tax administration), practices of the informal sector (e.g., unlawful competition), and corruption appear to be larger impediments to investment in Serbia relative to comparators. Reports from Serbia's Foreign Investors Council (FIC) and from the National Alliance for Local Economic Development (NALED) show that progress in implementing reforms in these and other areas have stalled in recent years.[7] Even in some areas where Serbia fares relatively better on the WBES—like physical infrastructure (transportation), access to land, customs and trade regulations, access to electricity—the distance to peers appears so small as not to make a significant difference in investment decisions.

[7] In 2024, the FIC had 118 members covering 23 sectors of the Serbian Economy. NALED is an independent, non-profit association of businesses, local governments, and civil society organizations advocating a better business environment in Serbia.

- **Geopolitical considerations.** Finally, the worsening geopolitical landscape and geoeconomic fragmentation may have posed challenges for attracting FDI, prompting investors to adopt a more cautious approach.

Serbia: Investment Obstacles Relative to Comparators
(Diff. between aggregate and Serbia; negative = higher share for Serbia)



Sources: World Bank Enterprise Survey Database and IMF staff calculations.
Note: Share of enterprises with at least 10% foreign ownership identifying area as biggest obstacle to business and investment.
1/ Bulgaria, Croatia, Hungary, Romania, Slovak Rep, and Slovenia.
2/ Upper middle income countries with data available for 2022-2024.

C. FDI Prospects and Implications for Serbia's Economy

8. **Under current policies, net FDIs are projected to decrease from 5.6 percent of GDP in 2024 to below 4.5 percent of GDP in 2030.**[8] This decline is mainly driven by the continued decline of inflows into the manufacturing sector and in other sectors more generally, as the above-mentioned structural weaknesses continue to play an important role in foreign investors' decisions. 2025 in particular is off to a slow start, as FDI inflows at end-March decreased by 50 percent relative to the same period in 2024.[9] While the authorities have raised the ongoing protests as the main reason for the underperformance so far, some other underlying factors may have played a significant role, including ongoing global economic uncertainty, and governance and political uncertainty, underscoring the need to address these vulnerabilities.

9. **Serbia's prospects for accessing the EU and the current pace of negotiations may already be, and will most likely continue, playing a big role in foreign investors' decisions on where to locate their companies.** The EU Parliament's recent assessment of progress made by Serbia during 2023–24 in its efforts to the join the EU revealed that "[d]espite some progress, Serbia still has major hurdles to overcome."[10] This has implications for future foreign investments in export-oriented manufacturing projects that Serbia needs, as most investors have the EU market as a target. Anecdotal evidence suggests that reshoring and near-shoring into the EU is already underway; and

[8] In nominal terms, net FDIs are projected to increase from €4.6 billion in 2024 to about €5.5 billion in 2030.

[9] FDI inflows financed by new equity declined by almost 60 percent y/y at end-March.

[10] https://www.europarl.europa.eu/pdfs/news/expert/2025/5/press_release/20250502IPR28216/20250502IPR28216_en.pdf.

given increased geoeconomic fragmentation, this trend could accelerate as businesses try to avoid higher delays and costs at the border.[11]

10. Beyond its level, the shift in FDI's composition and sectoral allocation is expected to lead to worse performance on growth, innovation, and labor market outcomes than in the past. Specifically, FDI is moving away from manufacturing—which brings knowledge transfers and productivity growth—and toward less beneficial sectors like construction, real estate (e.g., malls and apartments), and mining, which offer lower value added. This underscores the need to urgently rethink their FDI strategy and focus reforms on measures that attract the right type of foreign investment projects.

11. This uncertain outlook signifies a risk to the pivotal role FDI has played in shaping Serbia's economic landscape in several key areas.

- FDI has been a catalyst for economic growth, contributing significantly to the country's GDP—averaging more than 30 percent of total investment between 2015 and 2024. Employment generation is another critical aspect of FDI's economic impact in Serbia, as government incentives to foreign investors are often tied to job creation, leading to lower unemployment and improved living standards for the population. The influx of foreign capital and multinational corporations also stimulates local businesses, fostering a competitive environment that further enhances employment opportunities. On the external front, foreign investment has been instrumental in enhancing Serbia's export capabilities, and contributed to higher foreign exchange reserves, enhancing Serbia's external stability and providing a buffer against economic shocks.

- A continued decline in the level of FDI inflow and a continuation of the recent sectoral shift could negatively affect domestic and external stability. This would lead to lower investment, employment, and value addition to the economy. It would also represent lower accumulation of international reserves which are crucial for maintaining the dinar's peg to the euro.[12]

D. Staying the Course through Reforms

12. Strong reforms to the business environment are needed to maintain Serbia's FDI attractiveness. To continue making Serbia an attractive destination for FDI, it is essential for the Serbian authorities to draw lessons from best practices in the literature regarding investment promotion, including in aforementioned areas where Serbia is lagging. Measures include: (i) strengthening institutional frameworks to enhance transparency and reduce corruption.

[11] Anecdotal evidence also suggests that trucks going into the EU from Serbia have spending significantly more time at border crossings in the last couple of years than in the past, creating costs, uncertainties, losses, and issues with EU clients.

[12] Staff project a similar outcome in 2025 and in the medium term. Net international reverses are expected to fall from above 150 percent of the IMF's risk-weighted metric in 2024 to just above the mid-point of the adequacy range in 2030. This range for countries with a pegged currency is 100–150.

Implementing measures to ensure good governance will improve the overall business environment and foster investor confidence; (ii) streamlining regulations to reduce bureaucracy; (iii) increasing targeted marketing and promotion of specific sectors with high growth potential, such as technology, renewable energy, and advanced manufacturing; (iv) developing partnerships between the private sector and educational institutions to facilitate the alignment of skills with market needs, ensuring that the labor force is productive and equipped to meet the demands of potential investors; (v) fostering access to financing by local firms, and encouraging their modernization, ensuring greater synergies with foreign companies; and (vi) continuing ongoing efforts to enhance crucial infrastructure across the board, particularly transportation networks, logistics, and digital infrastructure to facilitate trade.

13. Reaffirming commitment to the implementation of these reforms and accelerating that of EU accession requirements could help reassure foreign investors. This will reduce uncertainties for foreign investors and encourage them to continue viewing Serbia as a viable investment destination.

14. Finally, the authorities need to rethink their investment promotion strategy. To achieve their goal of attracting high-value-added foreign investment—including more urgently in the advanced manufacturing sector which is crucial for Serbia's development and technological advancement—the authorities should address foreign investors' evolving priorities highlighted above while ensuring that incentives provided address well-identified market failures, and have limited fiscal cost. This strategy should not substitute for much-needed improvements in the business environment, but complement them to reduce market failures.

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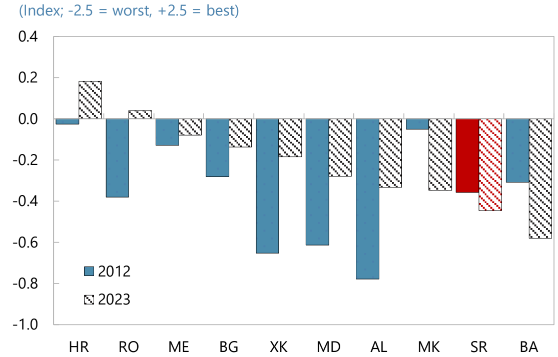
Annex VIII. Strengthening Corruption Control

Serbia's recently adopted anti-corruption strategy appears well-aligned with recommendations by the Group of States against Corruption (GRECO) and the requirements set by EU accession negotiation benchmarks. Comprehensive and expeditious implementation would help support the business environment and growth and support FDI inflows.

1. Progress with tackling corruption has been slow, preventing firms from competing on a level playing field. Despite efforts by the authorities for nearly two decades,[1] indicators measuring corruption control and perception have deteriorated, ranking Serbia among the weakest in the region. GRECO has concluded that Serbia has completed its fourth-round compliance procedure by satisfactorily implementing 10 of its 13 recommendations, but only one of the 24 recommendations made during the fifth evaluation round has been fully met, while 10 have been partially met.[2] The European Commission notes that Serbia's fight against corruption is at "some" to a "moderate" level of preparation.[3] In July 2024, the government adopted a National Anti-Corruption Strategy for 2024–28, aiming to raise Transparency International's Corruption Perception Index for Serbia to 43 by 2028, from 36 in 2023.[4] The Strategy highlights gaps in the existing anti-corruption framework and suggests policies for improvement, also to meet EU accession negotiation benchmarks and outstanding GRECO recommendations. An action plan accompanying the strategy was adopted in December 2024, outlining policies for the period 2024–25.

Serbia: Control of Corruption
(Index; -2.5 = worst, +2.5 = best)



Source: World Bank.

A. Policies to Reduce Corruption

2. Determined implementation of anti-corruption measures would improve the business environment, advance Serbia on its path to EU accession, and meet GRECO recommendations.

