**ECONOMIC REFORM PROGRAMME FOR THE PERIOD 2025- 2027**

**Belgrade, December 2024**

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Contents

[**1. GENERAL FRAMEWORK AND MAIN GOALS AND GUIDELINES OF ECONOMIC POLICY** 2](#_Toc192759969)

[**2. IMPLEMENTATION OF THE POLICY GUIDANCE** 4](#_Toc192759970)

[**3. MEDIUM-TERM MACROECONOMIC FRAMEWORK** 9](#_Toc192759971)

[3.1. ASSESSMENTS OF THE INTERNATIONAL ECONOMIC ENVIRONMENT 9](#_Toc192759972)

[3.2. CURRENT ECONOMIC DEVELOPMENTS AND OUTLOOK FOR 2024 11](#_Toc192759973)

[3.3. MEDIUM-TERM MACROECONOMIC SCENARIO 20](#_Toc192759974)

[3.4. ALTERNATIVE SCENARIO AND RISKS 25](#_Toc192759975)

[**4. FISCAL FRAMEWORK FOR THE PERIOD 2025- 2027** 27](#_Toc192759976)

[4.1. POLICY STRATEGY AND MEDIUM-TERM OBJECTIVES 27](#_Toc192759977)

[4.2. BUDGET IMPLEMENTATION IN 2024 28](#_Toc192759978)

[4.3. BUDGET PLANS FOR 2025, MEDIUM-TERM BUDGETARY OUTLOOK AND SUPPORTIVE POLICIES 38](#_Toc192759979)

[4.4. CYCLICALLY ADJUSTED AND STRUCTURAL FISCAL BALANCE 44](#_Toc192759980)

[4.5. PUBLIC DEBT MANAGEMENT 47](#_Toc192759981)

[4.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME 49](#_Toc192759982)

[4.7. QUALITY OF PUBLIC FINANCES 61](#_Toc192759983)

[4.8. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORKS 64](#_Toc192759984)

[**5A. COMPLIANCE OF THE REFORM AGENDA WITH THE MACROFISCAL FRAMEWORK OF THE ERP** 66](#_Toc192759985)

[**6. INSTITUTIONAL ISSUES AND INVOLVEMENT OF STAKEHOLDERS** 72](#_Toc192759986)

[**ANNEX 1: TABLES 1 - 8** 73](#_Toc192759987)

[**ANNEX 2: EXTERNAL CONTRIBUTION TO THE ERP 2024-2026** 102](#_Toc192759988)

# **1. GENERAL FRAMEWORK AND MAIN GOALS AND GUIDELINES OF ECONOMIC POLICY**

Economic activity in Serbia has demonstrated sufficient resilience despite the challenging global and regional environment. The cumulative gross domestic product (hereinafter: GDP) growth of 18,3% over the period from 2020 to 2024 was largely supported by domestic demand, investments in key infrastructure sectors, and inflation stabilization, now within the target range of the National Bank of Serbia. Macroeconomic developments in 2024 are in line with previous expectations. According to preliminary estimates, economic growth in 2024 will reach 3,8%, the labour market remains stable, and inflation is on a downward trajectory.

The primary priority of the Government of the Republic of Serbia remains maintaining macroeconomic stability while creating conditions for more dynamic economic development in the future. This goal is achieved through strategic public investments in infrastructure, industry modernization, and the transition to a green economy. Despite challenges and pronounced global fragmentation, Serbia has managed to preserve macroeconomic stability thanks to diversification of production and exports, and a significant inflow of foreign direct investment (hereinafter: FDI). Serbia’s financial system is secure, with an investment-grade credit rating and substantial protective mechanisms, including high foreign exchange reserves, public sector deposits, and a low public debt level compared to the European average.

In the medium term, we expect an acceleration of growth. The baseline scenario of macroeconomic developments foresees an average annual economic growth of 4,4%. According to the medium-term macroeconomic projection, the cumulative growth rate for the period from 2025 to 2027 will be 13,7%. Growth will be driven by domestic demand. Further growth in employment and wages will support private consumption, while investment growth will be driven by the implementation of projects in the transportation, energy, and municipal infrastructure sectors. Significant public investments are planned through the program “Leap into the Future – Serbia 2027,” especially in anticipation of hosting the Specialised World Expo in 2027 with the theme "Play for Humanity: Sport and Music for All."

The Government of the Republic of Serbia is committed to maintaining fiscal discipline in the medium term. Targeted fiscal deficits in the coming years ensure a declining trajectory of public debt. The projected fiscal deficit in the upcoming medium-term period, set at 3,0% of GDP, creates room to fund important investment projects within the development plan "Leap into the Future – Serbia 2027," as well as to finance the strengthening of national security. The "Leap into the Future – Serbia 2027" program serves as a central framework for accelerated infrastructure modernization, aiming to position Serbia as a key investment destination in sectors such as energy, transportation, and digitalization. The government sector debt at the end of the medium-term period will amount to 46.5% of GDP. To fully implement the investment cycle, the application of the fiscal deficit constraint component within the fiscal rule is postponed until 2029.

The economy of Serbia, like the economies of other countries in the region with similar levels of development, faces numerous uncertainties. Nevertheless, the risks to the projection are assessed as balanced. The main international risks include uncertainties in global growth, the prolonged presence of core inflation, and continued restrictive monetary policy measures by leading central banks. Additional risk factors include geopolitical tensions and the prices of energy and raw materials. In a broader context, geopolitical fragmentation and the green transition present both challenges and opportunities for Serbia's deeper integration into European and global economic flows. Serbia will continue to strengthen its trade and investment relations with the European Union and other key partners, enhancing productivity in critical sectors such as manufacturing, ICT, and energy.

Serbia has significant reserves to protect against uncertainties. High foreign exchange reserves and public sector deposits, relatively low public debt, sustainable external and public debt dynamics, and a well-capitalized and liquid banking system provide a solid buffer in the event that certain negative risks materialize. Additionally, Serbia is an attractive destination for FDI, reflecting its strong macroeconomic position. The precautionary arrangement with the International Monetary Fund provides additional security by defining appropriate economic policies and structural reforms aimed at faster economic growth and strengthening economic resilience. Upon completion of the current arrangement, a continuation of cooperation has been agreed through the Policy Coordination Instrument (PCI), which will be non-financial in nature and will last for the next three years. The new arrangement is a clear signal that medium-term economic policy is oriented towards accelerated growth, development, and modernization, while preserving macroeconomic stability.

# **2. IMPLEMENTATION OF THE POLICY GUIDANCE**

Implementation of the Policy Guidance for individual policies as part of the Joint Conclusions related to the Economic Reform Programme (ERP) in the period 2025−2027, adopted at the meeting of the Economic and Financial Affairs Council of the Council of the European Union (ECOFIN Council), held on Jun 2024 in Brussels, within the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye, reflects in numerous reform measures and activities of the Government.

**Implementation of the ECOFIN Council policy guidance set out in June 2024 for the Republic of Serbia**

*-Keep an appropriately tight fiscal stance in 2024 to help disinflation and strictly adhere to the new fiscal rules in order to enhance their credibility.*

The Government of the Republic of Serbia is committed to maintaining fiscal discipline in the medium term. The targeted fiscal deficits in the coming years ensure a declining trajectory of public debt. The projected fiscal deficit for the period 2025–2027 remains at the level of 3% of GDP, creating room for financing important investment projects within the development plan "Leap into the Future – Serbia 2027," as well as financing the strengthening of national security.

In order to fully implement the investment cycle, the application of the fiscal deficit limitation component within the fiscal rule will be delayed, considering the declining trajectory of public debt. By the end of the medium-term period, general government debt is estimated to amount to 47.6% of GDP. With the amendment to the Budget System Law, adopted in November 2024 (Official Gazette, N. 94/2024), the fiscal deficit component of the fiscal rule will be delayed until 2029.

*- Implement the action plan for 2023-2026 to strengthen medium-term budgeting, inter alia by developing tools and methodology for a stable strategic fiscal planning.*

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

*-Appoint members of the Fiscal Council following the recent expiry of some of their mandates.*

According to the provisions of the Budget System Law, by which, the Fiscal Council has been established, the Fiscal Council consists of three members elected by the National Assembly. Professional services of the Fiscal Council are performed by professional and administrative services (Article 92a).

Members of the Fiscal Council are proposed by: 1) the President of the Republic proposes the President of the Fiscal Council; 2) the Minister of Finance proposes one member; 3) the Governor of the National Bank of Serbia proposes one member (Article 92b).

The mandate of the previous president of the Fiscal Council has expired, so the National Assembly elected a new president of the Fiscal Council on July 31, 2024, in accordance with the procedures. The mandate of one Council member has also expired, and on the proposal of the Ministry of Finance the mandate/reappointment of the existing member has been renewed.

*-Adopt the necessary by-laws to fully implement the new SOE law and strengthen SOE governance, reducing the associated fiscal risks.*

The necessary by-laws, regarding full implementation of the new SOE law, are approved and published in Official Gazette, No. 77/24:

1. Decree on Determining the List of Majority and Minority-Stake SOEs

2. Decree on the Criteria for Choosing the Legal Form of the Capital Company

3. Decree on Additional Conditions and Procedure for Appointment of Capital Company Bodies, as well as the Procedure for Conducting a Public Competition for Selection of a Director

4. Decision on the Code of Corporate Governance of Capital Companies.

The Regulation on the Professional Development Program in the field of corporate governance was also adopted and published in the "Official Gazette of the Republic of Serbia", No. 85/24.

*- Reinforce fiscal risk analysis and management capacity, fully implement the risk methodology and publish comprehensive fiscal risk reports.*

The Fiscal Risks Monitoring Department of the Ministry of Finance continued work on the implementation of the models envisaged by the relevant Methodology. We have expanded and broadened our reporting in the Fiscal Risk Section of the Fiscal Strategy for the 2025-27 period, published in June 2024. We continue to work on standardizing and enhancing the scope of fiscal risk coverage in the Revised Fiscal Strategy for the 2025–2027.

*- Building on progress with the electronic public wage and employment registry, implement the preparatory steps towards an appropriately designed public sector wage system reform.*

The phased establishment of a central electronic public wage and employment registry Iskra is well advanced. This registry allows for better planning, executing, and controlling of wage spending. The system covers: direct budget users and indirect budget users at the Republic level with the most important ones being the judicial sector, the cultural sector, the employment and social affairs sector, the education sector apart from higher education institutions; and the health sector. From January 2025, Iskra will also cover local self-government units with indirect beneficiaries (preschool institutions, cultural institutions, social welfare institutions). Coverage of the remaining public employees (Ministry of Defence, Ministry of Internal Affairs, Security Information Agency BIA and higher education institutions) will be completed by 2027.

The Iskra registry will play an essential role in designing and implementing a comprehensive reform of the public wage system.

*- Ensure a sufficiently tight monetary policy stance as long as necessary to anchor inflation expectations at levels consistent with price stability, underpinned by a thorough assessment of possible second-round effects.*

Inflation has been hovering within the target tolerance band since May, and that is likely to stay there until the end of the projection horizon and decline further towards the midpoint.

Taking into account the actual and expected movement of key inflation factors, the NBS Executive Board proceed with monetary easing by cutting the key policy rate and, since mid of year, cumulative trim was 75 basis points, to 5.75%. However, despite the initiated easing, monetary policy remains tight.

According to latest surveys, one year ahead inflation expectations of the financial sector stood at the range 3.4–3.75%, while medium term expectations continued to move around the NBS target midpoint (3.0%).

The NBS Executive Board will continue to follow closely and analyse developments in the domestic and international market and make monetary policy decisions on a meeting-to-meeting basis depending on the assessment of incoming data, the outlook for inflation and its key factors, and the effects of past monetary policy measures.

*- Further enhance risk-based supervision in line with best international and European practices, including by further strengthening the reporting framework across the banking system, phase out temporary measures affecting market mechanisms in setting mortgage interest rates and foster NPL resolution including by further developing the secondary market for NPLs.*

In terms of best international and European practices, the National Bank of Serbia continuously fosters risk-based supervisory approach and improves the reporting process across the banking system.

The Decision on Temporary Measures for Banks Relating to Natural Persons’ Housing Loans fulfilled its goal of preventive action in conditions of global interest rate instability, preventing the emergence and growth of NPLs in the housing loan portfolio of the banking sector and preserving financial stability. The effectiveness of this measure is evidenced by the fact that since its entry into force more than 10,000 housing loans have been approved, totaling around EUR 660 million, and the NPL indicator in the segment of housing loans was only 1.5% in August 2024.

As a result of the regulatory and supervisory activities of the NBS, which are supported by the commitment of the banking sector to the timely resolution of asset quality issues, the stability of the financial system was preserved and the NPL indicator was additionally lowered to 2.73% in August 2024, which is its historically lowest value.

Currently, the resolution of the remaining problematic placements of banks in bankruptcy and placements in the name and on behalf of the Republic of Serbia, which are managed by the Deposit Insurance Agency, is ongoing.

*- Continue efforts to promote the use of the domestic currency, including by enhancing long-term financing in domestic currency, further encouraging forex hedging and raising awareness of risks related to forex lending*

In order to provide preferential treatment of dinar sources of banks’ funding, the NBS applies lower reserve requirement rates on dinar sources (especially long-term). The latest increase of reserve requirement ratios (which took place in September 2023) have additionally improved the treatment, as the ratios for dinar sources of funding were increased to a lesser extent compared to FX sources of funding.

Also, the NBS provides preferential treatment of dinar sources, as it remunerates reserve requirement allocated in dinars (currently at 0.75%), while it does not remunerate reserve requirement allocated in foreign currency.

In order to limit the systemic risk of euroization, a protective capital buffer for structural systemic risk has been applied since June 2017. In the last examination in March 2024, it was maintained at the level of 3% of total foreign currency and foreign currency-indexed bank receivables approved to the enterprises and household in Serbia. All banks where this share is greater than 10% are obliged to maintain the protective capital buffer.

The NBS continues to provide banks with the possibility of concluding bilateral swap transactions as assistance to banks in managing dinar and foreign currency liquidity and help to overcome insufficient limits for interbank trade. In these transactions the NBS mediates between two banks with neutral effect on dinar and euro liquidity of the banking sector.

Coverage of the remaining public employees (Ministry of Defence, Ministry of Internal Affairs, Security Information Agency BIA and higher education institutions) will be completed by 2027.

The Iskra registry will play an essential role in designing and implementing a comprehensive reform of the public wage system.

*- Ensure a sufficiently tight monetary policy stance as long as necessary to anchor inflation expectations at levels consistent with price stability, underpinned by a thorough assessment of possible second-round effects.*

Since May of this year, inflation has been within the National Bank of Serbia’s (NBS) target range and is expected to remain there until the end of the projection horizon, with a gradual decline toward the central target value.

Taking into account the actual and expected movement of key inflation factors, the NBS Executive Board proceed with monetary easing by cutting the key policy rate and, since mid of year, cumulative trim was 75 basis points, to 5.75%. However, despite the initiated easing, monetary policy remains tight.

According to latest surveys, one year ahead inflation expectations of the financial sector stood at the range 3.4–3.75%, while medium term expectations continued to move around the NBS target midpoint (3.0%).

The NBS Executive Board will continue to follow closely and analyse developments in the domestic and international market and make monetary policy decisions on a meeting-to-meeting basis depending on the assessment of incoming data, the outlook for inflation and its key factors, and the effects of past monetary policy measures.

*- Further enhance risk-based supervision in line with best international and European practices, including by further strengthening the reporting framework across the banking system, phase out temporary measures affecting market mechanisms in setting mortgage interest rates and foster NPL resolution including by further developing the secondary market for NPLs.*

In terms of best international and European practices, the National Bank of Serbia continuously fosters risk-based supervisory approach and improves the reporting process across the banking system

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As a result of the regulatory and supervisory activities of the NBS, which are supported by the commitment of the banking sector to the timely resolution of asset quality issues, the stability of the financial system was preserved and the NPL indicator was additionally lowered to 2.73% in August 2024, which is its historically lowest value.