[1] See Ministry of Justice (2013), "The National Anti-Corruption Strategy in the Republic of Serbia for the Period 2013-2018", July, and Ministry of Justice (2013), "Action Plan for the Implementation of The National Anti-Corruption Strategy in the Republic of Serbia for the Period 2013-2018", August, which built on Serbia's first National Anti-Corruption Strategy adopted in 2005.

[2] See GRECO (2023), "Fourth Evaluation Round – Corruption Prevention in Respect of Members of Parliament, Judges and Prosecutors – Addendum to the Second Compliance Report – Serbia", December, and GRECO (2024), "Fifth Evaluation Round – Preventing Corruption and Promoting Integrity in Central Governments (Top Executive Functions) and Law Enforcement Agencies – Compliance Report – Serbia", July.

[3] See European Commission (2024), "Serbia 2024 Report Accompanying the Document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions 2024 Communication on EU Enlargement Policy", October.

[4] See Ministry of Justice (2024), "The National Anti-Corruption Strategy for the Period 2024-2028", July.

Crucially, Serbia needs a more robust response to high-level corruption by improving on the legal basis, investigations, prosecutions, final court decisions, and the seizure and confiscation of criminally obtained assets. Risks in sectors particularly vulnerable to corruption should be assessed to develop effective countermeasures. The legal framework could benefit from further alignment with international standards, including in the areas of access to information of public importance, lobbying, financing of political activities, and whistle-blower protection, while the role and mandate of the Prosecutor's Office for Organized Crime should be specified more clearly.

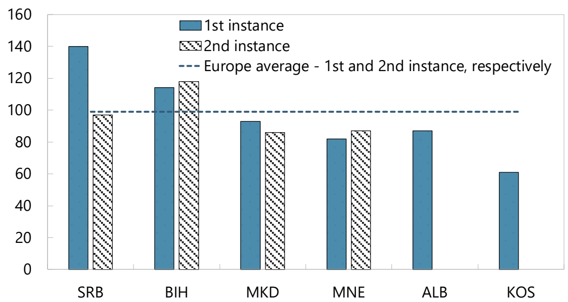
3. Strengthening the resources, the authority, and the collaboration of government institutions tasked with anti-corruption mandates is important. Human, technical, and financial resources need to be augmented to ensure an effective fight against corruption, including for the Agency for Prevention of Corruption, the Anti-Corruption Council, the Prosecutor's Office for Organized Crime, the police, and the State Audit Institution. The exchange of information, co-ordination, and collaboration of anti-corruption units needs improvement. Establishing a more constructive relationship between the government and the Anti-Corruption Council would be welcome, also by systemically consulting it on draft legislation.

Annex IX. Strengthening Commercial Justice

Serbia's business environment could benefit from strengthening judicial performance for commercial disputes. While certain policies could be implemented with relative ease, deeper reforms are needed to further strengthen legal certainty and economic competitiveness.

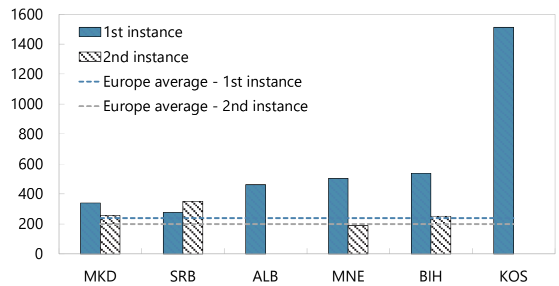
1. **Serbia's judiciary faces efficiency and quality challenges in dealing with commercial disputes.**[1] While first-instance clearance rates of civil and commercial cases are high, the time it takes to resolve cases is often protracted. Decisions can also vary significantly across similar cases, creating legal uncertainty.

Serbia: Clearance Rate of Civil and Commercial Cases
(Percent of incoming cases, 2023)



Source: European Commission for the Efficiency of Justice (CEPEJ).
Note: KOS and European average data refers to 2022 for data availability reasons. ALB and KOS 2nd instance data is unavailable.

Serbia: Disposition Time of Civil and Commercial Cases
(Days, 2023)



Source: European Commission for the Efficiency of Justice (CEPEJ).
Note: KOS and European average data refers to 2022 for data availability reasons. ALB and KOS 2nd instance data is unavailable.

A. Policies to Improve the Judiciary for Commercial Disputes

2. **Digitalization of the courts—with the objective of moving towards an "e-court" system—could improve the efficiency and transparency of commercial justice at a relatively low financial cost.** Such a system could build on past digitalization efforts, such as the e-auction platform for enforcement procedures and the e-notice board for enforcement decisions. The system could also draw on the experience of peer countries in implementing e-courts systems. While draft 2021 amendments to the Law on Civil Procedure created the legal basis for an e-courts system, they have yet to be adopted.

3. **The benefits of digitalization of the courts include:**

- **Increased efficiency** through the digitization of case records, filings, documentation, scheduling, and notifications (both from and to the courts), reducing the time spent on routine administrative tasks and allowing better case management.
- **Improved access to justice** by enabling online submissions and video-conference hearings.

[1] See "2021 Serbia Judicial Functional Review", 2022, "Strengthening Justice for Business in Serbia", 2024, both World Bank, and Council of Europe–European commission for the evaluation of justice, country profile-Serbia.

- **Better judicial transparency and accountability** from searchable digital records.
- **More rapid communication of judgements**, particularly important for cases that involve the seizure of assets.
- **Higher cost-effectiveness,** reflecting lower use of physical infrastructure, paper-based documentation, and administrative staff.

4. Continued education, specialization, and quality of judges is crucial to keep up with the increasing complexity of the Serbian economy. A transition from a procedural to an economics-based consideration of cases for commercial disputes would help. The recent Draft Law on the Judicial Academy could help establish a judicial training system that is consistent with international best practice. More specialized judges would also reduce reliance on expert witnesses, who often have outsized influence over cases with limited control over their performance and professional and judicial expertise.

5. Centralized information would also help. To improve the consistency of justice, it is important to develop an online database of relevant court precedents, consolidate appellate procedures for commercial disputes in a single appellate court, and strengthen the quality control of judges by linking it to the frequency with which appellate courts correct lower-level decisions and by enhancing data- and KPI-based supervision.

6. The structure of court fees should incentivize the speedy resolution of disputes. Fees should reflect case complexity, with flat fees for simpler cases. Transparency and predictability of fee structures are essential, as is better communication by lawyers on the expected costs and duration of disputes.

7. Private arbitration remains underutilized, despite being part of Serbia's legal system for almost 20 years. Alternative dispute resolution (ADR) can be strengthened by better integration into the legal framework, the establishment of clear standards for mediators and arbitrators, and enforcing ADR judgements through the court system. Encouraging or requiring ADR for certain disputes (e.g., labor) can further alleviate pressure on the court system. Digitizing the ADR system would also provide quicker resolution of mass-action cases and contribute to the unclogging of courts.

Annex X. Data Issues

Annex X. Table 1. Serbia: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	A	A	B	A	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	A	A		
Granularity 3/	B		B	B	B		
			A		B		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision have some shortcomings but are broadly adequate for surveillance. Data is published in a frequent and timely manner in general. However, there are issues related to: (i) lack of investment decomposition of public and private investment in national accounts data, (ii) lack of coverage of financial institutions outside of the banking sector, (iii) lack of banks' real estate exposure, (iv) lack of coverage and granularity in financial soundness indicators, especially on the balance sheet indicators, (v) fiscal data currently exclude some indirect budget users, and (vi) lack of detailed fiscal information by municipality and on financial relations between the government and SOEs, limiting transparency and risk assessment.

Changes since the last Article IV consultation. The provision of fiscal data has improved in publishing some information of investment projects, although the content of the information can be further improved. The quinquennial benchmark revision in 2024 has aligned national accounts data more closely with EU standards. Data collection of outstanding loan by maturity was also initiated.

Corrective actions and capacity development priorities. Ongoing reforms are increasing the fiscal reporting coverage. STA has initiated the process of requesting data submission for the Financial Soundness Indicator data, although more effort is needed to improve its coverage and granularity. Reforms are underway to include indirect budget users starting in 2025. Several reforms are planned in: (i) creation of a public information website with budget and execution data, (ii) publication of data on government-SOE financial relations, (iii) publication of fiscal information disaggregated by municipality, (iv) improvement in monitoring of domestic arrears among budget users by expanding the coverage of the System for Monitoring and Reporting of Public Revenues and Expenditures (SPIRI). Improvement should also focus on providing diaggregation of gross capital formation.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates in lieu of official statistics.

Other data gaps. More information on public investment projects, such as cost-benefit analysis, can further enhance data provision to the public. There is also absence of published data on the value of procurement under Special Laws, as well as a lack of a published report on tax expenditures.

Annex X. Table 2. Serbia: Data Standards Initiatives

Serbia participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since June 2018.