Currently, the resolution of the remaining problematic placements of banks in bankruptcy and placements in the name and on behalf of the Republic of Serbia, which are managed by the Deposit Insurance Agency, is ongoing.

*- Continue efforts to promote the use of the domestic currency, including by enhancing long-term financing in domestic currency, further encouraging forex hedging and raising awareness of risks related to forex lending*

In order to ensure greater use of dinar sources of financing by banks, the NBS applies lower reserve requirement rates for dinar sources (particularly long-term sources). The recent increase in the reserve requirement rate (which occurred in September 2023) further improved the preferential treatment of dinar sources, as the indicators for dinar sources of financing were increased to a lesser extent compared to foreign currency sources.

Also, the NBS provides preferential treatment of dinar sources, as it remunerates reserve requirement allocated in dinars (currently at 0.75%), while it does not remunerate reserve requirement allocated in foreign currency.

In order to limit the systemic risk of euroization, a protective capital buffer for structural systemic risk has been applied since June 2017. In the last examination in March 2024, it was maintained at the level of 3% of total foreign currency and foreign currency-indexed bank receivables approved to the enterprises and household in Serbia. All banks where this share exceeds 10% are required to maintain the protective capital buffer at the specified level.

The NBS continues to provide banks with the possibility of concluding bilateral swap transactions as a form of assistance in managing dinar and foreign currency liquidity and overcoming insufficient limits for interbank trading. In these transactions, the NBS acts as an intermediary between two banks, with a neutral impact on the dinar and foreign currency liquidity of the banking sector.

# **3. MEDIUM-TERM MACROECONOMIC FRAMEWORK**

3.1. ASSESSMENTS OF THE INTERNATIONAL ECONOMIC ENVIRONMENT

After almost five consecutive quarters of stagnation, from the end of 2022 and throughout 2023, the EU economy recorded moderate growth in the first three quarters of 2024, amounting to 0.8% compared to the same period of the previous year. According to the European Commission’s Autumn economic forecast of the (hereinafter: EC), economic growth in EU countries will amount to 0.9% in 2024, which is a slight downward revision of 0.1 pp. compared to Spring forecast and 0.4 pp. less than the previous Autumn projection. The downward revision is primarily due to slower than previously estimated growth in private consumption and a lower volume of investment in the first half of 2024. Household disposable income continued to grow, primarily due to higher employment and real wages growth. However, purchasing power is still below its 2022 peak due to high inflation in the previous period, while rising uncertainty is affecting households' increased tendency to save. The household saving rate in the second quarter of 2024 was 14.8%, which is more than 3 pp above the pre-pandemic average. These factors resulted in slower than previously expected growth of private consumption, which will still remain the main generator of economic activity growth in 2024. At the same time, investment fell by around 2.5%, primarily as a result of the extremely volatile dynamics of investment in intellectual property products by multinational subsidiaries in Ireland, but also due to a decrease in investment in real estate and equipment. High interest rates and tighter credit conditions have reduced household demand for new housing, while structural changes, such as hybrid working models and online sales, are reducing demand for office and retail space. Investment in equipment has also faced pressures due to the slow recovery in manufacturing, but also to growing uncertainty about trade, energy prices and the pace of the green transition. As a result, instead of the previously projected slight growth in fixed investment in 2024, a decline of 1.6% is now expected. The recovery in global goods trade and the continued expansion of services trade have boosted exports, which is also projected to grow by 1.4% in the new projection, while imports will grow at a more slowly rate of 0.2%, so that the contribution of net exports to GDP growth will remain positive in 2024.

Tighter financing conditions are expected to weigh on growth in the short term, but the impact of high interest rates is expected to fade over the projection horizon, leading to an acceleration in economic growth to 1.5% in 2025 and 1.8% in 2026. Despite a somewhat slower pace of private consumption growth, it is still expected to be the main driver of medium-term growth, driven by strong wage growth and slowing inflation, as well as rising consumer confidence. Housing investment is projected to pick up in 2025 as the effects of tighter financing conditions gradually fade and real household disposable income continues to grow. Business investment will accelerate over the projection horizon, driven by improving demand, easing adverse financing conditions and increasing green and digital investment, as well as positive effects from the Next Generation EU programme. Factors affecting export competitiveness, such as higher production costs due to rising energy prices and strong real wage growth, as well as structural problems in the industrial sector in some countries, continue to weigh on export activity. Exports are expected to gradually recover in early 2025, but at rates below historical averages. At the same time, moderate import growth is expected, resulting in a largely neutral contribution to net exports over the projection period. The economic activity of our largest foreign trade partners, primarily Germany and Italy, continues to be significantly affected by the conflict in Ukraine and problems in the industrial sector, which negatively affects all components of economic growth. Economic activity in Germany is expected to decline by 0.1% in 2024 (according to the Spring projection, growth of 0.1% was expected), while growth for 2025 has been revised downwards from 1.0% to 0.7% compared to the Spring projection. The Italian economy will grow by 0.7% in 2024, while growth will amount to 1.0% in 2025, which represents a downward revision of 0.1 p.p. compared to the Spring projection. Uncertainty and risks to the realization of the projection remain largely tilted to the downside and relate to the further course of the conflict in Ukraine and the Middle East, the negative consequences of protectionist measures on global trade, low levels of productivity, as well as climate change.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *Table 1. Macroeconomic projections for the EU, changes relative to the previous year, %* | | | | | | |
|  | Current projection | | | | Previous (Spring) projection | |
|  | 2023 | 2024 | 2025 | 2026 | 2024 | 2025 |
| GDP | 0,4 | 0,9 | 1,5 | 1,8 | 1,0 | 1,6 |
| Private consumption | 0,5 | 1,2 | 1,4 | 1,6 | 1,3 | 1,7 |
| Government consumption | 1,7 | 2,1 | 1,3 | 1,2 | 1,6 | 1,2 |
| Gross fixed capital formations | 1,8 | -1,6 | 2,1 | 2,8 | 0,3 | 2,0 |
| Exports | 0,1 | 1,4 | 2,2 | 3,0 | 1,4 | 3,1 |
| Imports | -1,2 | 0,2 | 2,6 | 3,0 | 1,3 | 3,3 |
| Employment | 1,1 | 0,8 | 0,6 | 0,5 | 0,6 | 0,4 |
| Unemployment rate | 6,1 | 6,1 | 5,9 | 5,9 | 6,1 | 6,0 |
| Inflation | 6,4 | 2,6 | 2,4 | 2,0 | 2,7 | 2,2 |
| Unit labour costs | 6,8 | 4,8 | 2,5 | 1,8 | 4,3 | 2,3 |
| General government fiscal result, % GDP | -3,5 | -3,1 | -3,0 | -2,9 | -3,0 | -2,9 |
| General government gross debt, % GDP | 82,1 | 82,4 | 83,0 | 83,4 | 82,9 | 83,4 |
| Current account balance, % GDP | 2,6 | 3,6 | 3,4 | 3,3 | 3,1 | 3,1 |

Source: ЕC, Autumn economic forecast, November 2024.

The EU labour market is expected to remain resilient and strong, although employment and wage growth will slow down compared to previous years. In 2024, employment growth is projected to increase by 0.8%, before slowing to 0.6% and 0.5% in 2025 and 2026, respectively. Nominal wage growth will also gradually slow down, but will remain high, allowing real wages to gradually reach levels that were common before the strong increase in inflation. Labour productivity growth is expected to strengthen over the projection horizon, but productivity levels will still remain below the long-term linear trend.

According to the EC's Autumn projections, the downward trend in inflation is expected to continue over the projection horizon. Inflation in the EU is projected to slow from 6.4% in 2023 to 2.6% in 2024 and 2.4% in 2025, while in 2026 the inflation rate will be aligned with the long-term target of 2.0%. The main factors contributing to the slowdown in inflation include the decline in energy prices, the effects of the previous period's tight monetary policy, as well as the gradual slowdown in nominal wage growth. Food prices will stabilize around historical averages in mid-2025, while inflationary pressures in the services sector will remain high until early 2025, and then begin to gradually decline due to slowing wage growth, expected productivity gains and the base effect.

Following the previous tightening of monetary policy, financial market conditions are becoming increasingly favourable, given the easing of inflation and the further weakening of inflationary pressures. The European Central Bank (hereinafter: ECB) has reduced its reference interest rate three times since the beginning of the year, by a total of 110 bp, reaching the current level of 3.40% in October. The reduction in the ECB reference interest rate has also led to a reduction in rates at other central banks outside the euro area, which created a spillover effect in bank and market interest rates and, in turn, stimulated demand for loans. The ECB will continue to closely monitor economic developments in the coming period and, accordingly, make future decisions on increasing the restrictiveness of monetary policy, in order to bring inflation closer to the target level of 2.0% in the medium term.

A slightly more restrictive fiscal policy is expected in the coming period. The EU fiscal deficit in 2024 will be 0.4 p.p. lower than the previously estimated, amounting to 3.1% of GDP, primarily as a result of the withdrawal of support measures introduced during the energy crisis. In 2025, additional fiscal tightening will continue, which will lead to a slight reduction of the fiscal deficit to 3.0% of GDP. Although the contribution of EU funds will be significant, it is estimated that fiscal policy will have a slightly restrictive impact on the EU economy in 2024, while in 2025 and 2026 the effect will be largely neutral. The restrictive fiscal policy in 2024 is mainly the result of a temporary reduction in expenditure financed from EU funds and the abolition of tax breaks for housing in Italy. In 2025, fiscal policy is expected to be neutral, as the decline in primary net current expenditure will be largely offset by an increase in public investment, due to the use of the Recovery and Resilience Fund and other EU funds. After a decrease of EU debt-to-GDP ratio in the period from 2021 to 2023 of almost 10 pp, it is expected to increase slightly from 82.1% in 2023 to 83.4% in 2026. This increase will be a consequence of a slight rise in debt servicing costs, as well as continued primary deficits in the mentioned period, which can not be compensated by high nominal GDP growth due to the slowdown in inflation.

3.2. CURRENT ECONOMIC DEVELOPMENTS AND OUTLOOK FOR 2024

**Real sector**. According to the Statistical Office of the Republic of Serbia (SORS), after year-on-year GDP growth in the first and second quarters of 2024 of 4.7% and 4.0%, respectively, in the third quarter GDP growth amounted to 3.1% y-o-y, which is in line with the expectations of the Ministry of Finance for this period. Viewed from the production side, GDP growth in the first nine months of 2024 of 4.0% compared to the same period of the previous year was led by the service sector, which achieved growth of 4.9%. An increase in economic activity was recorded in all service sectors, and the most significant contribution came from trade, transport and tourism, as well as from professional and technical services and ICT. Despite the still weak external demand and the renovation of capacities in NIS and EPS, industrial production recorded a growth in GVA of 2.7% in the first three quarters of 2024, primarily due to the activation of new production capacities as a result of the effectuation of FDI from the previous period. Construction was higher by 7.1% due to the continued implementation of infrastructure projects, as well as the growth of private investments, while agriculture, according to the first estimates of the SORS, recorded a decline of around 8% due to unfavorable agrometeorological conditions. Observed by aggregates of use, GDP growth in the first three quarters of 2024 was entirely determined by domestic demand. The increase in real disposable income of the population, primarily as a result of the growth of wages and pensions along with the growth of employment, was reflected in the acceleration of private consumption, which was higher by 4.3%. At the same time, investments in fixed assets grew by 8.1%, primarily due to increased construction work, but also to the acceleration of private investments. The contribution of net exports was negative due to faster growth in import activity (8.6%) than export activity (3.1%) as a result of increased imports of equipment for investment purposes, as well as consumer goods due to the growth of private household consumption.

High-frequency indicators also point to stable economic trends during 2024 in all economic sectors, except in agriculture, where unfavorable agrometeorological conditions during the summer months largely affected the corn and industrial crop yields.

In the first nine months of 2024, industrial production recorded an increase in physical volume of 2.8% y-o-y. In this period, the growth of industrial production was led by a higher volume of manufacturing industry, further supported by a higher volume of mining production, while the impact of the energy sector was negative due to lower electricity production. The manufacturing industry achieved an increase of 4.4% in the first nine months. The growth was diversified and achieved in 14 out of 24 activities. The most significant positive contribution to the growth of the manufacturing industry in this period came from the production of basic metals and the electronics industry, which recorded an increase of 38.5% and 80.5% y-o-y, respectively. In the previous nine months, the production of food products, as one of the most important activities of the manufacturing industry, recorded a growth of 5.8% y-o-y, with a positive contribution from the rubber industry, which achieved an increase in physical volume of 11.5% y-o-y. After a decline in the production of metal products in the previous year of 9.6%, the activity of this industry recovered during 2024, recording a growth of 10.0% in the first nine months. Despite the still weak external demand, the automotive industry and the production of electrical equipment achieved an increase in physical volume of 6.3% and 5.0%, respectively, thanks primarily to the effectuation of FDI from the previous period. On the other hand, the activities that achieved a decline in production collectively had a negative impact on the movement of the manufacturing industry of 1.9 p.p. The most significant negative contribution in the first nine months of 2024 came from the oil industry with a production decrease of 15.5% y-o-y, as a result of the planned overhaul at the NIS processing complex during April and May when the production of oil derivatives was almost completely suspended. In the same period, the production volume of the pharmaceutical and machinery industries was lower by 5.6% and 7.1% y-o-y respectively. The production of the energy sector in the first nine months of 2024 is characterized by divergent trends. Mining recorded a growth of 8.4% primarily as a result of higher exploitation of metal ore by 19.6%, while the most significant negative contribution came from coal exploitation, which was lower by 3.7%. At the same time, the volume of electricity generation was lower by 7.4%, primarily due to the poor hydrological situation, as well as the overhaul of EPS generation capacities during the summer months.

Positive trends were also recorded in the construction industry. In the first nine months of 2024, the value of completed construction works in the Republic of Serbia was 9.4% higher in real terms, supported by the growth in the value of completed works in civil engineering by 10.6% and in building construction by 7.1% year-on-year.

With the slowdown in inflation and the growth of real disposable income of the population since the middle of the previous year, there was an acceleration of real turnover activity in retail trade. Such trends continued during 2024, with the growth of turnover in constant prices in the first nine months being 6.7%. During this period, the increase in retail trade turnover was accompanied by a real growth in turnover of all three product categories - food products by 6.9% y-o-y, non-food products by 8.6% y-o-y and motor fuels by 2.4% y-o-y. During 2024, good trends in tourism and catering continued, with the number of tourist arrivals and overnight stays increasing by 5.7% and 1.5% year-on-year in the first nine months, respectively, accompanied by an increase in the activity of foreign tourists. In the first eight months, foreign exchange inflows from tourism increased by 13.0% year-on-year. In addition, the growth of turnover in the catering sector continued, with a real increase of 9.4% in the first eight months. The information and communication technology sector is continuously growing with an increasingly significant role of this sector, with a strong real growth of the GVA of this sector of 6.1% year-on-year in the first six months of 2024. This was also accompanied by an increase in export activity of the ICT sector during 2024., with exports from this sector valued at 2,6 billion euros in the first eight months, a year-on-year increase of 18.6%, which accounting for just over than two-fifths of the total export of service activities.

Based on current trends in economic activity, taking into account the adopted economic policy measures, the effects of the continued implementation of infrastructure projects additionally supported by the new investment cycle within the "Leap into the Future - Serbia 2027" program, and taking into account the economic outlook of the most important foreign trade partners, the Ministry of Finance expects GDP growth in 2024 of 3.8%, which is unchanged from previous expectations.