Annex X. Table 3. Serbia: Table of Common Indicators Required for Surveillance

(As of June 10, 2025)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6,7]
Exchange Rates	June 10, 2025	June 10, 2025	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 6, 2025	June 9, 2025	2W	2W	M
Reserve/Base Money	June 6, 2025	June 10, 2025	D	D	M
Broad Money	June 6, 2025	June 10, 2025	D	D	M
Central Bank Balance Sheet	Apr-25	May 26, 2025	M	M	M
Consolidated Balance Sheet of the Banking System	Apr-25	May 26, 2025	M	M	M
Interest Rates[2]	June 9, 2025	June 10, 2025	D	D	D
Consumer Price Index	Apr-25	May 15, 2025		M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	March 31, 2025	May 8, 2025	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	March 31, 2025	May 8, 2025	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	March 31, 2025	May 8, 2025	M	M	M
External Current Account Balance	March 2025	May 15, 2025	M	M	M
Exports and Imports of Goods and Services	April 2025	May 30, 2025	M	M	M
GDP/GNP	2025Q1	June 2, 2025	Q	Q	Q
Gross External Debt	2024Q4	March 31, 2025	M	M	M
International Investment Position	2024Q4	March 31, 2025	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: (“D”) daily; (“W”) weekly or with a lag of no more than one week after the reference date; (“M”) monthly or with lag of no more than one month after the reference date; (“Q”) quarterly or with lag of no more than one quarter after the reference date; (“A”) annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Appendix I. Program Statement

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

Belgrade, June 20, 2025

Dear Ms. Georgieva:

The Serbian economy continues to perform well despite the challenging global environment. Our growth remains among the highest in Europe, with unemployment at a historic low. Inflation has fallen into the inflation tolerance band of the National Bank of Serbia (NBS). Although the current account deficit has widened, our high foreign exchange reserves assure that Serbia has no balance of payments needs. Financial stability is being maintained, systemic risks have decreased, and close monitoring of the financial sector continues. Fiscal revenues remain strong, and we are committed to maintaining fiscal deficits within the bounds agreed under the PCI. We are undertaking public investments in the context of Expo 2027 exhibition and the "Leap into the Future" infrastructure investment program to further strengthen Serbia's infrastructure; these investments are consistent with public debt remaining on a downward path and with broader macroeconomic stability.

To continue leveraging the IMF's support of Serbia's macroeconomic and financial stability, we request the completion of the First Review under the 36-month Policy Coordination Instrument (PCI) approved on December 9, 2024. The PCI is supporting Serbia in maintaining fiscal discipline while making room for public investment and priority social spending. The PCI is also supporting Serbia's ambitious structural reform agenda, focused on fiscal-structural reforms, including those to improve fiscal transparency and fiscal governance, and other macroeconomically critical reforms, including in the energy sector. We also request to modify the end-June and end-December 2025 quantitative targets on the ceiling on the accumulation of domestic payment arrears. To support this request for the completion of the First Review under the PCI, this Program Statement (PS) outlines our objectives and sets out the economic policies that the Government and the NBS intend to implement under the program.

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

Reviews by the IMF under the PCI will continue to be conducted semi-annually to assess program implementation and to reach understanding on any further program reforms needed. While we believe that the policies set forth in this PS are adequate to achieve the program's objectives, we will promptly take any additional measures that may become necessary for this purpose. We will also consult with the IMF in advance of any revisions to the policies contained in our PS or any new policies that may affect program objectives, in accordance with the IMF's policies on such consultations; and we will provide IMF staff with all the data and information necessary for the purpose of monitoring the program.

In line with our commitment to transparency, we intend to make this policy statement available to the public, along with the TMU, and the IMF staff report for the First Review under the PCI. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the Serbian government's website.

Sincerely,

/s/
Đuro Macut
Prime Minister

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

/s/
Siniša Mali
First Deputy Prime Minister
Minister of Finance

Attachment: Technical Memorandum of Understanding

Attachment I. Program Statement

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

Recent Economic Developments and Outlook

2. Serbia's economy is expected to continue to perform strongly.

- **Growth.** We expect growth to slow down to about 3-3½ percent in 2025 as a period of elevated domestic uncertainty in early 2025 and intensifying global economic headwinds are dampening the cyclical upswing of the economy. GDP growth is set to rebound to around 4-5 percent over 2026–27, helped by the execution of our public investment program, expanding capacities in the manufacturing sector, and robust tourism spending during EXPO 2027.

- **Inflation.** Headline inflation (4.0 percent y/y in April 2025) has fallen to within our target band (3 percent +/- 1.5 percentage points), helped by declining energy prices and decelerating core inflation (5.0 percent y/y) supported by the gradual easing of cost-push pressures amid our restrictive monetary policy stance. We anticipate inflation to converge to our target by end-2025. Given a highly uncertain global economic backdrop, we will continue to closely monitor inflation developments and stand ready to adjust monetary policy as needed.

- **Balance of payments.** The current account deficit is expected to remain elevated, at about 5½ percent of GDP in 2025, reflecting the import intensity of infrastructure investment, a slowdown in exports demand, and continued dividend repatriation. FDI inflows are projected to decline moderately as challenges in the manufacturing sector and domestic and global uncertainty affect foreign investment. Reflecting these developments, international reserves have decreased in 2025 from record high by €1.6 billion to €27.7 billion in April 2025, but are expected to stay at comfortable levels throughout the projection horizon.

- **Fiscal.** Strong fiscal performance contained the 2024 fiscal deficit at 2.0 percent of GDP, supported by robust CIT revenues and lower than budgeted current spending. Preliminary data for early 2025 indicate some softening in VAT receipts, offset by stronger CIT revenue and higher social security contributions. Public investment will continue to be scaled up under the Expo 2027 and the "Leap into the Future" program, and in the defense sector. Given current trends, the 2025 fiscal deficit target of 3 percent of GDP remains fully feasible. On the financing side, we issued in May a 10.5-year bond in the amount of 14.95 billion dinars at an average yield of 5.16 percent, down from 5.2 percent at a March auction. On the international market, our last bond issuance in June 2024 was for a 10-year US$1.5 billion ESG bond at a 4.75 percent interest rate after hedging into euros.

3. **Serbia is facing growing external and domestic risks.** Key external risks include the uncertain global growth outlook and deepening geoeconomic fragmentation that can affect exports and FDI. Domestic risks include the effects of recent political tensions and the exposure of the agricultural sector to extreme weather events.

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

Economic Policies

A. Fiscal Policies

5. **We are committed to fiscal deficits of no more than 3.0 percent of GDP over 2025–27.** The approved 2025 budget is consistent with this target, and we are committed to the same target in 2026 and 2027. To anchor fiscal discipline over the medium term, and in line with the completion of the Expo 2027 and the "Leap into the Future" investment program, over 2028–29 we will aim for a deficit of no more than 2.5 percent of GDP.

6. **We are committed to the special fiscal rules on public wages and pension indexation.** We expect a public wage bill of 10.0 percent of GDP in 2025, in line with the special fiscal rule, reflecting the January 2025 wage indexation of 11 percent for teachers and related staff and 8 percent for the rest of the public sector, and several additional within-year sectoral wage increases. Pensions rose by 10.9 percent in December 2024 (payable in January 2025) in line with the special fiscal rule, bringing pension spending to 10.1 percent of GDP.

7. **Our conservative approach to budgeting and proactive management of fiscal risks will help us adhere to agreed fiscal targets.** To underpin these targets, we are committed to continuing to control key areas of expenditure, and to reviewing spending needs and allocating sufficient resources for areas experiencing spending pressures.

- We have carefully reviewed our public investment program and decided on projects to be included in the 2025 budget and, for multi-year projects, their phasing over 2026–27. Going beyond this, we are committed to reviewing the investment program regularly and to further prioritizing public investment to strictly support the 3.0 percent cap on fiscal deficits in the event of adverse shocks. We are also ensuring that public investment projects are contracted in a cost-effective manner with key information disclosed to the public to ensure accountability.

- We are cognizant of temporary arrears in our road maintenance SOE, Roads of Serbia (RoS), and will provide additional transfers from the Republican budget in 2025—and beyond if necessary—to help RoS clear these arrears and meet its contractual obligations. By end-September 2025: (a) A working group—comprising the Ministry of Finance, the Ministry of Construction, Transportation, and Infrastructure, and RoS—will review RoS's budget to ensure it is fiscally sustainable and aligned with its operational obligations. The group will also establish within-year reporting requirements to enable regular monitoring of RoS's contractual commitments and budgetary performance; (b) the Government will assess potential governance improvements at RoS to ensure that contracting remains within the approved budget envelope; (c) the Ministry of Construction, Transportation, and Infrastructure and the Ministry of Finance will develop proposals for introducing truck tolls on regional roads to raise revenues in line with road maintenance needs. Additionally, the Government will take the decision to increase highway tolls from July 2025 and thereafter will increase highway tolls annually ahead of the summer season at least by CPI. Tolls for trucks on regional roads will similarly annually be increased at least by CPI once they are introduced.

- We will not increase agricultural expenditure in 2025; we will further rationalize agricultural expenditure in 2026–27 and will keep it at no more than the 2025 nominal level.

- We have provided the necessary funds for defense and security. Should we require further increases in defense spending, we will reduce other expenditures to maintain the 3.0 percent overall fiscal deficit envelope.

8. **Our financing remains well diversified.** Despite recent global financial market volatility, spreads on our international bonds have only widened slightly, in line with regional peers. We plan to meet our financing needs through a mix of domestic and international market borrowing, loan agreements, use of government deposits, and to continue to borrow from international and bilateral partners, including for project financing. We aim to raise the share of dinar-denominated debt to over 30 percent. Supported by strong fiscal performance and a recent GDP revision, public debt declined to about 47 percent of GDP by end-2024.

9. **We will continue to closely monitor fiscal performance and take corrective measures as needed.** We will maintain strong liquidity buffers and not accumulate public sector external debt payment arrears (**standard continuous target**) nor domestic payment arrears (**quantitative target**). Current primary spending of the Republican budget, excluding capital and interest spending will remain within the program ceiling (**quantitative target**). Pension spending will strictly follow annual indexation mechanism set in the Law on Pension and Disability Insurance with no ad hoc increases or one-off payments to pensioners (**RT, continuous**). The liquidity position of energy sector SOEs has improved, and we expect no support needs for them in 2025 or beyond. Should support be needed, it will be provided transparently through the budget while observing the deficit limits, and we will reassess SOE and energy sector policies accordingly.

10. **We remain committed to limiting the issuance of state guarantees.** No new guarantees will be issued for SOE liquidity support or for companies formerly under the Privatization Agency.

The Government will not give public endorsements to projects ineligible for state guarantees that could be interpreted as implicit guarantees. Guarantees will continue to be issued only for project loans from local and international banks and from multilateral institutions supporting our investment and reform agenda.

B. Structural Fiscal Policies

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

- We are receiving IMF technical assistance on tax expenditure and intend to complete and publish our first report on tax expenditure in 2026 (***new RT, end-July 2026***). In the subsequent planned revision of the Budget system Law, we intend to make the tax expenditure report a permanent annual or biennial publication.

- We undertook the IMF's Fiscal Transparency Evaluation (FTE) in February 2025. Building on this, we plan to engage in further consultations with the IMF to enhance fiscal data transparency. This includes publishing additional information on government-SOE financial relations, fiscal information by municipality, public-private partnerships (PPPs), mineral resources, and government deposits. We also aim to clarify the revenue base and usage criteria for the budgetary reserve and to improve the quality and timeliness of in-year fiscal reporting on these items. Starting with the 2026 Budget Law, Annexes 2 and 3 (Reports on the Execution of the Budget of the Republic of Serbia) will be expanded to show revenue, expenditures, and financing outturns for the two preceding years. Additionally, beginning with the 2026 Revised Fiscal Strategy, the document will present revenues, expenditures and financing for both the general government and the republican budget (central government)—covering the two preceding years and the medium-term projections.

- We are enhancing our budgeting and accounting electronic system SPIRI. From 2025, budget execution for all indirect budget users except tertiary education institutions is being conducted through SPIRI. We have also completed the multi-year commitment registry in SPIRI. Starting in 2026, we will request budget users to submit their planned contractual spending commitments to the Ministry of Finance for an ex-ante approval, which will allow the Ministry and the budget users to assess cash availability before entering contractual financial obligations. This multi-year commitment registry will be updated regularly, including for capital projects.

- We will assess options to strengthen arrears control within public administration and among indirect budget beneficiaries. While our current survey-based approach to arrears data collection is well-established, it lacks precision due to incomplete, missing, or inaccurate responses. To improve accuracy and coverage, we plan to explore the use of the existing electronic databases—such as e-invoice data and SPIRI—to develop a more reliable and comprehensive framework for arrears monitoring. We will audit material arrears and clear them based on published criteria.

- We are actively implementing the 2023 Action Plan for Improving the Medium-Term Budget Framework. The 2025 budget process benefitted from the indicative limits for the outer two years, first established during the 2024 budget, which served as a starting point for budget discussions with line ministries. We have adopted in May 2025 a budget baseline methodology, which was prepared with IMF technical assistance, and apply it in the 2026 budget cycle. Our assessment of fiscal space will become increasingly robust as budget users gain familiarity with the new processes and as data quality continues to improve. Following recent testing exercises, we have successfully enabled data exchange between the System used to collect financial plans of budget users and the Analytical Platform for Planning and Reporting. Beginning with the 2026 budget, we also plan to include a reconciliation table to clearly explain changes in budget ceilings.

- We are introducing green budgeting. For the 2025 budget cycle, we have applied for the first time our new green tagging methodology and adopted in 2024 for the 2025 Budget. Next steps will include integrating the "green annex" as a pop-up form into SPIRI, applying green tagging for local government budgets, and further training budget beneficiaries to distinguish projects that were tagged climate-relevant.

12. We remain committed to strengthening the role and capacity of the Fiscal Risks Monitoring Unit (FRMU) within the Ministry of Finance.

- We are implementing new methodologies to enhance the monitoring of fiscal risks arising from SOEs, local governments, litigation, and natural disasters, continuing to address shortcomings with the quality and timeliness of data. We will continue increasing the scope and depth of disclosure on materialized contingencies and upcoming fiscal risks, aligned with the budget cycle.

- To support our efforts, we will consult with the IMF on the implementation of a tool for managing fiscal risks associated with state guarantees.

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

- The Ministry of Economy and the Ministry of Finance will urgently review the interpretation of the Law on Public-Private Partnerships to ensure that, effective immediately, all public sector entities—including municipalities and SOE—seeking to initiate PPP projects valued at over €50 million must request and obtain a non-objection from the Ministry of Finance. This requirement aligns with the June 11, 2015, Memorandum of Economic and Financial Policies under the 2015 SBA.

- We are expanding the use of the Public Investment Management Information System (PIMIS). In 2024, PIMIS was rolled out at the national level, and we aim to extend its application to local and provincial levels in 2025 and 2026. We also plan to strengthen the integration between PIMIS and the budget system SPIRI, including by incorporating SPIRI project identification codes into

PIMIS and aligning financial information between the two systems. We have adopted all necessary secondary legislation, rulebooks, and forms under the 2023 Decree on Capital Projects, along with the PIMIS rulebook, thereby establishing a normative framework for the entire capital project pipeline. Once fully implemented, this framework will support a unified project pipeline with standardized procedures for the selection and monitoring of all ongoing and future public investment projects excluding PPPs at this stage.

- We plan to consult with the IMF on ways to better integrate infrastructure maintenance needs into our medium-term budgeting. We plan on establishing a unified process for traditional PIM and PPPs to ensure efficient choices over the investment modality.

- Our PIM Department currently oversees approximately 150 large projects, each valued at above €20 million, covering both preparation and implementation phases. We are working to strengthen coordination and information flow between the PIM Department, the Budget Department, and the Public Debt Agency to support timely and cost-effective project execution, medium-term budgeting, and early identification of potential risks. The PIM Department also serves as the secretariat to the Commission for Capital Investments, which is responsible for reviewing, prioritizing, and advancing public investment projects from conception through to implementation. We are committed to further building the department's capacity by recruiting additional staff and providing targeted training to existing personnel. In support of this effort, the National Academy of Public Administration (NAPA) has conducted courses on public investment management, which we intend to scale up, targeting line ministries in high expenditure areas.

14. As we scale up public investment, we are enhancing transparency in public investment management.

- Building on earlier reforms, we amended the Budget System Law in 2024 to require publication of cost estimates for multi-year public investment projects starting with the 2025 Budget. In early 2025, we also upgraded the Expo 2027 website to include key project data.

- To further strengthen PIM efficiency, transparency and mitigate fiscal risks, we plan to request Fund TA to develop (i) standardized cost-benefit analysis of new major investment projects; and (ii) fiscal costs and risk assessments of new PPPs at the project approval stage. Once developed, these will be used and published during the approval process for large projects.

- In 2025, we will establish a concept and approach, with applications in PIMIS/SPIRI, to monitor cost overruns for projects of value over €20 million.

- The Public Procurement Office will continue to report annually on all procurements, including the volumes of those exempted from regular procedures in line with the Law on Public Procurement. Starting in 2026, we will also publish annual data on procurement values under Special Laws, in line with the format used for other exempt procurements in the Annual Report on Public Procurements *(***new RT, end-March 2026***)*.

15. The phased rollout of the central electronic public wage and employment registry, *Iskra*, is well advanced. The registry enhances planning, execution, and oversight of wage spending. It currently covers direct and indirect budget users at the Republic level—including key sectors such as judiciary, culture, social affairs, education (excluding higher education), health—and local self-government units, including preschools, cultural, and social welfare institutions. Remaining public employees, including those in the Ministry of Defense, Ministry of Internal Affairs, Security Information Agency BIA and higher education, will be integrated by 2027.

16. We have published a report on the structure of wages and employment across general government institutions covered by the *Iskra* registry (end-March 2025 RT). The report provides data on salary and total remuneration distribution, staffing levels and age structure, for a broad set of typical public sector roles, disaggregated by major sectors such as public administration, education, and healthcare.