**Labour market.** The labour market in Serbia is experiencing positive changes, which are the result of continuous efforts to improve economic policies and create a favorable business environment. In recent years, the employment rate has been steadily increasing, while the unemployment rate has been decreasing, indicating increasing opportunities for employment and professional development of the population. According to data from the Central Register of Compulsory Social Insurance (CROSS), in the period January-September 2024, the average number of employees was 0.5% higher compared to the same period of the previous year, which was primarily contributed to by the growth of employment in the private sector by 9.5 thousand people, while in the public sector the growth was 2.4 thousand people. In this period, the strongest sectoral contribution to employment growth came from healthcare and scientific and technical activities, while the ICT, tourism, construction and entertainment and recreation sectors also made a positive contribution. According to data from the National Employment Service, in the same period, the number of people actively seeking employment decreased by 8.4%. According to data from the Labour Force Survey, in the first quarter of 2024, the employment rate increased by 1.4 pp to 50.9% compared to the same period of the previous year, while the unemployment rate decreased by 0.6 pp to 9.4%. At the same time, the number of employed population (15 and over) increased by 2.1%, with a decrease in the unemployed part of the population by 4.8%. The positive trends continued in the second quarter of 2024, as the number of employed persons increased by 48,400, reaching 2,899,700, while the number of unemployed persons decreased by 44,800 to 257,800. The employment rate was 51.4%, an increase of 1.1 percentage points compared to the same period of the previous year. This employment growth indicates positive trends in employment, which is the result of continuous efforts to improve the business environment and attract investment. It is particularly significant that the increase in employment is based on the growth of formal employment as a whole, which is key to economic growth and stability, as it creates jobs that contribute to tax revenues and provides social security. The unemployment rate decreased to 8.2%, a decrease of 1.4 percentage points compared to the same period of the previous year. This decrease in the unemployment rate shows that the labour market is stabilizing and that new employment opportunities are opening up. Also, the number of people outside the labour force decreased by 30,300, which further confirms the positive changes in the labour market. Informal employment, which is often an indicator of precarious jobs, also decreased by 8,100. The informal employment rate was 11.8%, a decrease of 0.5 pp. compared to the same period of the previous year. The decrease in informal employment outside agriculture, which fell to 5.9%, is particularly significant. The youth unemployment rate decreased by 4.2 pp. to 20.2% in this period. Based on data from the Republic Statistical Office in the period January-September 2024, the average net salary was 96,675 dinars. Compared to the same period of the previous year, the average net salary was nominally 14.5% higher, while the real increase was 9.3%. The high growth in real salaries is the result of positive economic trends and increased productivity in various sectors of the economy, as well as a significant slowdown in inflation. Real salary growth in the private sector was 9.2% and was driven primarily by an increase in salaries in the manufacturing industry and trade. At the same time, a real increase in public sector wages of 9.3% was recorded, which was influenced by the Government's decision to increase wages by 10% from January 2024, as well as the decision to increase the wages of teachers and some healthcare workers by 5.5% from October 2023.

***External sector.*** After hitting an almost record low level in 2023 (EUR 1.8 billion or 2.4% of GDP) amid a narrowing of the trade in goods deficit due to lower energy imports and the demonstrated resilience of exports to dampened external demand, the current account deficit expectedly rebounded in the first nine months of 2024, amounting to EUR 3.3 billion, buoyed by growing investment and personal consumption. Compared to the same period of 2023, the deficit on trade in goods increased by EUR 1,041.4 million and the deficit on the primary income account by EUR 665.5 million, while the surplus on trade in services and the secondary income account decreased by EUR 426.3 million and 401.5 million, respectively. The current account deficit was almost fully (97.8%) covered by the net FDI inflow.

Despite slackening external demand, goods exports continued recording positive growth rates in 2024, supported primarily by investment into tradable sectors in the prior period. In the nine months of 2024 goods exports amounted to EUR 21.3 billion, having increased by 1.5% y-o-y.[[1]](#footnote-1) The strongest contribution came from manufacturing (2.9% y-o-y, contribution of 2.5 pp), where export growth was registered in a half of the branches, as well as from agriculture, hunting and service activities (43.0% y-o-y, contribution of 1.3 pp) and mining (6.6% y-o-y, contribution of 0.3 pp). Looking at markets, goods exports mostly went to the EU (61.6%), CEFTA (15.3%) and Eurasian Union countries (4.2%). The following areas were the key drivers of export activity: production of base metals (2.6 pp), agriculture, hunting and service activities (1.3 pp), production of other transport equipment (0.9 pp), production of computers, electronic and optical products (0.5 pp), and the production of metal products except machinery (0.4 pp). A drop in exports was registered for electricity, gas and steam supply (-2.8 pp), partly because of the exceptionally high base, but also because of the drought-reduced hydropotential. A decrease in exports was also seen in the production of miscellaneous machinery and equipment (-0.9 pp) and electrical equipment (-0.7 pp).

In the nine months of 2024, goods imports amounted to EUR 26.8 billion, up by 5.3% y-o-y. In addition to unclassified goods, the largest contribution to import growth came from metal products except machinery (1.3 pp), other transport equipment (1.0 pp), coke and petroleum products (0.9 pp), metal ore (0.5 pp) and motor vehicles and trailers (0.5 pp). A drop in imports was recorded for crude oil and natural gas (-1.8 pp), electricity (-0.7 pp) and coal exploitation (-0.5 pp).

Exports of services increased by 10.4% relative to the same period last year, mainly as a result of stronger exports of ICT services (4.9 pp), other business services (2.7 pp) and tourism (2.2 pp). At the same time, imports of services went up by 19.5% y-o-y, driven chiefly by tourism (7.5 pp), other business services (3.6 pp) and intellectual property rights (3.0 pp). The services account is traditionally in a surplus, which contracted in the nine months of 2024 by 19.2% y-o-y, reflecting increased net imports of tourism, intellectual property rights and transport services, while ICT services worked in the opposite direction.

Around 71% of the trade in services pertains to 15 countries, of which seven are members of the EU (Germany, the Netherlands, Austria, Ireland, Croatia, Slovenia, Italy), two of CEFTA (Bosnia and Herzegovina and Montenegro) and one of EFTA (Switzerland). A significant exchange of services also takes place with the USA, UK, Russian Federation, United Arab Emirates and Turkey.

The deficit on the primary income account expanded by 23.7% y-o-y, primarily because of higher outflows under income from direct investments (by 29.3% y-o-y), while the surplus on the secondary income account contracted by 9.2% y-o-y amid reduced inflows in respect of grants to the Government (-29.8% y-o-y), and partly also amid lower inflows of remittances (-4.8% y-o-y). Namely, the inflow of remittances amounted to EUR 3.8 billion in the nine months of 2024 and was by EUR 163.1 million lower than in the same period of 2023. Remittances came from Germany (26%), Switzerland (13%), Austria (9%), France (6%), Croatia (6%), i.e. countries from which Serbia traditionally receives most remittances.

The financial account (without change in FX reserves) registered a net inflow of EUR 5.3 billion in the period January–September 2024. At the same time, net FDI inflow measured EUR 3.2 billion. The inflow to Serbia amounted to EUR 3.6 billion, up by EUR 399.5 million relative to the same period a year earlier. FDI inflow remained project-diversified, the bulk of it being absorbed by construction (28.9%), mining (25.1%) and manufacturing (11.8%). Based on the data for the first half of 2024, the major portion of FDI inflows continued to come from European (64.6%, from the EU – 43.4%) and Asian countries (32.1%).

Portfolio investments provided a net inflow of EUR 91.3 million in the period January–September 2024. Non-resident investment in eurobonds generated a net inflow of EUR 824.1 million. In June alone, net inflow from portfolio investments amounted to EUR 1.1 billion, as a result of Serbia’s successful issue of USD-denominated 10-year ESG eurobonds in the international financial market, at the coupon rate of 6.00%. Bonds were issued in the total amount of USD 1.5 billion, while investor demand exceeded EUR 6.5 billion. In addition, in the local primary market non-residents invested in dinar government securities worth EUR 463.1 million, while the maturing of government securities and sale in the secondary market resulted in a net outflow of EUR 378.3 million. On the other hand, resident investment in the international market accounted for an outflow of EUR 815.4 million, the investment pertaining mainly to foreign debt securities.

NBS FX reserves (without cross-currency and asset price changes) grew by EUR 2.5 billion in this period, staying well above the level ensuring adequate protection from external shocks. At end-September, FX reserves equalled EUR 28.3 billion, their highest level so far, covering more than seven months’ worth of the country’s imports of goods and services, 183.4% of M1 and around 347% of debt[[2]](#footnote-2) maturing in up to one year.

In the year as a whole, the current account deficit is projected at EUR 3.9 billion or 4.7% of GDP, with the maintained faster growth of imports than of exports of goods and services (8.2% vs. 5.8%) due to the pick-up in fixed investment and consequently higher imports of equipment and intermediate goods, and the sustained stable growth in the imports of consumer goods and an increase in private consumption.

***Exchange rate.*** Appreciation pressures on the dinar continue to prevail in 2024. To maintain relative stability of the exchange rate of the dinar against the euro, in the nine months of 2024 the NBS bought EUR 1.99 billion net in the local FX market and the dinar appreciated vis-à-vis the euro by 0.1% nominally. Appreciation pressures were supported by the inflows to the financial account of the balance of payments, which more than covered the current account deficit. FX supply largely originated from domestic companies, but other factors on the supply side also played a role – banks’ net purchase of foreign cash from authorised exchange dealers and natural persons, and the lengthening of banks’ FX position because of payment card use and their growing net indexed assets.

As of early 2024, ***inflation*** in Serbia continued decelerating and returned within the NBS target band (3±1.5%) in May. Afterwards, it continued to move within this band and measured 4.5% in October. Inflation decline relative to the peak reached in March 2023 was driven by all its key components, and most of all by food prices whose y-o-y growth since February this year has been continuously lower than headline inflation. Core inflation also fell sharply in this period (CPI excluding food, energy, alcohol and cigarettes). It halved from the peak posted in March last year as a result of the past monetary tightening, deceleration of imported inflation and a decline in inflation expectations. As in other countries of the region, including the euro area, core inflation was higher than headline inflation and moved slightly above 5% y-o-y in recent months, propped up by the higher prices of services.

***Lending activity and monetary developments.*** In 2024, the y-o-y growth of total domestic loans accelerated to 6.6% in September (from 1.0% at end-2023) owing to the increase in corporate and household loan demand amid relaxed credit standards. Lending growth was aided also by the lower funding costs, with the interest rates on dinar and euro loans on the decline since the end of last year owing to market expectations that the NBS and the ECB would soon start monetary policy easing. The easing was initiated in June this year, which only reinforced the downward trajectory of interest rates. By sector, corporate loans growth accelerated to 5.0% y-o-y, and household loans to 7.8%. The negative impact on the stock of corporate loans, stemming from the maturity of guarantee scheme loans, was significantly weaker than before.

Bank Lending Survey conducted by the NBS shows that in 2024 banks eased corporate and household credit standards, dominantly for dinar loans. The easing was driven primarily by the lower costs of funding, with interbank competition and expectations of a positive economic outlook working in the same direction. Household loan demand was on the increase throughout the year, led mainly by the need to refinance existing loans, purchase real estate, and procure durable consumer goods, with the positive influence from higher wages. Collectively, corporate loan demand went up in Q2 only, while the demand for dinar loans increased in Q1 and Q3. The growth in corporate demand was aided by the need to finance working capital, followed by debt restructuring and investments, while companies’ internal financing and loans of non-bank institutions worked in the opposite direction. Banks expect the easing of standards and a rise in the demand for loans in Q4 in case of both corporates and households.

In 2024, corporates mostly used liquidity and working capital loans, followed by import and investment loans. Such movements resulted in the share of liquidity and working capital loans in total corporate loans increasing to 47.8% in September, and the share of the next dominant category, investment loans measuring 40.6%. Corporate borrowing increased in almost every sector, and most of all in manufacturing and trade, whereas only the debt of agricultural corporates decreased. By size, loans granted to micro, small and medium-sized enterprises accounted for 58.7% of total corporate loans in September and their stock was 5.6% higher than a year earlier. The rise in household loans was driven by cash loans and their high disbursement was supported by bank promotional activities, lower interest rates and mitigated credit standards. Housing loans come next – in banks’ view, the demand for these loans has been on the rise since early 2024, which can be attributed to the NBS’s decision to temporarily cap interest rates on housing loans, the initiated easing of the ECB monetary policy, but also to the growth in wages.

In 2024, the dinarisation of the stock of total corporate and household receivables increased by 2.3 pp, to 36.8% in September, primarily owing to higher dinar lending. The degree of dinarisation of corporate receivables increased by 2.7 pp to 20.0% in September, and of household receivables by 1.2 pp to 55.3%. The continuous growth in dinar loans was favourably affected by the Decision on Capital Adequacy of Banks, which sets out that starting from 2025, when calculating capital adequacy ratios, banks are required to reduce capital if the share of FX-indexed and FX loans in their total loans to non-financial and non-government sector, approved after 1 July 2023, exceeds the established ceiling (71% in 2025).[[3]](#footnote-3)

For this and the next year we expect lending growth of 7% each, owing to more favourable financing conditions and stepped-up economic growth. In the medium term, lending growth is expected to accelerate gradually, consistent with nominal GDP growth.

In September, monetary aggregates M1 and M2 recorded nominal y-o-y growth of 15.5% each and M3 of 12.0%. Dinar demand deposits and savings and time deposits increased to a similar extent, with the rise in both cases driven by household deposits. Dinar household savings reached a new peak (RSD 171.4 billion) in September,[[4]](#footnote-4) whereby their share in total household savings rose to 9.4% (compared to 8.0% at end-2023 and 1.9% at end-2012). FX deposits also continued to increase, driven by household (affected also by remittances inflow) and corporate deposits (owing to growing FDIs, exports and cross-border borrowing). The dinarisation of corporate and household deposits stood at 44.2% in September, which is close to the record level posted at end-2023 (44.4%) and significantly higher than at end-2012 (19.3%).

***Financial sector.*** There were no significant changes in the structure of Serbia’s financial sector during 2024 – the banking sector remains dominant, accounting for over 90% of total financial sector assets. As at 30 September 2024, Serbia’s banking sector comprised 20 banks, of which 15 were majority-owned by foreign entities, two were majority-owned by the Republic of Serbia, and three were majority-owned by domestic legal persons. The market is dominated by banks with majority foreign ownership, accounting for 77.5% of total balance sheet assets, 80.7% of total gross loans, and 76.5% of total deposits of the banking sector.

At end-September 2024, balance sheet assets and capital of the banking sector amounted to RSD 6,308 billion and RSD 895 billion, respectively. Solid capital reserves built by banks in previous years have made them more resilient to risks in the context of ongoing uncertainties in the international environment. At end-September 2024, the capital adequacy ratio of the banking sector stood at 21.85%, and leverage ratio (according to Basel III) at 10.57%, confirming the high solvency of the banking sector.

Banking sector liquidity reserves are more than sufficient to cover potential liquidity needs, as confirmed by all key liquidity indicators. At end-September 2024, the liquidity coverage ratio was 195.30%, and the net stable funding ratio 182.21%.

The banking sector maintained satisfactory profitability in 2024. Total net pre-tax profit achieved in the year to September amounted to RSD 143.01 billion, with profitability indicators of ROA at 3.11% and ROE at 22.26%.

Nine years after the adoption of the NPL Resolution Strategy, the NPL share in total gross loans decreased by 19.50 pp, amounting to 2.75% at end-September 2024. The gross NPL balance in the same period fell by 76.64% (from RSD 427.3 billion to RSD 99.8 billion). The NPL share in total corporate and household loans was 2.28% and 3.73%, respectively. The coverage of NPLs by allowances for impairment carried out in accordance with the IFRS amounted to 61.78% at end-September 2024.