17. We are conducting comprehensive actuarial analysis of the Serbian pension system, to be published by end-March 2026 (RT). The analysis will assess the system's long-term financial sustainability and its capacity to ensure adequate living standards for retirees while managing fiscal pressures from an aging population. It will incorporate a range of macroeconomic and demographic scenarios. In parallel, we will develop a pension model that can be updated with new data to evaluate the impact of economic and demographic changes, or adjustments to system parameters, on the pension system's actuarial outlook.

18. We are continuing efforts to strengthen fiscal data and government finance statistics (GFS). With IMF technical assistance, we are automating the production of monthly GFSM 2014-compliant data and expanding coverage to include all materially relevant general government units—specifically indirect budget users and extrabudgetary units. As of 2025, data for all indirect budget users except tertiary education institutions has been fully incorporated. Remaining data, including from public enterprises classified under the general government sector, is expected by 2026. After reviewing and documenting the revised coverage and its impact, we will update fiscal reporting in the Fiscal Strategy and monthly reports to reflect this expanded scope. We are also working to broaden debt reporting coverage. Corresponding updates to fiscal rule definitions and parameters in the Budget System Law will align with revised GDP benchmarks and the new fiscal data coverage. These changes are planned for the 2027 budget cycle, with full implementation beginning in January 2027.

19. Addressing staffing challenges in Serbian Tax Administration (STA) is an urgent and macro-critical priority. STA is facing significant HR pressures due to a wave of retirements and the need to align staff skills and processes with the upcoming implementation of the COTS IT system. We are tackling this through a comprehensive strategy outlined below:

- *We have taken several key steps to support STA recruitment.* The 2025 hiring quota was raised to 1,000 permanent and 800 temporary staff, with multiple recruitment rounds launched. While only 61 positions were filled as of June 15, 2025, reflecting long recruitment timelines, there are a further 376 applicants in process and the hiring outcomes are expected to ramp up in 2025:H2, bringing total number of hires meaningfully closer to the 1,000 target. Additional rounds will be held this year and beyond. STA is also piloting the Government HR Service's (SUK) electronic application system—with 88 percent of applications received electronically in the most recent round.

- *However, one key measure has been delayed.* STA and the Ministry of Finance will intensify efforts to develop—and for the Ministry to approve—a strategy to onboard new hires and convert temporary staff to permanent roles. The aim is to finalize this strategy as soon as possible, and no later than end-December 2025.

- *The Ministry of Finance, STA, Ministry of Public Administration (MPA), and SUK are advancing several follow-up measures to strengthen STA recruitment*, to be completed by end-December 2025. (a) STA will prepare, and the Ministry of Finance will approve STA's new job systematization that would allow recruitment across a broader range of disciplines and enable more flexible staff deployment. (b) MPA and SUK, in consultation with STA, will develop solutions to issue hiring and non-hiring decisions electronically, which should also facilitate broader public sector hiring. (c) The Law on Tax Procedure and Tax Administration has been amended to allow STA to audit and serve taxpayers outside their region of residence, and STA will complete administrative steps to incorporate extra-regional auditing and services in its operations. (d) STA has engaged retired staff in temporary roles to train and mentor new hires, in line with business needs. (e) STA has initiated and is developing a public marketing campaign for its recruitment.

- *Strategic measures***.** STA will prepare and the STA Steering Committee will endorse and adopt a STA Human Resource Plan for 2025–28 to address current and anticipated staffing challenges **(rescheduled end-October 2025 RT)**.

20. We will continue advancing broader tax administration reforms:

- We have completed the procurement of a new **commercial-off-the-shelf-system (COTS)** under the World Bank Tax Administration Modernization Project. Once the World Bank approves the associated policy loan, we will move swiftly to secure Parliamentary approval. In parallel with the implementation of COTS, we will develop new functionalities of the existing HR Management Information System by October 2025.

- We are addressing data gaps and refining analytical tools to improve **VAT and CIT gap estimations** to better detect non-compliance.

- Our **high-net-worth unit** has launched targeted audits, resulting in successful tax assessments. We will maintain and further strengthen this unit.

- Ongoing reforms will incorporate recommendations from the updated **Tax Administration Diagnostic Assessment Tool (TADAT)** assessment and continue to benefit from IMF TA and the World Bank support.

- To enhance compliance and transparency, STA has published a list of **large tax debtors** (over 20 million RSD) and will update it annually.

- To improve tax compliance and accelerate VAT return processing, the Ministry of Finance will explore options to facilitate STA access to **e-invoice data**, in line with international best practices.

C. Energy Sector Policies

21. We remain committed to addressing remaining weaknesses in Serbia's energy sector. Our policies at ensuring energy security, cost recovery, and space for necessary investment, while mitigating fiscal risks.

- **To improve the financial position of Elektrodistribucija Srbije (EDS)**, we completed in May 2025 an analysis of grid fees paid to EDS, as well as the fees EDS and EMS pay to EPS for losses. Based on the findings of this analysis, we plan to implement a regulated (household) electricity tariff increase of at least 7 percent as of October 1, 2025 **(new end-September 2025 RT)**. In addition—and not as a substitute—we are considering lowering the threshold for the red zone (the highest block tariff) from 1600 kWh/month to 1200 kWh/month to encourage energy efficiency and potentially to increase revenues. To improve the financial and operational position of EDS, an EDS restructuring plan will be adopted no later than end-December 2025.

22. To ensure medium-term cost recovery in the regulated sector, we plan to implement the next adjustment of the regulated electricity tariff no later than October 1, 2026. The size of that adjustment and its distribution across the energy SOEs will be guided by further analysis of financial needs in energy SOEs, and in any case the size of the tariff adjustment will not be lower than CPI inflation plus 1 percentage point calculated over the period since the previous increase. The fees that EDS and EMS pay to EPS for losses will also be adjusted no later than October 1, 2026, from €70 to €80 per MWh.

- **We remain committed to ensuring energy affordability for the population**. We will continue using block tariffs, offering lower electricity prices for consumption below a set threshold. Given the real increase in pensions and stable regulated energy prices over the past 18 months, we plan to maintain support for approximately 75,000 of the most vulnerable households.

- **We continue implementing the EPS restructuring plan,** which outlines priorities for improving governance, organizational structure, audit processes, internal controls, and compliance. The plan also includes financial projections based on assumed regulated tariff adjustments. We will aim to accelerate the implementation of the EPS restructuring plan.

- **In the gas sector**, Srbijagas implemented a new pricing system for the unregulated market at the start of the 2024–25 heating season. The reform introduced new contract types and increased Srbijagas's margin to support future investment needs. For Transportgas, we remain committed to completing its unbundling in 2025, in line with our EU obligations.

- **To strengthen transparency,** we will publish the financial statements of EPS and Srbijagas. We will expand monthly reporting on overdue receivables by increasing coverage from the top 20 to the top 50 debtors by both the stock (total overdue amounts) and the flow (12-month increases) of receivables.

23. We remain focused on safeguarding energy security. In May 2025, we extended the existing gas supply contract with Gazprom until October, while the negotiations on a new long-term gas contract are progressing. We are also investing in critical energy infrastructure, including new gas and electricity interconnectors with neighboring countries. The macroeconomically critical oil company NIS remains at risk of U.S. sanctions due to factors beyond control. We will continue to monitor these risks and further develop contingency plans, and stand ready to act swiftly if needed.

24. In May 2025, the Government approved an updated Energy Investment Plan (end-March 2025 RT). The plan outlines priority energy sector investments for 2025–27 and beyond. For priority projects exceeding €20 million, it includes key details such as expected rates of return, contributions to the green transition, potential financing sources, and other essential project characteristics.

25. We have continued to advance a comprehensive green growth agenda to support sustainable development. To prepare for the EU Carbon Border Adjustment Mechanism (CBAM), we have engaged a consultant to assess the economic impact of CBAM and evaluate policy options, including a carbon tax and emissions trading system. The report is expected later in 2025 and will inform our national CBAM strategy. In July 2024, we adopted the Integrated National Energy and Climate Plan (INECP), setting targets for reducing greenhouse gas emissions, increasing the share of renewables in final energy consumption, and improving energy efficiency, in line with Serbia's new Energy Development Strategy. We will also continue to promote private investment in renewables.

D. Monetary and Exchange Rate Policies

26. The primary monetary policy objective is to maintain price stability. We have kept our policy rate on hold since September 2024 to ensure continued disinflation. Looking ahead, monetary policy will remain cautious and maintain a tightening bias amid a possible re-emergence of inflationary pressures in a highly uncertain economic environment. Under the PCI, inflation developments will be monitored through a consultation process. If end-period inflation deviates by more than ±1.5 percentage points from the specified center point, we will consult with IMF staff on the causes and appropriate policy response. The center points are set at 3.9% for end-June 2025 and 3.3% for end-December 2025. The relevant indicator is the 12-month change in the end-period CPI (base index 2006=100), as published by the Serbian Statistics Office (SORS).

27. The relative stability of the dinar against the euro is an important pillar of our policy. To support this, we used our ample FX reserves to meet rising foreign exchange demand, as FDI inflows fell short of covering the current account deficit in January-April 2025. Consequently, gross international reserves declined by €1.6 billion, reaching €27.7 billion at end-April. We remain committed to keeping net international reserves well above the program's NIR floor, equivalent to 100 percent of the ARA metric.

28. Promoting dinarization is a key priority. Confidence in the dinar and the domestic banking system is strong. Dinarization of deposits and receivables increased to 45.1 percent and 38.3 percent by April 2025, respectively. Greater dinarization will, over time, enhance monetary policy transmission and reduce currency mismatches, thereby strengthening financial stability.

29. Throughout the Fund-supported PCI period, we commit to refraining from any measures inconsistent with the IMF's Articles of Agreement. Specifically, without prior IMF approval, we will not: impose or intensify restrictions payments and transfers for current international transactions; introduce or modify multiple currency practices; enter into bilateral payment agreements inconsistent Article VIII; impose or intensify import restrictions for balance of payments reasons (Table 1b).

E. Financial Sector Policies

30. Maintaining financial stability remains a key priority, and we will continue to closely monitor banking sector risks. The system remains strong—well capitalized (average capital adequacy ratio of about 21 percent as of April 2025), highly liquid, and profitable. NPLs are low, at 2.3 percent as of March 2025. The temporary 5 percent interest rate cap on certain mortgages will be phased out by end-2025, in line with the new Financial Services Consumer Protection Law.

31. We remain committed to strengthening the regulatory and supervisory framework and enhancing Serbia's financial infrastructure.

- The European Payments Council has approved Serbia's application to join the EU's Single Euro Payments Area payment (SEPA). In support, we amended the Payment Services Act to align it with the EU's PSD2 directive and enable open banking services in the Serbian market.
- We adopted two landmark laws – amendments to the Banking Law and a new Financial Services Consumer Protection Law—aligned with the EU principles to strengthen Serbia's domestic financial services market. The Banking Law amendments enhance the resolution, prudential, and corporate governance frameworks for banks, while the Consumer Protection Law introduces carefully calibrated anti-usury regulations for mortgages and other consumer loan interest rates.
- We have launched a new mortgage guarantee scheme for first-time young homebuyers. The scheme is modest in scale, with low and well-managed financial and fiscal risks. We are committed to consulting with the IMF in advance of any changes or expansion to this scheme or before introducing any new credit guarantee programs.

32. We continue reforming state-owned financial institutions and ensuring their strong oversight.

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

- The Development Fund (DF) and the Export Credit and Insurance Agency (AOFI) will proceed with (i) implementing supervisory board decisions to recognize credit losses; and (ii) enforcing the government conclusion to limit SOE exposure, strengthen risk management, prevent further asset quality deterioration, and resolve impaired assets. We are committed to consulting with the IMF in advance of any material expansion of DF or AOFI activities.

F. Structural and Governance Policies

33. We are committed to aligning SOE governance with the new SOE Governance Law. In April 2024, we adopted an Action Plan to implement the SOE Ownership Strategy for 2024–25. We are working with EBRD and SECO experts to develop the necessary secondary legislation. As part of this effort, the government adopted a decree on costing public service obligations (PSOs) in April 2025, with support from IMF technical assistance. Preparatory steps in 2025–26 will include: assessing PSO costs and identifying quasi-fiscal activities, separating PSO and non-PSO activities in SOE accounting; reviewing procedures and analyzing the legal framework for assigning public services to the SOE; and conducting pilot PSO exercises in several SOEs. Full implementation of the PSO bylaw is planned for January 2028. We are committed to strengthening the SOE oversight unit in the Ministry of Economy, by ensuring adequate financing, hiring university graduates, and reallocating existing staff.

34. We remain committed to resolving enterprises in the former Privatization Agency portfolio in line with the Privatization Law.

- We reaffirm our decision not to reopen MSK, given its persistent lack of profitability and inability to cover operating costs, particularly gas bills.
- We will allocate sufficient budgetary resources to transparently support JP PEU Resavica through subsidies and prevent further arrears to EPS. We will assess the feasibility of privatizing the company, and if that proves infeasible, will transfer it from the governance under the Privatization Law to governance under the new SOE Law.

35. We are committed to enhancing the quality and transparency of national statistics. We will continue to ensure comprehensive, timely, and automatic data sharing among key compiling agencies (MOF, SORS, and NBS) for statistical purposes. NBS and SORS are working together to compile financial and non-financial general government accounts in line with GFSM 2014, with the goal of transmitting data to the IMF and Eurostat starting in 2026. Building on recent improvements to national accounts and fiscal statistics, we will also explore subscribing to the IMF's Special Data Dissemination Standard (SDDS).

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

- According to MONEYVAL 5th Enhanced Follow-up Report, Serbia is fully or largely compliant with FATF Recommendations. We will continue regular reporting under the EU agenda.

- We will ensure timely and effective implementation of all AML/CFT related EU Directives and Regulations, in line with FATF Standards and EU deadlines. The EU's approval of Serbia joining the Single Euro Payments Area reflects our progress in meeting these requirements. AML/CFT authorities, including the Administration for Prevention of Money Laundering and other law enforcement agencies, will continue their regulatory and supervisory activities while strengthening their capacity to address evolving AML/CFT trends and emerging risks. The NBS will maintain enforcement through on- and off-site inspections of financial institutions, including assessments of high-risk non-residents (on the risk level of each individual bank), cross-border threats in financial flows, and for providers of services related to virtual currencies.

- We enacted, and are implementing, a new Law on Central Records which strengthens Serbia's capacity to ensure adequate, accurate and up-to-date information on beneficial owners in the already existing Central Records of Beneficial Owners.

- A working group was formed in June 2024 to update the national AML/CFT/WMD Proliferation risk assessments (NRA) that were adopted in November 2024. The updated AML/CFT strategy and NRA action plan are expected to be finalized by year-end.

- The MONEYVAL on-site evaluation under the consultation round 6 took place in May 2025 and we expect the issuance of the Report later in the year.

- We will continue closely monitoring the implementation of targeted financial sanctions by regulated entities to prevent potential spillovers related to the Ukraine conflict.

Program Monitoring

37. Implementation of policies under the PCI will continue to be monitored through quantitative targets (QTs), continuous targets, and reform targets (RTs). These are outlined in Tables 1–2 and defined in the attached Technical Memorandum of Understanding (TMU). Reviews by the IMF will be held semi-annually to assess program implementation and agree on any additional reforms. The second review is scheduled for completion by October 1, 2025, the third by April 1, 2026, the fourth by October 1, 2026, the fifth by April 1, 2027, and the sixth by October 1, 2027.

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

	2024			2025				2026
	End-Dec.			End-Jun.		End-Dec.		End-Jun.
	CR 24/337 QT	Actual	Status	CR 24/337 QT	Adj. Prog.	CR 24/337 QT	Adj. Prog.	QT
I. Quantitative Targets (QTs, semi-annually)								
1 Ceiling on the general government fiscal deficit (in billions of dinars) 2/ 3/	263.0	191.9	met	161.9	161.9	314.0	314.0	174.7
2 Ceiling on current primary expenditure of the Serbian Republican Budget including net lending, excluding capital expenditure and interest payments (in billions of dinars) 2/	1,643.0	1,606.3	met	923.1	923.1	1,827.4	1,827.4	999.0
3 Floor on Net International Reserves (in billions of euros) 4/	11.6	21.8	met	11.9	11.9	12.8	12.8	14.0
4 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 5/	1.0	24.0	not met	1.0	25.0	1.0	20.0	15.0
II. Continuous Targets								
5 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros) 6/	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0

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

2/ Cumulative since the beginning of a calendar year.

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

4/ Calculated consistent with Gross International Reserves at 100 percent of the ARA metric. Actual refers to a preliminary estimate.

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

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

Table 1b. Serbia: Standard Continuous Targets

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

Table 2. Serbia: Reform Targets

Description	Target Date	Status	Objectives
Fiscal			
1. Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law, and there will be no ad hoc pension increases and cash payments to pensioners.	Continuous	Met	Achieving fiscal objectives and supporting the credibility of the fiscal rule.
2. Conduct and publish a comprehensive actuarial analysis of the pension system.	End-March 2026		Ensuring long-term fiscal sustainability and supporting the credibility of the fiscal rule.
3. Publish a report on the structure of wages and employment in general government institutions covered by the Iskra registry.	End-March 2025	Not met, implemented with a delay.	Strengthening government HR policies and the effectiveness of the government and supporting the credibility of the fiscal rule.
4. Adoption of the Serbian Tax Administration (STA) Human Resources Plan by the government to ensure adequate staffing levels and skills composition over 2025–28, as assessed by the STA Steering Committee to be consistent with effective operation of STA.	End-October 2025	Rescheduling proposed.	Strengthening the tax administration and achieving fiscal objectives.
5. Annual publication of data on the value of procurement under Special Laws.	End-March 2026	New	Strengthening the transparency of public procurement.
6. The Ministry of Finance publishes a report on tax expenditure.	End-July 2026	New	Strengthening revenue mobilization and achieving fiscal objectives.
Other			
7. Approval by the Government of the updated Energy Investment Plan that outlines key investment projects over 2025–27, their measures of return, and sources of financing.	End-March 2025	Not met, implemented with a delay.	Address the medium- to long-term viability of energy SOEs and associated fiscal risks, enhance security of electricity production, and formalize a key aspect of the climate strategy.
8. A decision to increase the regulated electricity tariff by at least 7 percent as of October 2025.	End-September 2025	New	Strengthening energy sector sustainability and control fiscal risks.