The NBS regularly reviews the ***capital buffer requirements*** aimed at mitigating systemic risks in the financial system of the Republic of Serbia. The most recent review of the systemic risk buffer took place in March 2024, when the NBS decided to maintain this buffer at 3% of a bank’s total FX and FX-indexed corporate and household loans. Capital buffer for systemically important banks is reviewed at least annually, and nine banks identified as systemically important for the Republic of Serbia are required to maintain this buffer as of 30 June 2024 (four banks at a rate of 2%, and the remaining five banks at a rate of 1%)[[5]](#footnote-5). The countercyclical capital buffer (CCyB) rate for the Republic of Serbia is reviewed quarterly. On 12 September 2024, the NBS decided to maintain the CCyB rate at 0%, given that the share of total loans in GDP in Q2 2024 hovered around its long-term trend and that the credit-to-GDP gap remained below the 2 pp threshold needed for the introduction of CCyB. By keeping the CCyB rate at 0%, the NBS supports the lending market in an environment of persistently tight global financing conditions. In September 2024, banks allocated a total of RSD 199.3 billion of Common Equity Tier 1 capital, or 5.7% of risk-weighted assets, to maintain all prescribed capital buffer requirements.

In November 2023, the NBS adopted the new **Decision on Liquidity Risk Management by Banks**, which introduced the net stable funding ratio (NSFR) and aligned the rules for calculating the existing liquidity coverage ratio (LCR) with changes in the EU. The existing indicators – liquidity ratio and narrow liquidity ratio of banks – were further adjusted.

In this regard, the **Decision Amending the Decision on Reporting Requirements for Banks** was adopted to implement the regulatory solutions from the Decision on Liquidity Risk Management by Banks through the reporting system. Specifically, new reports for calculating the NSFR were introduced, along with corresponding amendments to the existing reports required for LCR calculation and the daily liquidity ratio report. Both Decisions have been applied since 30 June 2024.

This established a comprehensive and modern legal framework for liquidity risk management in banks – in accordance with Basel standards and European regulations, while taking into account local specificities.

The NBS prepared the **Draft Law Amending the Law on Banks** to further enhance and modernise the legal framework for the operation, supervision and resolution of banks.

The most significant novelty is the establishment of the **Bank Resolution Fund**, which will be managed by the NBS. This protective mechanism ensures alignment with the Directive establishing a framework for the recovery and resolution of credit institutions and investment firms. Fund membership will be mandatory for all banks, which will, by paying contributions, directly ensure funds for financing potential bank resolution procedures, thereby reducing the risk of using taxpayer money for such purposes.

Moreover, the **bank operational framework** will be further strengthened, primarily through more detailed regulation of corporate governance in banks (introducing the concept of key function holders in banks, additional condition related to the appointment and dismissal of managing board members, improving internal controls in banks) and the management of risks to which banks are exposed in their operations. Particular attention was also paid to relevant aspects of **money laundering and terrorist financing risk management**.

The NBS **supervisory function is also being modernised**, especially by introducing the possibility of concluding the so-called supervision agreements between the NBS and banks, particularly in situations requiring a swift response to address irregularities, especially those causing or contributing to material losses for consumers. Supervision in the form of mystery shopping is also regulated, allowing NBS supervisors to gain insight into how banks apply regulations governing banking services concerning consumers. The framework for fines for banks and members of their executive and managing boards has been upgraded, and the disclosure of measures imposed during supervisory procedures has been regulated.

A public debate about the Draft Law Amending the Law on Banks was carried out, and the adoption of the proposed amendments is expected by the end of 2024.

By adopting the proposed amendments to the Law on Banks, the process of harmonising domestic legislation with EU regulations will continue, completing an efficient and effective bank resolution framework, aligning the legal framework for bank operations with actual needs and practical experience, and significantly enhancing the NBS supervisory function by expanding the range of supervisory instruments available.

By establishing the **instant payments system** – the NBS IPS system, the NBS has enabled retail payments to be executed in real time, 24/7/365. Alongside developing the infrastructure for accepting instant payments at merchants’ points of sale – via cash registers, fiscal software, merchant mobile applications, POS terminals, and online sales platforms, the NBS has enhanced the online instant payment service by implementing deep link technology. This allows customers to complete the entire purchasing process using only one device (e.g. a mobile phone) without leaving sensitive payment instrument data online. Bill/invoice payments have been simplified by scanning the NBS IPS QR code on bills/invoices, eliminating the need to visit a bank – a feature that proved particularly effective during the pandemic. Since September 2021, banks can offer their customers the new “Transfer” service, within m-banking applications, enabling citizens to send money to a recipient’s account in a simple, fast and safe way, using just their mobile phone number. Instant payment of fees for public administration services has also been enabled through the eGovernment portal by scanning the NBS IPS QR code on unique payment slips, contributing to the digitalisation of the public administration and improving the efficiency of public services.

With the development of the new payment infrastructure based on instant payments, non-bank payment service providers are enabled to participate in the NBS IPS system and offer instant payment services, fostering competition in the payment services market.

As part of the activities to meet the criteria for joining the Single Euro Payments Area (SEPA), the NBS fully transposed the Payment Services Directive 2 (PSD2) into national legislation with amendments to the **Law on Payment Services**, adopted on 31 July 2024 and effective as of 8 August 2024. It also adopted the Decision on Special Requirements for Credit Transfers and Direct Debits in Euro (RS Official Gazette, No 68/2024), implementing Article 5 and Annex of Regulation (EU) No 260/2012.

Furthermore, on 14 August 2024, the NBS submitted the Draft Application for the Accession of the Republic of Serbia to the Single Euro Payments Area – SEPA to the European Commission’s Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), followed by a submission to the European Payments Council on 23 August to obtain a preliminary opinion. The Draft Application contains comprehensive information showing that Serbia meets the criteria prescribed by the European Payments Council document “Criteria for the extension of the SEPA geographical scope”.

The NBS plans to submit a formal (complete) application to the European Payments Council no later than the end of Q1 2025.

Keeping abreast with global trends, Serbia adopted **the Law on Digital Assets**, which regulates the issuance and secondary trading of digital assets, including the operation of platforms for trading virtual currencies and their exchange for money. Since the start of application of the Law – 29 June 2021, the NBS has issued two licences to provide digital asset services. Currently, two licensed digital asset service providers operate in Serbia.

3.3. MEDIUM-TERM MACROECONOMIC SCENARIO

The expected medium-term trends in the real sector take into account current economic trends and prospects for Serbia and the international environment. The government will continue to pursue a responsible and predictable fiscal policy, synchronized with monetary policy, focusing on minimizing the negative economic consequences of increased geopolitical tensions while also identifying new sources of growth. This three-year scenario reaffirms the government's commitment to preserving the economic growth model based on investments and exports, which is supported by the growth of private consumption and the further improvement of living standards.

According to the medium-term macroeconomic projection, the cumulative growth rate in the period from 2025 to 2027 will be 13.7%. Economic growth will be determined by the growth of domestic demand, with a slightly negative contribution from net exports. This source of growth is determined by both the strong continuation of the investment cycle and the growth of investment activity, as well as the increase in private household consumption due to the growth of real disposable income. On average, the Serbian economy will grow at a rate of 4.4% annualy. The increase in real household consumption will follow the growth of economic activity and will average 3.4%. Stable growth in fixed investments is expected, averaging 7.4% per year. The high level of public investment will be accompanied by the growth of private investment, so the share of fixed investment in GDP is expected to be 26.5%. at the end of the projection period. With the activation of new production capacities and the recovery of external demand, the volume of foreign trade will also increase. In addition, the implementation of FDI from the previous period will contribute to increased competition and affect the efficiency of domestic producers, while on the other hand, new sales channels will be activated and new market niches will be opened. Exports will grow at an average annual rate of 7.6%, which is faster than the expected annual growth of imports, which will average 6.9%, but due to the higher share of imports, the contribution of net exports to GDP growth will be slightly negative.

*Table 2. Projection of key macroeconomic indicators of the Republic of Serbia*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Estimate |  | Projections | | |
| 2024 | 2025 | 2026 | 2027 |
| GDP, billion dinars (current prices) | 9.604,8 | 10.328,9 | 11.087,6 | 11.993,1 |
| Real GDP growth, % | 3,8 | 4,2 | 4,0 | 5,0 |
| GDP deflator, % | 5,0 | 3,2 | 3,2 | 3,0 |
| Private consumption | 4,5 | 4,1 | 3,2 | 2,9 |
| Government consumption | 3,1 | 2,2 | 2,2 | 2,0 |
| Gross fixed capital formation | 9,2 | 7,7 | 7,5 | 7,0 |
| Exports of goods and services | 4,4 | 5,9 | 6,9 | 9,9 |
| Imports of goods and services | 8,0 | 6,5 | 6,8 | 7,4 |

Source: MoF

From the supply side, the service and industry sector, with the largest share in GDP, will consequently retain their role as dominant sources of growth and increase the created GVA with an average annual growth of 4.5% and 4.4%, respectively. A significant positive contribution will also come from construction, which will record an average growth of 7.6% as a result of the acceleration of the implementation of infrastructure projects, as well as the start of a new investment cycle, but also due to the acceleration of private investments. Achieving European standards and increasing competitiveness in agriculture should reduce the variability of production in this sector caused by agrometeorological conditions, but the assumption of an average agricultural season is retained in this macroeconomic framework too.

*Chart 1. Contributions to the real GDP growth rate, production and expenditure approach, pp*

According to the central scenario, potential GDP growth is expected to continue at a rate of 4% in the medium term. The implementation of capital projects and the continuation of the initiated investment cycle, supported by both a stable inflow of FDI and investments in innovation and development, will ensure an increasingly strong contribution of capital and factor productivity to the growth of potential GDP. Digitalization will significantly accelerate these processes and further increase the efficiency of the use of available capacities. The government will further influence the potential of the economy through significant investments planned in energy infrastructure. An adequate and credible monetary policy, along with further improvements in the financial system and a more favorable investment environment, the transfer of knowledge and technology from the most developed countries should ensure a positive impact on both factors of production. On the other hand, strengthening the rule of law, reforming economic and business legislation, speeding up procedures and increasing administrative efficiency should ensure the maximization of factor productivity in the medium term. Favorable developments in the labour market will also contribute to potential GDP growth, although at a slower pace than in the previous period.

*Chart 2. Contributions of the factors of production to the potential GDP growth rate, pp*

**Labour market.** In the coming period, the labour market is expected to maintain positive trends, in line with favorable macroeconomic indicators, as well as due to the encouragement of entrepreneurship, modernization of the education system and support for the employment of vulnerable groups. Increasing labour mobility and strengthening cooperation between educational institutions and the economy will contribute to further reducing unemployment and increasing employment, thereby improving the living standards of the population. Public policy makers are actively working on measures aimed at improving the quality of the labour force and investing in human capital, in order to facilitate employment, especially in sectors with higher added value. Efforts will continue to reduce the number of employees in the gray economy and their transition to the formal sector, which will improve working conditions and positively affect budget revenues. In the medium term, positive effects are expected from active employment policy measures, retraining and support for social entrepreneurship, which will facilitate access to jobs for socially vulnerable categories and ensure inclusive economic growth. Projections indicate a decrease in the unemployment rate and continued real wage growth. In the private sector, wage growth is expected to be correlated with productivity growth, while wages in the public sector will grow in accordance with established fiscal rules.

***Monetary policy, exchange rate policy and inflation***

The NBS has implemented the ***inflation targeting regime*** as its monetary strategy since 2009. Thanks to the achieved price stability, anchored inflation expectations, significant improvement in macroeconomic indicators and outlook for Serbia, and above all, the sustainable narrowing of external and internal imbalances, since 2017 the inflation target has been lowered to **3%±1.5 pp and set at that level by end-2026**. This confirms the NBS and Serbian Government’s commitment to taking measures toward maintaining low, stable and predictable inflation in the medium term.

The main instrument for achieving the inflation target is the **key policy rate** applied in one-week reverse repo operations, while other monetary policy instruments (lending and deposit facilities, required reserves and FX market interventions) have a supporting role.

In accordance with the chosen monetary strategy, the NBS **will continue to implement the managed floating exchange rate regime**. It will intervene in the FX market in order to ease excessive short-term volatility of the dinar exchange rate against the euro, preserve price and financial system stability, and maintain an adequate level of FX reserves.

Having in mind the continuously declining inflation at home, its return within the target band in May 2024, and the outlook for inflation and other macroeconomic indicators from the domestic and international environment, at its meetings in June, July and September, the NBS Executive Board lowered the key policy rate by 25 bp each, to the level of 5.75%. The rates on deposit and lending facilities were trimmed to the same extent, to 4.50% and 7.00%, respectively.

In addition, using the flexibility of its monetary framework, as of June the NBS decided to gradually scale down the supply in one-week repo auctions in line with the estimated banks’ demand, which together with the key policy rate cuts, helped decrease the weighted average repo rate to 4.52% (13 November), i.e. by 105 bp relative to end-May, sharper than the decrease in the key policy rate in the same period (75 bp).

***Medium-term inflation projection***

According to the NBS November projection, y-o-y inflation will continue to move within the target tolerance band (3±1.5%) in the next two years, i.e. over the projection horizon. Y-o-y inflation should gradually slow down in the coming period and approach the target midpoint in late 2025. Such inflation profile will be underpinned mainly by the still restrictive monetary conditions, the anchoring of not only medium-term but also short-term inflation expectations within the target band, as well as by the lower imported inflation and slower economic growth in the euro area. The downward inflation trajectory will also be supported by the projected softer growth in real wages and the anticipated drop in global oil prices as indicated by futures.

The key risks to the inflation projection are still primarily associated with factors from the international environment, notably geopolitical relations, protectionist measures and the global economic outlook, as well as their impact on global energy and other primary commodity prices. When it comes to domestic factors, they include the impact of weather conditions on the supply and prices of fruits and vegetables, as well as the pace of growth of domestic demand, above all investment demand, based on the level of FDI inflows and investment in infrastructure and the energy sector. Overall, the risks over the projection horizon are judged to be balanced.

***External sector and its medium-term sustainability***

Thanks to FDI inflow to export-oriented sectors, supported by the achieved macroeconomic stability and a more stimulating business environment, the past few years have seen increased export diversification – both by product and geography. This is suggested by the lowering of the HHI index by product in the past decade, from 0.22 in 2013 to 0.20 in 2024, аnd by partner country from 0.26 to 0.23.

By ***stages of processing***, in the composition of goods exports in the nine months of 2024, the largest share was held by products in the middle stage of processing (31.0%). Next are resource-based products (26.9%), products of lower processing stage (17.0%) (furniture, plastic products, flat-rolled products, base metal products, footwear), while primary commodities made up 13.3% of total exports. The share of high technology products (mostly electrical machinery) in total exports came at 7.9% in the first nine months of 2024, which is a 3.1 pp increase from 2013, when they stood at 4.8%.

As for ***indicators of price competitiveness,*** it is important to note that the real effective exchange rate of the dinar (calculated based on consumer prices according to the currency basket including the euro and the dollar[[6]](#footnote-6)) in the eight years concluding with 2022, in cumulative terms, remained almost unchanged. Under the impact of higher inflation in Serbia compared to that in the euro area and the USA, 2023 saw real effective appreciation of 7.7%, while in the nine months of 2024 the average real effective appreciation of the dinar equalled 2.4% y-o-y. Calculated on the basis of unit labour costs, the dinar has appreciated against the euro in real terms since 2017, due to faster growth in unit labour costs in Serbia compared to those in the EU and in part also because of the mild nominal appreciation of the dinar against the euro. In 2024, Serbian wages increased faster than economic activity, so unit labour costs in Serbia continued to grow, more sharply than in the euro area, which, coupled with the unchanged dinar’s value against the euro, resulted in real appreciation of the dinar of around 5% y-o-y in H1, according to currently available data. That cost competitiveness does not have a major impact on FDI inflow, while the preserved macroeconomic stability and achieved structural improvements do, is shown by the fact that FDI inflow from 2017 through September of this year amounted to nearly EUR 29.4 billion (around 7.2% of GDP on average per annum), despite the pandemic, heightened geopolitical tensions and other challenges stemming from the international environment. Also, goods and services exports continued up in the face of the still weak external demand, exactly as a result of high inflow of FDI which considerably boosted export offer, so that exports demonstrated significant resilience even amid the contraction in external demand.