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program.** To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on September 30, 2024, except as noted below. The quantitative targets and reform targets for assessing program performance are shown in Tables 1a, 1b and 2 of the Program Statement (PS). Definitions and adjustments of these targets are outlined below.

2. **For program purposes, the consolidated general government** comprises the Serbian Republican government (without indirect budget beneficiaries that are not included in the budgetary execution system), local governments (including the Province of Vojvodina), the Pension Fund, the Health Fund, the Military Health Fund, the National Agency for Employment, the Roads of Serbia Company (JP Putevi Srbije) and any of its subsidiaries, and the company Corridors of Serbia. Reflecting the ongoing work program to expand the coverage of the general government sector in within-year reporting, consolidated general government data for 2023 and beyond include service institutions like dormitories in the education sector now included in the budgetary execution system, and health sector institutions reported by the Health Fund. Consolidated general government data for 2024 also includes science institutes, agencies, and high schools. Consolidated general government data for 2025 also include primary schools and universities as well as other institutions of higher education. Any new extra budgetary fund or subsidiary established over the duration of the program would be consolidated into the general government.

A. Fiscal Conditionality

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

4. **Current primary expenditure of the Republican budget (without indirect budget beneficiaries that are not included in the budgetary execution system)** includes wages, subsidies, goods and services, transfers to local governments and social security funds, social benefits from the budget, other current expenditure, net lending (i.e., budget loans recorded "above

the line"), payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed; repayments of called guarantees, debt takeovers and budget loans; and payment of arrears (irrespective of the way they are recorded in the budget law). It does not include capital spending and interest payments.

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

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

7. Domestic arrears. For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include a quantitative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶2 above, except local governments; (ii) the Development Fund, and (iii) the Export Credit and Insurance Agency (AOFI). Arrears to be covered include outstanding payments on wages and pensions; social security contributions; obligations to banks and other private companies and suppliers; as well as arrears to other government bodies. This quantitative target will be measured as the change in the stock of domestic arrears at the test date relative to the stock at the end of the previous calendar year. Within 45 days of the end of the calendar year, the authorities will report the stock of domestic arrears on December 31.

8. Debt issued at a premium. For program purposes, debt issued at a premium refers to proceeds accruing to the government that are recorded as revenue when the government issues debt at a premium. It most commonly occurs when an accepted rate on auction is lower than a coupon rate, in that case the market value is higher than nominal value and/or a bond with an above-market coupon is reopened ahead of a coupon payment.

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

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

B. Public Debt

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

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

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

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

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

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

C. Floor on Net International Reserves

14. For purposes of the program, all foreign currency-related assets and liabilities will be valued in euros at **program exchange rates** as specified below. The program exchange rates are those that prevailed on September 30, 2024. Monetary gold will be valued at the average London fixing market price that prevailed on September 30, 2024.

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

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

Sources: International Monetary Fund and NBS.

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

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

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

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

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

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

D. Ceiling on External Debt Service Arrears

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

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

E. Reporting

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

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

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

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

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

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

27. **New short-term external debt (maturities less than one year)** contracted or guaranteed by the general government, the Development Fund, and AOFI will be submitted within 35 days of the end of each month. **Receivables of the top 20 debtors to Srbijagas and EPS** will be submitted within 30 calendar days after the end of each quarter, as well as published on the company websites.

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

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

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

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

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

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

Data Reporting for Quantitative Targets		
Reporting Agency	**Type of Data**	**Timing**
Statistical Office and NBS	Trade in goods data, volumes and prices.[1/]	Monthly, within eight weeks of the end of the month.
Ministry of Finance	Fiscal deficit of the consolidated general government.	Within 35 days of the end of the month.
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments.	Within 35 days of the end of the month.
Ministry of Finance	External debt payment arrears by general government, Development Fund and AOFI.	Within four weeks of the end of the month.
Ministry of Finance	Gross accumulation of domestic payment arrears by the general government (without local government), the Development Fund, and AOFI.	Within 45 days of the end of the quarter.
Ministry of Finance	Earmarked grants and receipts from small-scale disposal of assets.	Within four weeks of the end of the quarter.
NBS	Detailed balance of payments data, value basis.[2/]	Monthly, within 45 days of the end of the month.
NBS	Gross international reserves, composition details.	Every two weeks, at the end of the first business day in the following week.
NBS	GIR and reserve-related liabilities (FX liabilities with a maturity of 1 year or less). Reserve-related liabilities projections for 4 quarters forward.	End of quarter, within 14 days after the end of the quarter.
NBS	Exchange rate data required for monitoring under the Fund's Multiple Currency Practices Policy.	Normally weekly, at the end of the first business day in the following week, if needed daily at close of business of the following day.[2/]

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF SERBIA

June 20, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS—INFORMATIONAL ANNEX

Prepared By
European Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of May 31, 2025)

Membership Status

Joined December 14, 1992 (succeeding to membership of the former Socialist Federal Republic of Yugoslavia); accepted Article VIII on May 15, 2002. Serbia continues the membership in the Fund of the former state union of Serbia and Montenegro—previously the Federal Republic of Yugoslavia—since July 2006.

General Resources Account

	SDR Million	Percent Quota
Quota	654.80	100.00
IMF's Holdings of Currency	1,557.45	237.85
Reserve Position	46.84	7.15

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,072.63	100.00
Holdings	11.27	1.05

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Stand-By Arrangements	949.46	145.00

Latest Financial Commitments

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Dec 19, 2022	Dec 08, 2024	1,898.92	949.46
Stand-By	Feb 23, 2015	Feb 22, 2018	935.40	0.00
Stand-By	Sep 29, 2011	Mar 28, 2013	935.40	0.00

Projected Payments to Fund

	Forthcoming (SDR Million)				
	2025	2026	2027	2028	2029
Principal		433.81	474.73	40.93	
Charges / Interest	33.16	61.82	46.19	33.11	31.69
Total	**33.16**	**495.65**	**520.92**	**74.04**	**31.69**

Implementation of HIPC Initiative

Not applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI)

Not applicable.

Implementation of Catastrophe Containment and Relief (CCR)

Not applicable.

Exchange Rate Arrangements

The de jure exchange rate arrangement is managed floating and the de facto exchange rate arrangement is classified as stabilized. Serbia has accepted the obligations under Article VIII, Sections 2, 3, and 4, on May 15, 2002, and maintains a system free of restrictions on payments and transfers for current international transactions.

Last Article IV Consultation

Concluded on June 28, 2023 (IMF Country Report No. 23/243).

FSAP Participation

Serbia participated in the Financial Sector Assessment Program in 2005, and the Executive Board discussed the Financial System Stability Assessment in February 2006 (IMF Country Report No. 06/96). An update under the Financial Sector Assessment Program was conducted in 2009 and the Executive Board discussed the Financial System Stability Assessment (FSSA) in March 2010 (IMF Country Report No. 10/147).

Safeguards Assessment

An update safeguards assessment of the National Bank of Serbia (NBS) was completed in June 2023. The assessment found a sound legal framework, strong operational controls, with financial reporting and internal and external audit processes that are aligned with international standards. The assessment recommended some steps for further enhancement, including two outstanding recommendations for strengthening the risk management function. As required by the IMF's safeguards policy, Serbia continues to engage independent external audit firms to conduct the audit of the NBS in accordance with international standards.

Technical Assistance since Last Article IV consultation (June 2023)[1]

Department	Timing	Purpose
STA	September 25–October 6, 2023	Government Finance Statistics
STA	October 14–18, 2024	Government Finance Statistics
FAD	June 19–November 30, 2023	Medium-term Budget Preparation (virtual)
FAD	September 12–25, 2023	IT Governance and Data Migration
FAD	November 7–20, 2023	Delivering Transformation
FAD	February 7–13, 2024	PIM—Implementation of PIM Decree and Rulebooks
FAD	March 4–8, 2024	Medium-term Budget Preparation
FAD	March 25–27, 2024	Quantification of Fiscal Risk and Fiscal Risk Statements
FAD	August 26–30, 2024	Review of bylaw on Public Service Obligations
FAD	December 16–19, 2024	PIM—Planning
FAD	January 28–February 10, 2025	Fiscal Transparency Evaluation
FAD	February 25–28, 2025	Medium-term Budget Preparation

In addition, technical assistance was available through regional advisors covering tax administration, public financial management, and government finance statistics.