***International investment position.*** Serbia’s negative international investment position (IIP) came at EUR 50.5 billion at end-Q2 2024 (compared to EUR 50.1 billion or 66.6% of GDP at end-2023). On the assets side, the stock of FX reserves, deposits, and portfolio and direct investments by residents abroad increased. On the liabilities side, the stock of FDIs, portfolio investments and financial loans went up. **At end-Q2 2024, net FDIs made up around 104% of the net IIP, indicating that the IIP structure is very favourable from the viewpoint of external sustainability.**

Within the liabilities of the IIP, the share of debt instruments was around 52%, of which intercompany loans made up 23.1%. About a half ***of total external debt*** refers to public sector debt (54.7%). By remaining maturity, total external debt of the public sector (comprising the general government and the NBS) is long-term, and around 70.7% was contracted at a fixed interest rate. Two currencies dominate the public external debt – the euro (70.8%) and the US dollar (19.4%). It is important to note that the share of the euro and the US dollar in FX reserves is largely matched with the currency structure of public external debt.

The bulk of private sector external debt is company debt (around 83.7%). As over 88% of company debt is denominated in euros, and around 83% of export collections are made in euros, the currency risk on account of external debt of companies is low. In addition, 48.0% of the debt is contracted at a fixed interest rate. By remaining maturity, almost 97% of company debt is long-term. Around 96% of the external debt of banks is denominated in euros and 91.8% is contracted at a variable interest rate. By remaining maturity, almost 89.5% of banking sector external debt (excluding deposits) is long-term.

***Medium-term external sustainability.*** The current account deficit is projected at around 5% of GDP in the medium term. It will remain fully or almost fully covered by net FDI inflows. Current account developments in the medium term will mostly be determined by structural factors. Continued growth in investments and the implementation of projects under the “Leap into the Future – Serbia Expo 2027” programme will push up imports of capital and intermediate goods. Growth in goods and services imports is thus estimated to measure between 7% and 9% in the coming years. At the same time, as a result of past investment in tradable sectors and, most importantly, high FDI inflows, as well as the expected rallying of external demand, we expect growth in exports of goods and services to measure between 6% and 9% per annum. According to our projection, the secondary income surplus will level off at around 7% of GDP in the coming period, while the expected trajectory of net FDI inflows of around 5% of GDP will keep the return on FDI a solid expenditure item on the primary income account, the deficit on which will therefore rise moderately.

FX reserves are expected to stay at an adequate level over the medium term. They will cover around 7 months’ worth of average monthly imports of goods and services, while coverage of short-term debt (by remaining maturity) by FX reserves will go up.

The analysis of sustainability of external debt shows that, under all macroeconomic scenarios (assuming a different rate of growth in GDP, interest rates and the exchange rate), except for the scenario assuming a real depreciation by 30% in 2025, **external debt will subside in the medium term. Under the baseline scenario, Serbia’s external debt will measure around 55% of GDP** **at end-2027**. One of the key factors contributing to this decline is the increase in the degree of openness of the Serbian economy (measured as the percentage of exports and imports of goods and services in GDP) to around 130% of GDP in 2027. Increased openness of the Serbian economy and its greater integration in global trade flows are certainly supported by high FDI inflows, projected at around EUR 4.6 billion this year and beyond, which is close to the record-high level recorded last year. As the bulk of investments has been channelled to tradable sectors for years, foreign-owned companies are among Serbia’s largest exporters. The continuation of EU integration, together with bilateral free trade agreements and agreements with trade associations (CEFTA, EFTA, Eurasian Economic Union) concluded by the Serbian Government, and maintenance of the macroeconomic stability, will lead to a further improvement of the business climate, spurring foreign trade and continued growth in FDIs.

3.4. ALTERNATIVE SCENARIO AND RISKS

The medium-term scenario of economic activity in the Republic of Serbia continues to be influenced by numerous risks, primarily from the international environment. The risks of the macroeconomic framework largely stem from uncertainty regarding the development of international economic and political relations. Further geo-economic fragmentation and restrictions on trade relations may further affect the volume of global trade and the global economic outlook. The escalation of the conflict in Ukraine and the Middle East may cause sudden jumps in energy prices and further increase investor uncertainty and concern, causing stronger inflationary pressures and an even slower recovery of the economies of our largest foreign trade partners. The pessimistic scenario assumes the materialization of negative risks from the international environment, which would have an adverse impact on the export activity of our economy, higher inflation due to shocks in the energy market and lower real disposable income of the population and private consumption, as well as slower growth in investments, primarily private ones. The materialization of these risks would result in a lower medium-term GDP growth rate in the period 2025-2027 by 1.3 p.p. on average than in the baseline scenario, and would amount to 3.1% on average per year.

*Chart 3. Projection of GDP trends, annual growth rate, %*

*Chart 3. Alternative macroeconomic scenario*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Estimate | Projections | | |
| **2024** | **2025** | **2026** | **2027** |
| **GDP, billion dinars (current prices)** | **9.604,8** | **10.278,3** | **10.954,7** | **11.705,7** |
| Real GDP growth, % | 3,8 | 3,1 | 2,9 | 3,2 |
| GDP deflator, % | 5,0 | 3,8 | 3,6 | 3,5 |
| *Real growth of GDP components, %* |  |  |  |  |
| Private consumption | 4,5 | 2,8 | 2,6 | 2,3 |
| Government consumption | 3,1 | 2,0 | 0,5 | 0,5 |
| Gross fixed capital formation | 9,2 | 4,3 | 3,0 | 3,0 |
| Exports of goods and services | 4,4 | 3,3 | 3,9 | 5,2 |
| Imports of goods and services | 8,0 | 3,1 | 3,0 | 3,0 |

# **4. FISCAL FRAMEWORK FOR THE PERIOD 2025- 2027**

4.1. POLICY STRATEGY AND MEDIUM-TERM OBJECTIVES

The stabilization of the COVID-19 pandemic, high inflation driven by crises in international energy and raw material markets, and the conflict in Ukraine have marked the recent period globally, accompanied by uncertainty that could persist for a longer duration. In such a context, the task of economic and fiscal policy was to ensure the stability of economic flows and safeguard citizens’ living standards.

The previous year, however, was relatively stable in economic terms, with expected dynamics in macroeconomic trends and slightly better results in fiscal aggregates. Favorable fiscal trends, reflected in better-than-expected revenue collection and savings on funds allocated for overcoming the energy crisis, led to lower levels of deficit and debt. This development enables an improved fiscal outlook in the medium term, faster reduction of public debt levels, and greater fiscal space.

The increased fiscal space, along with an overall strong fiscal position and anticipated favorable macroeconomic trends, paves the way for a new investment cycle embodied in the "Leap to the Future - Serbia 2027" program and the EXPO 2027 exhibition. This program will be the cornerstone of the country’s economic and social development in the coming period. Given the significant investments anticipated as part of the program and preparations for the Expo, a temporarily more expansive fiscal policy is expected, while adhering to the principle of reducing public debt levels. Importantly, the increase in the deficit will result from the growth in capital expenditures, which will further support macroeconomic flows and accelerate economic growth. Concurrently, it is essential to create room for timely fiscal policy responses to economic shocks.

The international environment remains uncertain in terms of global economic trends, so any potential fiscal intervention by the state to minimize negative external effects would certainly be combined with efforts to continue development programs and infrastructure projects financed from the budget.

Considering the uncertain economic situation, the budget will undoubtedly serve as a "safety net" in the event of adverse developments. On one hand, it will ensure the continuity of development and social programs, and on the other, the sustainability of public finances and continued reduction of public debt as a share of GDP. In light of expected macroeconomic trends, the projected annual fiscal deficits will allow for a further decrease in the share of general government debt in GDP in the coming period.

Fiscal policy in the forthcoming period will focus, in line with available fiscal space, on further reducing the overall tax burden on labour, thereby relieving the economy and enhancing the competitiveness of the private sector. On the expenditure side, in addition to infrastructure and capital projects, priority will be given to pension and wage policies to continue improving the population's living standards.

4.2. BUDGET IMPLEMENTATION IN 2024

Fiscal framework for 2024 was planned considering the uncertainty both in the domestic market and in the international environment. The planning was approached cautiously to leave room for budgetary interventions in case of adverse events. The macroeconomic framework for 2024 envisaged moderate acceleration of economic activity compared to 2023, with a gradual easing of the inflation rate, which would, among other things, also affect the increase in real consumption.

Measures implemented at the end of 2023 impacted the planning of the fiscal framework for 2024. At the end of the previous year, a 5,5% wage increase was implemented for employees in education and part of the healthcare sector, an extraordinary pension increase of 5,5%, and at the beginning of 2024, in accordance with the legal formula for adjustment, pensions were increased by 14,8%. To maintain the standard of living and purchasing power of the population, the following measures were adopted: an increase in the minimum wage for 2024 by 17,8%, a 10% wage increase in the public sector, along with further reduction of the tax burden on wages below 60%. These measures contribute to an increase in personal consumption and consequently, to the revenue from consumption taxes. A positive trend in the revenue from labor taxation was also expected despite the reduction in the tax burden, due to the effects of the proposed measures on employment and wages in the private sector. Significant funds were planned for intervention in the energy market in 2024, but due to the stabilization of prices and availability of energy resources, some unused funds were reallocated.

The excise policy was returned to regular processes, including partial increases in the real amounts of excise rates. By the legal regulation adopted at the end of the previous year, among other things, excise rates were increased by 8%, and further adjustment with the inflation rate of 2023 was planned at the beginning of 2024. These increases only partially compensate for the real value of excise amounts compared to the period before the energy crisis and accelerated inflation, so the excise rates remain 13% lower than the rates that would have been in effect with regular indexation in the previous period. The estimated revenue loss in 2022 and 2023 due to the lack of regular indexation amounted to over 100 billion dinars, or 1,3% of GDP. At the beginning of 2024, a decision was made to delay the planned adjustment for three months, due to the solid growth of excise revenues at the end of the previous year, and to partially mitigate and postpone the inflationary effect of raising excise duties.

The risks considered during the planning of the fiscal framework for this year are still present, but with somewhat reduced intensity. Economic activity and inflation growth were in line with the projected quarterly dynamics. The economic growth estimate for this year was slightly revised upwards compared to the original budget estimate, and unchanged compared to the spring Fiscal Strategy.

Revenue performance in the first nine months of the current year is better than originally planned. Developments in the labor market exceeded expectations, which, along with the simultaneous growth in real income, positively impacted the collection of all consumption tax revenues. The profitability of business entities in 2023 and the collection of corporate income tax in the first nine months of the current year are a significant factor in the upward revision of revenues for 2024. The decision to postpone the excise indexation did not negatively affect the amount of revenue from this tax type, primarily due to the recovery in consumption in the last quarter of the previous and the first half of the current year. As usual, unplanned extraordinary non-tax revenues collected in the past period, as well as better realization of regular revenues, were included in the revised estimate of non-tax revenues. Better performance at the end of the previous year was also a significant factor that led to the upward revision of revenues.

The revised fiscal framework for 2024, in line with the adopted amended budget, foresees a fiscal deficit of 2,7% of GDP, which is 0,6 percentage points higher than the original budget plan. The share of public debt in GDP at the end of 2024 will amount to 47,9%. The revenue side was increased by 166 billion dinars, and the expenditure side by 232,1 billion dinars. Higher revenues and expenditures, along with the redistribution of funds intended for energy, provided fiscal space for a significant increase in public investments, as well as some categories of current expenditures (social assistance and transfers to the population). In this way, alongside the preservation and increase in the standard of living for certain categories of the population, infrastructure development is accelerated and the economic potential of the country is enhanced. The implementation of these measures, along with the achievement of the projected fiscal result of the general government sector, will not disrupt the established path of reducing the share of public debt in GDP, which has been present since 2016. Analysis of the structural fiscal result for 2024 identified that about 0,47% of GDP relates to one-off and temporary effects on the revenue and expenditure sides.

*Graph 4. General government fiscal result for the period 2015-2024, in % of GDP*

Source: Ministry of Finance

*Table 4. General government revenues, expenditures and fiscal result in 2024, in RSD bln*

|  | | Budget 2024\* | | Estimate May 2024 | | New estimate 2024 | | Diff new estimate/budget | | % diff | | 2024 new estimate, % GDP |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| PUBLIC REVENUES | 3.756,1 | | 3.823,0 | | 3.922,2 | | 166,0 | | 4,4 | | 40,8 | |
| Current revenues | | 3.717,0 | | 3.784,0 | | 3.885,9 | | 168,8 | | 4,5 | | 40,5 |
| Tax revenues | | 3.330,5 | | 3.392,2 | | 3.478,9 | | 148,3 | | 4,5 | | 36,2 |
| Personal income tax | | 378,6 | | 382,0 | | 396,3 | | 17,7 | | 4,7 | | 4,1 |
| Corporate income tax | | 256,7 | | 256,7 | | 292,2 | | 35,5 | | 13,8 | | 3,0 |
| VAT | | 908,0 | | 950,0 | | 960,0 | | 52,0 | | 5,7 | | 10,0 |
| Excises | | 395,0 | | 400,0 | | 407,0 | | 12,0 | | 3,0 | | 4,2 |
| Customs | | 88,0 | | 89,0 | | 88,0 | | 0,0 | | 0,0 | | 0,9 |
| Other tax revenues | | 114,0 | | 114,5 | | 115,2 | | 1,2 | | 1,1 | | 1,2 |
| Contributions | | 1.190,2 | | 1.200,0 | | 1.220,1 | | 30,0 | | 2,5 | | 12,7 |
| Non-tax revenues | | 386,5 | | 391,8 | | 407,0 | | 20,5 | | 5,3 | | 4,2 |
| Grants | | 39,1 | | 39,1 | | 36,3 | | -2,8 | | -7,2 | | 0,4 |
| PUBLIC EXPENDITURES | | 3.953,1 | | 4.020,0 | | 4.185,2 | | 232,1 | | 5,9 | | 43,6 |
| Current expenditures | | 3.283,5 | | 3.318,1 | | 3.431,6 | | 148,1 | | 4,5 | | 35,7 |
| Expenditures for employees | | 890,7 | | 900,7 | | 911,3 | | 20,7 | | 2,3 | | 9,5 |
| Purchase of goods and services | | 672,6 | | 672,6 | | 706,7 | | 34,1 | | 5,1 | | 7,4 |
| Repayment of interest | | 185,9 | | 186,0 | | 187,6 | | 1,7 | | 0,9 | | 2,0 |
| Subsidies | | 209,9 | | 210,0 | | 243,6 | | 33,7 | | 16,1 | | 2,5 |
| Social assistance and transfers | | 1.212,5 | | 1.234,7 | | 1.250,0 | | 37,5 | | 3,1 | | 13,0 |
| *Of which: pensions* | | 926,7 | | 926,7 | | 930,6 | | 3,9 | | 0,4 | | 9,7 |
| Other current expenditures | | 111,9 | | 114,1 | | 132,4 | | 20,5 | | 18,3 | | 1,4 |
| Capital expenditures | | 595,2 | | 652,3 | | 706,3 | | 111,1 | | 18,7 | | 7,4 |
| Net lending | | 46,9 | | 20,1 | | 18,7 | | -28,2 | | -60,1 | | 0,2 |
| Activated guarantees | | 27,5 | | 29,5 | | 28,5 | | 1,0 | | 3,6 | | 0,3 |
| Fiscal result | | -197,0 | | -197,0 | | -263,0 | | -66,0 | |  | | -2,7 |
| Fiscal result, in % GDP\*\* | | -2,1 | | -2,1 | | -2,7 | | -0,6 | |  | |  |

Source: Ministry of Finance

\* The original budget for 2024 has been adjusted for the amounts arising from the expansion of the scope of the general government sector, which relates to the inclusion and reporting of own resources (revenues and expenditures) of off-budget beneficiaries (public agencies and institutes), for the purposes of comparison with the new estimate for the current year. The total amount of these resources is RSD 20,2 billion on both the revenue and expenditure sides.

\*\* For easier comparability, and due to the significant statistical revision of the nominal GDP amount, all participations are expressed as a percentage of the current GDP estimate for 2024.

The revenue projection for the general government sector has been increased by 166 billion dinars (4,4%) compared to the original estimate. All revenue categories, except for customs duties and grants, have been revised upward compared to the original projection. The highest percentage increase is seen in corporate income tax revenues, while in absolute terms, the largest increase is in VAT revenues. Additionally, significant increases have been made to non-tax revenues and excise duties. The key factors that have led to changes in the level and structure of revenues in the general government sector are:

* Base effect (performance at the end of the previous year) and performance in the January–September 2024 period;
* Corporate profitability in 2023;
* Faster-than-expected growth in personal consumption;
* Increased consumption of excise products;
* Stronger growth in regular non-tax revenue collection, as well as receipts of certain extraordinary and one-off non-tax revenues;
* Favorable developments in the labor market.

The projected revenues from personal income tax have been increased by 17,7 billion dinars compared to the budgeted amount, while the projected revenues from social contributions have been increased by 30 billion dinars. The assumptions of the original projection for these revenues, including the movements in average wages and employment during the past part of 2024, have been above expectations. The estimates of the effects of reducing the tax burden on wages in 2024 have also been considered. The main reason for the increase in the projection of income tax and social contributions is the base effect, as well as developments in the labor market during the past part of the year. Other revenues, except for income tax, which fall under the category of income tax (tax on dividends, tax on interest income, annual income tax, tax on rental income, etc.), have also been revised upward, due to the impact of the base effect and better performance in the past part of the year, primarily from the collection of annual personal income tax.

The revenue estimate from corporate income tax, unlike the previous revision, has been significantly increased compared to the original estimate. The percentage increase of 13,8% is the highest among all types of taxes, while the absolute amount of the increase is 35,5 billion dinars. Final data on profitability were not available at the time of budget planning, so these revenues were planned conservatively. The high amount of corporate income tax generated in 2022 and 2023 has led to an increase in its share of GDP (around 3%) above the average values recorded in the previous period. Following the principle of caution, the original projection predicted a gradual reduction in the share of this tax in GDP, i.e., a return to the average level of the previous period. After the payment of corporate income tax based on the final calculation for 2023 (end of June of the current year), the annual estimate of this tax was revised. The profit of companies operating positively in 2023, according to data from the APR, amounted to 1.297 billion dinars, which is 3,6% higher compared to 2022. The achieved net profit amounted to 972,4 billion dinars, representing an increase of 12,3%.

Revenue from value-added tax (VAT) has been revised upward by 52 billion dinars, or 5,7% compared to the budget plan. At the end of the previous year, a significantly higher VAT collection was recorded than planned, which served as the basis for planning the current year. This better performance is due to a significant recovery in personal consumption in the last quarter of 2023. This trend continues in 2024. Unlike the previous two years, when consumption patterns and VAT collection were disrupted due to various factors ("panic" consumption, consumption by non-residents, etc.), the pattern now follows expected trends. Real income growth is a key contributor to increased personal consumption and stronger growth in VAT revenues.

Customs revenues remain at the level planned in the 2024 budget. The revenue realization during 2024 is in line with expectations. These revenues, to a large extent, although not entirely, follow the dynamics of VAT from imports. However, in the last two years, changes in the structure of import demand (types of goods, geographic areas) have led to modifications in this relationship, so customs revenues have recorded higher growth rates than VAT from imports.

The revenue estimate from excise duties has been increased by 12 billion dinars compared to the budget plan. Excise duties on petroleum derivatives have been increased by 5,5 billion dinars, excise duties on tobacco products by 5 billion dinars, while the projection of revenues from other excise duties has been increased by 1,5 billion dinars. Revenues from excise duties on petroleum derivatives were increased primarily due to significantly better performance at the end of the previous year. This trend in revenue collection and consumption continues with most excise products during 2024. Unlike the previous two years, when excise policy was used to mitigate inflationary pressures, this year it has returned to regular flows. Temporary reductions in excise duties on petroleum derivatives were abolished, nominal excise amounts were increased by 8% at the end of last year, and at the beginning of 2024, an adjustment of excise duties in line with the inflation achieved in 2023 was planned. This last measure has been postponed for three months to further mitigate inflationary pressures. Additionally, in 2024, the mechanism for refunding excise duties on petroleum derivatives used in agriculture is set to be re-established. The increase in tobacco excise revenue is, to a lesser extent, the result of better collection than expected at the end of last year, as well as consumption trends of tobacco products in 2024. When preparing the budget, a decline in consumption, which has been present for several years, was assumed. However, market trends show that the expected decline in tobacco product consumption has not occurred according to data for the first six months of this year. The projection of revenues from other excise products (electricity, alcohol, and coffee) has been increased due to slightly better excise revenue performance in all three product categories compared to the plan.

Non-tax revenues have been revised upward by 20,5 billion dinars, in line with the performance of both regular and extraordinary non-tax revenues. Regular non-tax revenues include various fees, charges (including tolls), fines, revenues from agencies and organizations, and all other revenues that are generated according to the established dynamics during the year, with certain seasonal variations. The increase in the projection of these revenues is mainly due to the growth of interest income from deposited funds and revenues from charges for the use of public goods. Extraordinary non-tax revenues consist of payments of profits from public enterprises and agencies, budget dividends, revenues from the recovery of receivables by the Deposit Insurance Agency, issuance premiums, interest, etc. This group of non-tax revenues has been revised upward due to the collection of revenues that were not included in the original budget plan (NBS profit, budget dividends, bond issuance premiums).

As part of the comprehensive improvement of the quality and transparency of government finance statistics, the statistical coverage of the general government sector was expanded again in 2024, in accordance with the dynamics prescribed by the Budget System Law. During the previous year, the coverage was extended to include healthcare institutions with all financing sources, while in 2024, a number of off-budget users (public agencies, scientific institutes, etc.) were included in the reporting system. Based on this, in this year, the statistical coverage of revenues and expenditures of the general government sector has been increased by 20,2 billion dinars. On the revenue side, this refers exclusively to the category of non-tax revenues, while on the expenditure side, the majority of the increase relates to expenditures for employees, with the remainder allocated to other categories. For comparability, the original plan was also adjusted for the same amount, given that this is not due to better revenue realization than planned or exceeding the expenditure plan, but only to the expanded coverage of revenues and expenditures generated by the mentioned institutions. In this way, and according to the planned dynamics of aligning the coverage of the general government sector with international standards, there is an increase in scope and a more accurate representation of consumption at the final users. Certain categories of expenditure are now included in the economic classifications on which they were executed.

*Graph 5. Contribution of factors to the adjustment of fiscal result relative to the plan for 2024, in % GDP*

The projected expenditure of the general government sector in the revised fiscal framework has been increased by RSD 232,1 billion compared to the budget plan. The largest increase is in capital expenditures, while the largest decrease refers to budgetary loans, which were planned for intervention funds in the energy sector.

The projected expenditure for employees in 2024 has been revised upwards by RSD 20,7 billion. This is primarily due to changes in the calculation of salaries for employees in education and the Ministry of Internal Affairs. This projection (as in the original plan) includes expenditure for salaries financed from the own revenues of public agencies and institutions, in the amount of RSD 17 billion. This change, in accordance with the Budget System Law and special fiscal rules, will also result in a shift of the upper permissible limit for wage expenditures as a percentage of GDP.

Expenditures for goods and services have been revised upwards by RSD 34,1 billion. Of this, RSD 15 billion refers to an increase in expenditures for the Health Insurance Fund (RFZO), RSD 15 billion at the level of the Republic budget, while the remaining increase refers to other levels of government. The revision also includes the expenditures resulting from the expansion of the general government sector, amounting to approximately RSD 0,3 billion.

The projected expenditure for interest payments has been revised upwards by RSD 1,7 billion compared to the original plan.

Expenditures for subsidies have been significantly revised upwards by RSD 33,7 billion. The largest portion of the increase refers to subsidies in agriculture, which have been raised by RSD 17,6 billion. This increase covers higher payments in livestock farming, beekeeping, and other areas. A significant portion of the increase in subsidies also relates to the energy sector, about RSD 12 billion, for the modernization of the electricity consumption measurement system. The remainder of the increase pertains to tourism, environmental protection, and sports. As a result of the expansion of the general government sector’s coverage, RSD 1,7 billion has been shown within this category of expenditures.

Expenditures for social protection have been revised upwards by RSD 37,5 billion compared to the original plan. A significant portion of the increase relates to the payment of compensation to maternity leave recipients based on the Constitutional Court decision regarding the method of calculating salary compensation during maternity leave. The effects of this decision have both a one-time impact for retroactive payments based on the calculation of this right from 2018, as well as a permanent effect for future mothers. Amendments to the regulations for financial support to families with children have also been adopted, significantly increasing allowances for parental benefits. Part of the increase is also the result of higher execution of this category of expenditure during 2023.

The projection for other current expenditures in 2024 compared to the original plan has been increased by RSD 20,5 billion, primarily due to a higher projected execution of this category of expenditure at the level of the Republic budget. As a result of the expansion of the general government sector, RSD 1,7 billion has been shown within this category of expenditure.

It is estimated that public investment realization will exceed the original plan by RSD 111,1 billion. The majority of this increase relates to infrastructure projects, namely the construction of road and railway infrastructure, as well as the procurement of equipment for the security sector. Capital expenditures are projected to reach 7,4% of GDP in 2024. The inclusion of capital expenditures by public agencies and institutions has led to an increase in both the original and revised plans by RSD 1,5 billion.

The planned amount of budgetary loans, which includes funds for the procurement of energy supplies, has been significantly revised downwards by RSD 28,2 billion. The expansion of the general government sector also impacted this category of expenditure, in terms of the reclassification of part of the expenditure, which is executed through the Development Fund, in the amount of RSD 2 billion, to other categories.

*Table 5. General government revenues, expenditures and fiscal result, January-September 2023 and 2024, in RSD bln*

|  | I–IX 2023 | I–IX 2024\* | 2024 plan/2023 execution nominal growth, in % |
| --- | --- | --- | --- |
| PUBLIC REVENUES | 2.516,7 | 2.878,3 | 14,4 |
| Current revenues | 2.486,7 | 2.866,0 | 15,3 |
| Tax revenues | 2.244,3 | 2.573,6 | 14,7 |
| Personal income tax | 251,5 | 290,9 | 15,7 |
| Corporate income tax | 220,6 | 245,1 | 11,1 |
| VAT | 598,6 | 697,7 | 16,6 |
| Excises | 269,4 | 306,5 | 13,7 |
| Customs | 59,1 | 64,7 | 12,0 |
| Other tax revenues | 79,5 | 84,3 | 6,0 |
| Contributions | 765,6 | 884,4 | 15,5 |
| Non-tax revenues | 242,3 | 292,4 | 20,7 |
| Grants | 30,0 | 12,3 | -59,1 |
| PUBLIC EXPENDITURES | 2.500,9 | 2.849,2 | 13,9 |
| Current expenditures | 2.120,0 | 2.445,6 | 15,4 |
| Expenditures for employees | 570,6 | 674,5 | 18,2 |
| Purchase of goods and services | 414,1 | 459,9 | 11,0 |
| Repayment of interest | 120,2 | 132,8 | 10,5 |
| Subsidies | 141,8 | 159,0 | 12,1 |
| Social assistance and transfers | 781,5 | 932,8 | 19,4 |
| *Of which: pensions* | 573,6 | 694,5 | 21,1 |
| Other current expenditures | 91,9 | 86,7 | -5,7 |
| Capital expenditures | 313,3 | 370,5 | 18,2 |
| Net lending | 50,0 | 12,8 | -74,3 |
| Activated guarantees | 17,6 | 20,3 | 15,4 |
| Fiscal result | 15,8 | 29,1 |  |

Source: Ministry of Finance

\* The data for 2024 include the own revenues of extra-budgetary users (agencies and institutions)

The outstanding arrears (over 60 days late) of budget users and the PE "Roads of Serbia" as of the last day of September 2024 amounted to 5,7 billion dinars. Budget users and PE "Roads of Serbia" accounted for arrears in payments of 4,5 billion dinars, while the arrears of extra-budgetary users amounted to 1,2 billion dinars.

*Table 6. Payment arrears of budget beneficiaries and mandatory social security insurance institutions, the end of 2023 and September 2024 in billions RSD*

|  | 31 12 2023 | 30 09 2024 |
| --- | --- | --- |
| Budget beneficiaries and “Putevi Srbije” PE | 2,3 | 4,5 |
| Mandatory social security insurance institutions | 1,2 | 1,2 |
| TOTAL | 3,5 | 5,7 |

Source: Ministry of Finance

\*\* In accordance with the definition used for monitoring the implementation of the arrangement with the IMF.

**S0 indicator of short-term fiscal sustainability**

The European Commission has designed the composite indicator S0 to assess short-term fiscal sustainability by identifying potential short-term risks in the current year to anticipate fiscal stress in the following year. If the S0 indicator value exceeds a defined threshold, the country is considered at short-term risk of fiscal stress. Besides the value of the overall indicator, values of sub-indices and their components are also considered to locate the source of the risk. The S0 composite indicator consists of two sub-indices, each containing a set of fiscal and macro-financial sustainability variables. Values of these sub-indices below the defined threshold indicate the absence of short-term fiscal risk.

In 2023, the values of the fiscal (0,08) and financial sub-indices (0,27) are within their defined thresholds, as is the value of the overall S0 indicator for the Republic of Serbia (0,20), generally indicating that there is no risk of macroeconomic instability in the upcoming medium-term period. The successful maintenance of macroeconomic and fiscal stability established in the previous period has provided space for rapid and significant fiscal and monetary policy support measures.

*Graph 6. S0 indicator, fiscal and financial competitiveness sub-indices in Serbia for the period 2015-2023*

*Graph 7. S0 EU countries and Serbia*

The calculation of the S0 indicator for the Republic of Serbia was conducted by the Ministry of Finance and is based on the European Commission's methodology.

Based on the European Commission’s data for EU countries for 2023 and the Ministry of Finance’s calculation for the Republic of Serbia, we conclude that most of the observed countries, including Serbia, were not exposed to short-term fiscal stress risk, as the S0 value does not exceed the defined threshold anywhere.

*Graph 8. The fiscal sub-index and the financial competitiveness sub-index for EU countries and Serbia in 2023*

4.3. BUDGET PLANS FOR 2025, MEDIUM-TERM BUDGETARY OUTLOOK AND SUPPORTIVE POLICIES

The main objectives of fiscal policy are focused on maintaining fiscal stability and reducing the public debt-to-GDP ratio. The projections for fiscal aggregates in the period from 2025 to 2027 are based on the macroeconomic projections for the given period, the planned tax policy, which involves further alignment with EU laws and directives, as well as fiscal and structural measures, including the improvement of operations of large public enterprises.

Thanks to the fiscal consolidation measures in the previous period, fiscal space was created, which enabled the implementation of extensive packages of measures as part of the response to the effects of the crisis caused by the pandemic in 2020 and 2021. In 2022, funds were secured to mitigate the effects of the energy crisis caused by the conflict in Ukraine. The response of fiscal policy in the upcoming period, the measures created, and their fiscal implications will be designed in such a way as to not jeopardize the stability of public finances and the pace of reducing public debt, to maintain the standard of living of the population, to support economic development, and to ensure flexibility in the event of a stronger crisis impact.