Resident Representative

Mr. Lev Ratnovski took his position as Resident Representative in July 2024.

[1] The list does not include visits by regional advisors.

COLLABORATION WITH OTHER INTERNATIONAL INSTITUTIONS

As of April 30, 2025, Serbia has collaborations with the World Bank Group, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank, and the Council of Europe Development Bank.

International Financial Institution	**Hyperlink**
The World Bank Group	https://www.worldbank.org/en/country/serbia/overview#2
The European Bank for Reconstruction and Development (EBRD)	https://www.ebrd.com/serbia.html
The European Investment Bank	https://www.eib.org/en/projects/regions/enlargement/the-western-balkans/serbia/index.htm
Council of Europe Development Bank	https://coebank.org/en/about/member-countries/serbia/

Statement by Mr. Patryk Łoszewski, Executive Director for the Republic of Serbia and Mr. Vuk Djokovic, Advisor to the Executive Director
June 25, 2025

On behalf of the Serbian authorities, we thank staff for the insightful policy discussions and the thorough analysis and assessment presented in the report and the selected issues papers.

Recent Economic Developments

Over the past years, Serbia implemented prudent macroeconomic policies and advanced structural reforms that helped sustain strong growth, promote employment, and bolster fiscal and external buffers despite recurrent external shocks. A firm focus on preserving hard-won macroeconomic gains—including public debt reduction of about 30 percent, low inflation, and a stable exchange rate—was key to navigate these shocks. Prudent yet flexible policies have led to a rapid recovery from the COVID-19 pandemic and 2022 regional energy crisis, the attraction of sizable foreign direct investment inflows, and a buildup of reserves. Sound and far-reaching macroeconomic policies and strengthened fundamentals have been recognized by international markets and investors. In October 2024, Serbia was granted—for the first time ever—investment grade status by Standard and Poor's. Strengthening macroeconomic stability has been supported by continuous engagement with the IMF, mostly through precautionary arrangements. In December, Serbia successfully completed its two-year Stand-By Arrangement (SBA) and transitioned to the current Policy Coordination Instrument (PCI).

Outlook and Risks

In 2024 the Serbian economy grew by 3.8 percent—a growth rate that lies among the highest rates in the region. The fiscal deficit was contained at 2 percent of GDP, well below the 3 percent target agreed with the Fund. In April 2024, inflation returned to the National Bank of Serbia's (NBS) inflation tolerance band and remained within the tolerance band since. The labor market delivered strong outcomes as unemployment continued to decline, the participation rate increased, and wages grew at a healthy rate, with higher employment and wages supporting consumer sentiment and private consumption. Credit activity recovered in 2024, experiencing growth of about 8.2 percent year-on-year, supported by an increased share of landing in dinars and more favorable financing conditions driven by more accommodative monetary policy by the NBS and the European Central Bank.

These positive trends continued in the first quarter of 2025, albeit somewhat muted by rising global trade fragmentation, prevailing uncertainty, and a slowdown in major trading partners. Looking ahead, the authorities estimate economic growth at about 3.5 percent this year, driven by high public investments including infrastructure projects under the Leap into the Future—Serbia Expo 2027 program, and anticipate a gradual acceleration in economic activity in the second half of the year on the back of an expected increase in automotive industry output and the entering into service of new power plants.

Fiscal Policy

The authorities underscore the criticality of keeping fiscal policy well within the fiscal envelope agreed with the IMF, as it is key to preserving resilience and hard-won macroeconomic stability. They consider that the agreed deficit ratio of 3 percent provides sufficient latitude to accommodate high investment spending over the next three years of about 7.5 percent annually, which encompasses infrastructure modernization projects under the Serbia—Leap into the Future initiative. The authorities are also committed to keeping public pensions and wages—the two most critical mandatory types of expenditure—within the parameters stipulated in the pension law and in the special fiscal rule. While the targeted deficit will have a slight expansionary bias this year—appropriate for supporting economic activity—it will turn to a neutral stance in 2026-27. The authorities remain confident that the deficit target will be reached, given conservative revenue budgeting and improved monitoring of discretionary spending. They are committed to addressing the unanticipated occurrence of payment arrears in a state-owned enterprise (SOE) responsible for road maintenance by providing a budgetary transfer and expanding the SOE's toll-based revenue stream.

Fiscal structural reforms remain an important pillar of the PCI, and all related reform targets have been completed—in some cases with minor delay—corroborating strong ownership. Ongoing efforts to address the pressing recruitment and staffing issues in the Serbian Tax Administration (STA)—including by improving the hiring process and strengthening human resource management—are yielding positive results. This year, the STA has already employed 61 new personnel, while the hiring process for additional close to 1000 new positions is ongoing, with the objective to complete the hiring by the end of the year. To renew its aging legacy information technology (IT) systems, the STA, supported by the World Bank, completed procurement for the new IT system for core tax administration functions that will enhance automation and support modern business processes and data analytics.

Budget execution and monitoring are being strengthened by incorporating indirect budget users to the System for Monitoring and Reporting of Public Revenues and Expenditures (SPIRI) and by adding a multi-year commitment registry. The authorities are also strengthening their oversight of the rising recourse to public-private partnerships (PPPs), especially at municipal level. While the robust legal framework for PPPs was established over a decade ago, the authorities are enhancing the oversight of newly proposed PPPs, especially in the contracting phase, with the objective to minimize risks and strengthen safeguards against the buildup of contingent liabilities. The authorities continue to enhance public investment management and see scope for better integration of investment planning with budgeting and a more consistent use of cost-benefit analyses and have requested Fund TA support in this area. At the same time, drawing on the recommendations of the 2025 Fiscal Transparency Evaluation, the authorities plan to enhance the transparency of infrastructure projects implemented under the special laws, including by publishing its procurement data.

Monetary Policy

The NBS maintains a cautious and data-driven approach to determining its monetary policy stance. On June 12, the NBS Executive Council decided to keep the key reference rate unchanged, at 5.75 percent. The decision to maintain tight monetary policy was driven by significant global uncertainty and trade tensions affecting inflation trends, confidence, and growth. Headline inflation slowed to 3.8 percent in May and is well within the NBS's inflation tolerance band of 3 +/- 1.5 percent, while core inflation declined to 4.6 percent, pointing to easing inflationary pressures. Supported by prudent monetary policy, inflation expectations of the financial sector are on a downward path and well anchored within the NBS inflation tolerance band. The NBS' central inflation projection indicates that headline inflation will continue to converge toward the midpoint of the inflation tolerance band and reach it by the end of the year, supported by tight monetary conditions, lower import inflation, lower global energy prices, and an expected improved agricultural season.

Financial Sector

Serbia's bank-dominated financial sector remains resilient and profitable, with healthy balance sheets, ample liquidity, and low non-performing loans (NPLs). The capital adequacy ratio stood at 21.0 percent at end-April. Supported by robust regulatory and macroprudential frameworks, NPLs continued to decline and stood at 2.3 percent at end-March. Regular NBS stress tests of the banking sector indicate resilience to various macroeconomic shocks. The NBS remains vigilant in light of global headwinds and potential adverse spillovers, and is closely monitoring developments in banks' liquidity, deposits, and asset quality, while further strengthening already robust prudential frameworks to bring them in line with international standards and European Union (EU) requirements. In this context, Serbia adopted two significant legislative measures—amendments to the Banking Law and the enactment of a new Financial Services Consumer Protection Law—aligned with EU principles and critical for further strengthening the domestic financial services market.

In May, the European Payments Council (EPC) approved Serbia's application to join the EU's Single Euro Payments Area payment (SEPA), culminating the NBS' efforts to align its payment systems and regulations with EU standards. The adherence of Serbian financial institutions to the SEPA payment schemes, according to the EPC calendar, will be enabled starting from November 2025. Serbia amended the Payment Services Law to align it with the EU's PSD2 directive and enable open banking services in the Serbian market.

Energy Sector

Addressing remaining deficiencies in Serbia's energy sector to ensure energy security and cost recovery while creating space for needed investments and mitigating associated fiscal risks remains an important pillar of the PCI. Important upward electricity tariffs adjustments—crucial for improving the financial position of EPS, a key SOE responsible for power production—have been implemented under the recently concluded SBA. The focus of energy sector reforms under the current PCI has shifted to improving financial soundness and operations of the power distribution utility EDS. The planned increase in grid fees and electricity tariffs is critical in this regard as it will create space for needed investments and will be accompanied by adopting the EDS restructuring plan by the end of this year. To cushion the impact of higher energy prices, about 75,000 energy-vulnerable households continue to benefit from a targeted subsidy scheme.

The authorities are advancing a comprehensive green growth agenda. Last year, Serbia adopted the Integrated National Energy and Climate Plan (INECP), setting objectives for reducing greenhouse gas emissions, increasing renewable energy use, and improving energy efficiency. This year, the authorities successfully concluded a second renewable energy auction, awarding a total capacity of 645 MW for 10 new wind and solar power plants.