*Table 7. Fiscal aggregates in the period 2023–2027, % of GDP*

| Description | Execution | Estimate | Projection | | |
| --- | --- | --- | --- | --- | --- |
|  | 2023 | 2024 | 2025 | 2026 | 2027 |
| Public revenues | 39,4 | 40,8 | 41,3 | 40,9 | 40,5 |
| Public expenditures | 41,4 | 43,6 | 44,3 | 43,9 | 43,5 |
|  |  |  |  |  |  |
| Consolidated fiscal result | -2,1 | -2,7 | -3,0 | -3,0 | -3,0 |
| Primary consolidated result | -0,5 | -0,9 | -1,0 | -1,0 | -1,1 |
|  |  |  |  |  |  |
| General government debt | 48,4 | 47,9 | 47,5 | 47,0 | 46,5 |
| Real GDP growth rate | 3,8% | 3,8% | 4,2% | 4,0% | 5,0% |

Source: Ministry of Finance

The objectives of fiscal policy in the upcoming medium-term period will be to ensure a stable position of public finances and a declining trajectory of public debt. The reduction of the debt share is closely linked to the dynamics of the planned deficit as the main factor for borrowing. The growing costs of borrowing on the international financial market also require caution in conducting fiscal policy.

*Graph 9. General government fiscal result and public debt, % GDP*

Expansionary fiscal policy during 2020 and 2021 mitigated the negative economic consequences of the pandemic. In 2022, the focus shifted to protecting the economy and the population from the energy crisis, while in 2023, fiscal policy returned to relatively stable frameworks. As support for faster economic growth, activities began in early 2024 to implement the development plan "Leap into the Future." In the upcoming period, the fiscal impulse will be directed towards increasing public investments, with a focus on those that are priority and productive. The reform of public investment management will further support the high quality of investment spending.

On the revenue side, the priority will remain the continued reduction of the tax burden on wages and the ongoing fight against tax evasion and the gray economy.

The revenue projections for the period from 2025 to 2027 have been made based on:

* Projections of the movement of key macroeconomic indicators: GDP and its components, inflation, exchange rates, foreign trade exchange, employment, and wages;
* Existing and planned changes in tax policy;
* Estimated effects of fiscal and structural measures in the upcoming period.

*Table 8. Total revenues and grants in the period 2023–2027, % of GDP*

| Description | Execution | Estimate | Projection | | |
| --- | --- | --- | --- | --- | --- |
|  | 2023 | 2024 | 2025 | 2026 | 2027 |
| PUBLIC REVENUES | 39,4 | 40,8 | 41,3 | 40,9 | 40,5 |
| Current revenues | 38,9 | 40,5 | 40,9 | 40,5 | 40,1 |
| Tax revenues | 34,9 | 36,2 | 36,3 | 36,4 | 36,3 |
| Personal income tax | 3,9 | 4,1 | 4,1 | 4,2 | 4,2 |
| Corporate income tax | 3,1 | 3,0 | 2,8 | 2,7 | 2,7 |
| VAT | 9,6 | 10,0 | 10,2 | 10,3 | 10,4 |
| Excises | 4,2 | 4,2 | 4,1 | 3,9 | 3,7 |
| Customs | 0,9 | 0,9 | 0,9 | 0,9 | 0,9 |
| Other tax revenues | 1,2 | 1,2 | 1,2 | 1,1 | 1,1 |
| Social contributions | 12,0 | 12,7 | 13,0 | 13,2 | 13,4 |
| Non-tax revenues | 4,0 | 4,2 | 4,6 | 4,1 | 3,8 |
| Grants | 0,5 | 0,4 | 0,4 | 0,4 | 0,3 |

Source: Ministry of Finance

The mildly declining trend in total public revenues in the observed period, in terms of GDP share, is expected given the projected structure of medium-term growth of the Serbian economy. The projection of tax revenues assumes the maintenance of the current level of collection.

The predominant form of personal income tax is the tax on wages, so the movement of wage mass and employment are the main factors influencing the movement of this type of tax. Given that faster growth of these two components is expected compared to the nominal GDP, a slight increase in the share of income tax in GDP is anticipated.

Two measures will impact wage tax movements in two different ways. The 13,7% increase in the minimum wage will raise wage levels, thus increasing income from wage taxes. On the other hand, the 13,7% increase in the non-taxable threshold will have a negative effect of 10,1 billion dinars on income from wage taxes. The total effect on revenue collection is estimated at 14,5 billion dinars, with 4,4 billion dinars being the loss in contribution collection.

Other forms of personal income tax (tax on dividends, tax on interest income, annual income tax, etc.) will grow more slowly, in line with the general economic activity.

The movement of the share of contributions in GDP follows a similar path as the share of wage taxes, as the same assumptions about wages and employment were used for their projection. Given the expected faster growth of the wage mass, and consequently taxes and contributions on wages, compared to nominal GDP, a growth in the level of contributions in relation to GDP is projected. The loss due to the increase in the non-taxable threshold is also taken into account in the projections.

Revenue from corporate income tax in the period 2025–2027 will depend on the economic growth path, relative stability of the dinar exchange rate, and the overall profitability of the economy. The estimate of revenue from this source is uncertain due to both economic factors and the possibility of using tax credits or refunds, as well as differences between accounting and tax balances. It is expected that, by 2027, the collection of corporate income tax will stabilize in line with GDP growth.

The main determinant of VAT movement is domestic demand driven by the available income of the population. Available income, as the largest determinant of consumption, depends on wage movements, pensions, social assistance, and other forms of income, including remittances, as well as the dynamics of bank lending to the population.

As with personal income tax, the risks to the realization of VAT projections in the upcoming period, in addition to the general uncertainty of the international economic environment, also relate to wage movements in the private sector, growth in economic activity, and the level of the gray economy, i.e., the efficiency in its reduction.

Improving the efficiency of tax collection and control of taxpayers will continue in the upcoming period, although the effects of the fight against the gray economy are not explicitly included in the medium-term public revenue projection. In this segment, room for further improvements will be created by strengthening and modernizing the tax administration.

The revenue projection from excise duties is based on the current excise policy and projected consumption of excise products. In October 2023, there was an extraordinary excise increase of 8%, while the regular adjustment to consumer price growth will be applied in May 2024. In the coming years, due to caution, no growth in the consumption of oil derivatives is assumed.

As part of the excise policy, the projected further decline in the tobacco product market is based on caution.

Revenue from excise duties on alcoholic beverages, coffee, and electricity is projected in accordance with the existing consumption structure and current excise policy. From 2026, the introduction of an excise tax on natural gas used for heating and powering motor vehicles is anticipated.

Customs revenue is expected to stabilize at a level of 0,9% of GDP in the upcoming period, and is projected in accordance with expected movements in imports, exchange rates, and consumption.

The share of other tax revenues in GDP is projected to stabilize. The most significant tax revenue in this category is the property tax, which accounts for about 70% of the total. Nominal growth of this revenue can be expected based on the expansion of the tax base. The increase in the degree of collection, through the expansion of the real estate subject to tax (i.e., the expansion of the tax base), is not included in the medium-term projections and represents a positive risk. In addition to the property tax, other taxes on the use, possession, and transfer of goods, as well as other forms of local taxes, are included in other tax revenues. These are projected in line with inflation trends, as the inflation component is built into a significant portion of these tax forms.

The jump in non-tax revenues in 2025 is the result of expected revenue from the auction of 5G technology licenses. The auction is expected to take place during 2025, after which a reduction in the share of non-tax revenues in GDP to 3,8% is expected, which will remain the same in 2027. The reason for the decrease in the projected share of non-tax revenues in GDP is the exclusion from the base year of all those revenues that are not considered structural, i.e., permanent, primarily extraordinary non-tax revenues. The own revenues of indirect beneficiaries, which are included in the general government sector coverage for the first time in 2025, will offset the exclusion of some extraordinary (non-structural) non-tax revenues.

Extraordinary non-tax revenues are mainly one-off, somewhat uncertain, both in terms of amounts and in terms of timing of payment. The largest portion of these revenues consists of extraordinary payments of public enterprise and agency profits, budget dividends, revenue from the collection of claims from AOD, emission premiums, etc. Regular non-tax revenues include various fees, fines, revenues from bodies and organizations, and all other revenues generated according to the established dynamics throughout the year. This type of non-tax revenue is indexed with the inflation realized in the previous year or follows the change in the value of the base on which it is applied, and as a result, is adjusted with projected inflation.

With the process of the country's approach to EU membership, available funds from IPA and IPARD funds are increasing, which make up the dominant part of revenue from donations. The projected amounts from donations also include funds for EU sectoral budget support. Revenue from donations is neutral in relation to the result, as they are equal to the expenditures for this purpose.

Through responsible fiscal policy combined with strong macroeconomic performance in the past period, the relaxation of salary and pension policies and a significant increase in capital investments as a key component of economic development were ensured. Special attention was paid to improving the efficiency of capital investment implementation by the state. The social component of the budget has been improved through better targeting of social assistance programs and increased allocations for health and education functions. Salaries and pensions together account for over 40% of expenditure at the general government sector level, and their stabilization is crucial for the sustainability of public finances.

*Table 9. Total expenditure in the period 2023–2027, % of GDP*

| Description | Execution | Estimate | Projection | | |
| --- | --- | --- | --- | --- | --- |
|  | 2023 | 2024 | 2025 | 2026 | 2027 |
| PUBLIC EXPENDITURE | 41,4 | 43,6 | 44,3 | 43,9 | 43,5 |
| Current expenditure | 33,9 | 35,7 | 36,5 | 36,3 | 35,7 |
| Expenditures for employees | 8,8 | 9,5 | 9,8 | 9,8 | 9,8 |
| Purchase of goods and services | 7,1 | 7,4 | 7,9 | 7,8 | 7,7 |
| Interest payments | 1,7 | 2,0 | 2,2 | 2,1 | 2,0 |
| Subsidies | 2,4 | 2,5 | 2,4 | 2,4 | 2,2 |
| Social assistance and transfers | 12,5 | 13,0 | 13,0 | 13,1 | 12,8 |
| *of which: pensions* | *8,8* | *9,7* | *10,1* | *10,2* | *10,0* |
| Other current expenditures | 1,4 | 1,4 | 1,2 | 1,1 | 1,1 |
| Capital expenditures | 6,4 | 7,4 | 7,4 | 7,2 | 7,4 |
| Net lending | 0,8 | 0,2 | 0,2 | 0,2 | 0,2 |
| Activated guarantees | 0,3 | 0,3 | 0,2 | 0,2 | 0,2 |

Source: Ministry of Finance

The fiscal space projected for wage growth in the upcoming period will increase moderately and in a controlled manner, taking into account their share in GDP. The growth in 2025 is largely a result of the expansion of the coverage of the general government sector.

Article 27e of the Budget System Law stipulates a limit on expenditure for employees in the general government sector of 10% of GDP. The adjustment of salaries across all institutions (entities) that make up the general government sector is limited by the defined share of these expenses in GDP. Furthermore, this limit is adjusted upward in the case of an increase in the coverage of the general government sector, i.e., by including new entities into the general government sector, and downward in the case of excluding entities from the general government sector[[7]](#footnote-7).

In 2023, the fiscal framework of the general government sector was expanded to include the own revenues of healthcare institutions and secondary schools, with the estimated level of expenditure for employees from these funds amounting to 0,2% of GDP. As a result, the expansion of the general government sector coverage, based on this, implies an adjustment of the maximum limit for expenditure on employees in the general government sector to 10,2% of GDP.

In 2024, the coverage of the general government sector was further expanded to include a number of off-budget users (public agencies, institutes, and other entities), thus raising the maximum limit for employee expenditure in the general government sector to 10,4%, as the wage level in these institutions is about 0,2% of GDP. The inclusion of remaining own revenues and expenditures of indirect users of the national budget in the general government sector coverage in 2025 will raise the limit for employee expenditure to 10,6% of GDP, as the share of employee-related expenses paid from own revenues is about 0,2% of GDP. As a result, the wage mass in the general government sector will reach a slightly higher level compared to this year.

The inclusion of expenditure from own sources of indirect users will impact the spending on goods and services. It is estimated that the effect of including new entities will raise the level of these expenditures by about 0,4% of GDP. Over the medium term, their share in GDP will gradually decrease.

Social assistance and transfers to the population represent the largest expenditure category of the state budget. The largest individual item in this group of expenditures, and also the largest item of all expenditures, are pensions. From 2020 until 2022, pensions were adjusted using the "Swiss formula" to ensure both the growth of pensioners' living standards and the sustainability of the pension system and public finances. The "Swiss formula" implies pension indexation, meaning pension increases equal to the sum of half the growth rate of average wages and half the growth rate of consumer prices. Since 2023, a different method of pension indexation has been applied, considering the share of pensions in GDP to further protect the living standards of pensioners. Pension indexation and their movement determine the path of overall expenditure on population transfers and social protection in terms of GDP participation. In 2024, pensions were indexed based on wage growth, while in 2025, the "Swiss formula" will be applied again. Other forms of social benefits and transfers to the population in the coming period will be adjusted according to the prescribed indexation, current and planned policy changes in this area, and the projected number of beneficiaries.

In 2024, a temporary rise in subsidies, in terms of GDP participation, is recorded due to additional subsidies allocated for agriculture, energy, and transport infrastructure. For the next medium-term period, a relatively unchanged nominal amount of subsidies is forecasted, while their share in GDP by the end of 2027 is expected to be 2,2%.

Other current expenditure categories include various expenditures, such as grants to associations, political parties, religious and sports organizations, fines, damage compensation, etc. In the coming period, a declining trend in these expenditures is expected.

In previous years, the efficiency of public investment execution significantly improved, despite challenges posed by the pandemic and the energy crisis. In the next medium-term period, an increase in public infrastructure investments is expected, following the decision to host the Expo 2027 in Belgrade and the implementation of the "Leap into the Future – Serbia 2027" program. The most significant works will focus on road, rail, municipal, and water infrastructure. In addition to transport infrastructure, funds have been secured for additional capital investments in healthcare, energy, environmental protection, education, culture, defense, and other areas representing key state functions.

The overall focus of fiscal policy in the medium term is on increasing investments in infrastructure at all levels of government. At the local level, this primarily concerns investments in water and sewage infrastructure, waste management, local road infrastructure, and other areas.

In the medium-term fiscal framework, by the end of 2027, a balanced overall fiscal position for local governments is projected. This means that, in total, all cities and municipalities will have approximately balanced budgets. The projection is based on trends from the previous period, during which local governments (LGUs) were most often in surplus. This situation at the level of all local governments is the result of debt reduction in the previous period. However, this does not mean that individual LGUs cannot report a deficit (in line with the fiscal rule), depending on the fiscal position of each municipality or city.

The movement of budget loans has been most affected by funds aimed at overcoming the negative consequences of the energy crisis. In the coming period, the share of this expenditure category is expected to decrease to 0,2% of GDP.

Repayment of issued guarantees and payments for guarantees on commercial transactions represent obligations arising from the debt of public enterprises assumed by the national budget, as these enterprises could not fulfill them independently. In the previous period, these expenditures were significantly reduced, and the repayment plan foresees that in 2027, these expenditures will amount to 0,2% of GDP annually.

4.4. CYCLICALLY ADJUSTED AND STRUCTURAL FISCAL BALANCE

The cyclically adjusted fiscal balance is the fiscal balance from which the isolated effect of the economic cycle has been excluded, and the identity from which this is derived is as follows [[8]](#footnote-8):

FB = CB + CAB

The part of the fiscal balance (FB) that is not affected by cyclical fluctuations is called the cyclically adjusted fiscal balance (CAB), and the goal of this procedure is to isolate the cyclical component of the fiscal balance (CB) that results from the effects of the output gap. The actual fiscal balance will be equal to the cyclically adjusted balance if the output gap is zero, i.e., if the real GDP growth rate is equal to the potential rate. The structural fiscal balance is further calculated by eliminating one-off effects on both the revenue and expenditure sides, thus reflecting the structural (permanent) fiscal position.

The fiscal space created in the previous period and the significantly improved structural fiscal position of the country have provided room for the relaxation of fiscal policy during times of crisis.

With the outbreak of the COVID-19 pandemic in early 2020 and the introduction of measures to protect public health, the global economy entered an unprecedented crisis. The impact on the fiscal position was evident through reduced budget revenues, resulting from the slowdown in economic activity due to the pandemic, and dramatically higher expenditures caused by increased healthcare costs and the implementation of a large economic assistance package for businesses and citizens. In such a situation, the usual analysis of the economic cycle, quantification of fiscal multipliers, and assessment of fiscal balance elasticity relative to the output gap do not provide entirely accurate assessments of the country's fiscal position. The response of fiscal policy to the complex economic situation caused by the coronavirus pandemic in 2020 and 2021 was presented through an extensive package of measures to support the economy. In the absence of measures to support businesses and citizens, the mild decline in GDP in 2020 and the strong recovery during 2021 would not have occurred, and a deeper contraction of the economy would have led to a much slower recovery in the medium-term period.

*Table 10. The fiscal balance and components for the calculation of the cyclically adjusted balance during the period 2005–2027, as a percentage of GDP*

|  | Output gap | Fiscal balance | Primary fiscal balance | Cyclically adjusted fiscal balance | Cyclically adjusted primary fiscal balance | Structural fiscal balance | Structural primary fiscal balance | Fiscal impulse |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2005 | 0,0 | 1,1 | 2,0 | 1,1 | 2,0 | 1,3 | 2,2 |  |
| 2006 | -3,3 | -1,4 | -0,1 | -0,2 | 1,0 | 0,5 | 1,7 | 0,9 |
| 2007 | 1,3 | -1,7 | -1,2 | -2,2 | -1,7 | -1,9 | -1,3 | 2,7 |
| 2008 | 4,1 | -2,4 | -1,9 | -3,9 | -3,3 | -3,9 | -3,4 | 1,7 |
| 2009 | -0,5 | -4,0 | -3,4 | -3,8 | -3,2 | -3,9 | -3,3 | -0,1 |
| 2010 | 0,4 | -4,2 | -3,2 | -4,3 | -3,4 | -4,4 | -3,5 | 0,2 |
| 2011 | 0,3 | -4,3 | -3,2 | -4,5 | -3,4 | -4,7 | -3,6 | 0,0 |
| 2012 | 0,0 | -6,2 | -4,5 | -6,2 | -4,5 | -6,1 | -4,5 | 1,2 |
| 2013 | 0,4 | -4,9 | -2,8 | -5,1 | -3,0 | -4,8 | -2,7 | -1,5 |
| 2014 | -1,7 | -5,9 | -3,4 | -5,3 | -2,8 | -4,5 | -2,0 | -0,2 |
| 2015 | -1,4 | -3,3 | -0,5 | -2,8 | 0,1 | -2,0 | 0,9 | -2,9 |
| 2016 | -0,4 | -1,1 | 1,6 | -1,0 | 1,8 | -0,9 | 1,8 | -1,7 |
| 2017 | -0,6 | 1,1 | 3,5 | 1,3 | 3,7 | 1,1 | 3,6 | -1,9 |
| 2018 | 0,8 | 0,6 | 2,6 | 0,3 | 2,3 | 0,2 | 2,2 | 1,4 |
| 2019 | 2,1 | -0,2 | 1,7 | -0,9 | 1,0 | -1,1 | 0,8 | 1,4 |
| 2020 | -2,4 | -7,7 | -5,8 | -6,8 | -4,9 | -0,1 | 1,8 | 5,9 |
| 2021 | 1,4 | -3,9 | -2,3 | -4,5 | -2,8 | -0,6 | 1,1 | -2,1 |
| 2022 | 0,2 | -3,0 | -1,6 | -3,1 | -1,6 | 0,1 | 1,6 | -1,2 |
| 2023 | 0,1 | -2,1 | -0,5 | -2,1 | -0,5 | -1,4 | 0,2 | -1,2 |
| 2024 | -0,2 | -2,7 | -0,9 | -2,6 | -0,8 | -2,2 | -0,4 | 0,3 |
| 2025 | 0,0 | -3,0 | -1,0 | -3,0 | -1,0 | -2,3 | -0,3 | 0,2 |
| 2026 | 0,0 | -3,0 | -1,0 | -3,0 | -1,0 | -1,7 | 0,3 | 0,0 |
| 2027 | 0,7 | -3,0 | -1,1 | -3,2 | -1,3 | -1,7 | 0,2 | 0,3 |

\* For the period 2024–2027, the projected values are presented.

\*\* The structural balances were obtained by excluding estimated one-time revenues and expenses. For the period from 2024 to 2027, one-time expenses include part of the capital expenditures for the EXPO 2027 exhibition, as well as part of the expenses for military equipment.

Source: Ministry of Finance

*Graph 10. Output gap, Cyclically adjusted fiscal balance and Structural fiscal balance, from 2005 to 2027, % of GDP\**

*\* For the period 2024–2027, the projected values are shown*

*Graph 11. The character and effects of fiscal policy in the period 2006–2027, % of GDP \**

\* For the period 2024–2027, the projected values are shown

The structural fiscal position of the country was not compromised between 2020 and 2022, because the measures of support to the economy and population within the fiscal policy domain were of a temporary nature. Furthermore, the energy crisis led to significant state interventions in ensuring energy stability in 2022. For these needs, 2,7% of GDP was spent. In 2022, support to the population was also provided, amounting to 0,9% of GDP. In addition to increased expenditures for energy resources, support to the population and the economy was ensured by reducing excise duties on petroleum products.

During 2023, the change in the structural position of the general government sector was partly conditioned by the modification of the pension indexation formula in accordance with special fiscal rules, as well as by extraordinary pension increases in 2022 and 2023. The special fiscal rule introduces a direct link between the method of pension indexation and the share of this expenditure in GDP. This systemic solution ensures that pensioners' incomes and living standards more accurately reflect the economic strength of the country, without compromising the sustainability of public finances. The remainder of the slight deterioration in the structural fiscal position is also due to the increased share of interest expenses in GDP. The higher borrowing costs, as a result of measures to curb inflationary pressures in both the domestic and international markets, will undoubtedly have a similarly negative impact in the period ahead.

An extraordinary pension increase at the end of 2023, as well as a significant increase in parental allowances in 2024, will have a carryover effect on the structural balance dynamics during the following period. However, this fiscal framework also sets the trajectory and upper limit for the structural fiscal result, with the primary goal of ensuring a sustainable level and declining path for public debt. In the period from 2023 to 2025, the growth in interest expenditures will somewhat increase the level of the structural deficit. After that, the gradual reduction in the share of interest payments in GDP will create space for increasing other productive forms of expenditure.

Fiscal impulse is defined as the difference between two consecutive cyclically adjusted (primary) balances. It is assessed that fiscal policy in 2020 was strongly expansionary and counter-cyclical, aimed at mitigating the negative economic cycle. Due to a somewhat smaller scale of economic support measures in 2021, fiscal policy was more restrictive than the previous year, but still counter-cyclical in nature. For the period from 2022 to 2023, it was assessed that fiscal policy was mildly restrictive, despite significant expenditures for mitigating the energy crisis. This is partly a result of the growth in interest expenditures, which are excluded from the calculation of the primary balance. For the period from 2025 to 2027, in accordance with the planned fiscal framework, the assessed fiscal policy is mildly expansionary. The main reason for this is the implementation of a strong investment cycle for the needs of the EXPO 2027 event, as well as other major infrastructure projects, which will, even after their completion, contribute to an increase in the economic growth rate.

*Graph 12. The character and effects of fiscal policy in the period 2006–2024, % of GDP*

4.5. PUBLIC DEBT MANAGEMENT

In accordance with international practice and the Law on Public Debt ("Official Gazette of the Republic of Serbia," Nos. 61/05, 107/09, 78/11, 68/15, 95/18, 91/19, and 149/20), the Public Debt Management Strategy for the upcoming medium-term period should be supported and consistent with the Government's overall medium-term macroeconomic framework and is an integral part of the Fiscal Strategy. The Public Debt Management Strategy is based on principles that define the need for a transparent and predictable borrowing process, with the continuous development of the government securities market and an acceptable level of exposure to financial risks.

As of the end of September 2024, the general government debt amounted to RSD 4,496.5 billion, or 46.8% of the GDP. Of this total, RSD 4,467.0 billion referred to the central government debt, RSD 29.3 billion referred to the non-guaranteed debt of local governments and RSD 0.2 billion referred to non-guaranteed debt of the PE Roads of Serbia and Corridors of Serbia LLC. The direct public debt of the Republic of Serbia amounted to RSD 4,256.7 billion, while the indirect public debt totaled RSD 210.3 billion. The internal public debt of the Republic of Serbia amounted to RSD 1,285.1 billion, while the external public debt totaled RSD 3,181.9 billion. Regarding the currency composition of the general government debt, as of September 30, 2024, the largest part of the currency structure was denominated in EUR, making up 58.6% of the total general government debt. This was followed by debt denominated in RSD at 21.9% and USD at 12.8%. The rest of the debt was denominated in SDRs at 6.2%, and other currencies at 0.4%. In terms of the interest rates, as of September 30, 2024, the majority of the general government debt was subject to a fixed interest rate (72.3%), while 27.7% of the debt was subject to variable interest rates. Among the variable interest rates, EURIBOR was the most prevalent, accounting for 69.7%, followed by the SDR rate at 22.4%, Belibor at 7.7%, and other interest rates at 0.2%.

Considering the projected budget result of the Republic of Serbia for the period 2025–2027, including the volume of loan disbursements for project financing, the effects of exchange rate fluctuations of the RSD against the EUR and the USD, under the baseline macroeconomic scenario, the public debt of the Republic of Serbia is expected to reach 46,0% of GDP by the end of 2027.

*Table 11. Baseline projection of general government debt through 2027*

|  | **2024 p** | **2025 p** | **2026 p** | **2027 p** |
| --- | --- | --- | --- | --- |
| Public debt (Central Government Level), RSD Billion | 4.558,3 | 4.854,3 | 5.151,3 | 5.521,5 |
| Central Government debt, in % GDP | 47,5% | 47,0% | 46,5% | 46,0% |
| Non-Guaranteed Debt of Local Self-Government Units \*,  in % GDP | 0,4% | 0,5% | 0,5% | 0,5% |
| General Goverment Debt, in % GDP | 47,9% | 47,5% | 47,0% | 46,5% |

\* and Other State Sector

Source: Ministry of Finance

It is projected that the non-guaranteed debt of the local government level will remain at around 0,5% of GDP by the end of 2027. At the end of 2027, the general government debt is expected to reach 46,5% of GDP.

Financial and fiscal risks can lead to an increase in public debt higher than anticipated in the baseline scenario. Risks that are present and that can lead to an increase in indebtedness and public debt service costs are: refinancing risk, foreign exchange risk, market risk (interest rate risk, inflation risk), liquidity risk, credit and operational risks and risks related to the distribution of servicing costs (debt structure, concentration of liabilities).

Due to the high share of public debt denominated in foreign currency (78,1%), it is evident that foreign exchange risk will determine the behavior of the public debt-to-GDP ratio in the coming period and significantly influence the success of fiscal policy measures in consolidating public finances and reducing the share of public debt in GDP.

*Graph 13. The impact of RSD exchange rate changes against the currency basket in the public debt portfolio on changes in the Public Debt-to-GDP Ratio – Central Government Level*

Source: Ministry of Finance

The chart presents the movement of the public debt-to-GDP ratio for the central government level depending on changes in the dinar exchange rate against a specific currency basket. The baseline projection is shown along with alternative scenarios based on the appreciation or depreciation of the dinar exchange rate in the range of 10% appreciation to 10% depreciation against the currency basket. By applying these scenarios, it can be seen that the ratio for 2027. would range from 42,4% to 49,7%, while the baseline scenario would be at 46,0%

The Public Debt Management Strategy for the upcoming medium-term period is based on the assumption that financing will be secured through borrowing both on the domestic and international financial markets. Flexibility in choosing the market for borrowing, the currency of borrowing, and the financing instrument is one of the necessary conditions for securing the financing of the Republic of Serbia's budget expenditures. The decision on annual borrowing is made within the budget law for the specific fiscal year. Depending on changes in key fiscal aggregates, it is possible to adjust the borrowing plan during the fiscal year.

In order to optimize the portfolio and improve public debt management, an analysis of the costs and risks of alternative borrowing strategies was conducted using the World Bank's model (Medium Term Debt Strategy Model – MTDS), under the baseline scenario as well as under shock conditions that could lead to changes in the baseline scenario: exchange rate, changes in interest rates on international and domestic markets, and combined shocks.

In order to reduce exposure to variable interest rates, new obligations are contracted at fixed interest rates, where possible, especially in the area of loans intended for financing investment projects.

On October 4, 2024, the rating agency Standard and Poor’s upgraded the Republic of Serbia’s credit rating to investment grade, at BBB- with a stable outlook for further improvement. Investment-grade ratings are also expected from the other two agencies soon, as indicated by their latest reports.

Obtaining an investment-grade rating will significantly impact the further reduction of financing costs for the Republic of Serbia. The expansion of the investor base is expected, which will lead to lower borrowing costs both on the domestic and international markets, due to the reduced risk of the instruments issued by the Republic of Serbia. Lower borrowing costs will result in savings in the budget, while simultaneously reducing the risk of the public debt portfolio.

By introducing "benchmark" bond issuances, a positive effect has been achieved on the volume and continuity of secondary market trading, as well as on improving market efficiency in the process of selling government securities on the primary market.

In the coming period, improvements in primary market efficiency are expected through access to the Euroclear platform, as a mechanism for selling government securities that directly, in the long term, contributes to reducing borrowing costs and refinancing risk.

4.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME

Fiscal risks represent the exposure of public finances to certain circumstances that may cause deviations from the projected fiscal framework. Deviations can occur in revenues, expenditures, fiscal results, as well as in the assets and liabilities of the state, compared to what was planned and expected. The government cannot influence external risks, such as natural disasters or global financial crises, but it is possible to define exit strategies that could mitigate their impact (e.g., maintaining stability in good times to allow fiscal policy space for an adequate response in times of recession or crisis, securing coverage in case of natural disasters, etc.). Internal risks, or their materialization, are the result of activities in the public sector, and their probability of realization can be influenced by the decisions and policies of the government.

Identifying the greatest fiscal risks that may affect state finances in the medium term is the starting point for better fiscal risk management. Detailed data is available for certain fiscal risks, and it is easy to identify whether and with what probability they will affect fiscal aggregates in the medium term. For others, however, detailed data is lacking, but identifying them raises awareness of the possibility that they may lead to deviations from the planned fiscal framework in the future.

The Ministry of Finance plays a leading role in managing fiscal risks. As the key institution for medium-term macroeconomic and fiscal planning, formulation, and budget management, the Ministry of Finance must also take the lead in establishing the institutional and legal framework, as well as building the capacities needed for managing fiscal risks. The aim is for the result of these activities to be the identification and assessment of risks and the proposal of exit strategies, to assist the government in maintaining the stability of public finances, which is the key goal of fiscal policy and one of the basic prerequisites for dynamic economic growth.

To implement this process of fiscal risk monitoring, in October 2021, a Unified Methodology was adopted, prepared with the assistance of the World Bank. This methodology includes four main methodologies: 1) Methodology for monitoring fiscal risks arising from public enterprise operations; 2) Methodology for monitoring fiscal risks for the budget of the Republic of Serbia arising from the responsibilities of local self-government units; 3) Methodology for monitoring fiscal risks from judicial proceedings; 4) Methodology for monitoring fiscal risks resulting from natural disasters.

Guarantees issued by the state affect the level of public debt, but also the level of the deficit, if the state assumes repayment of the loan instead of the original debtor.

Issued guarantees, according to the definition provided by the Law on Public Debt[[9]](#footnote-9), are part of indirect liabilities and are included in the total amount of public debt. As of September 30, 2024, the total public debt in the state sector amounted to 4.496,5 billion dinars, which is 46,8% of GDP, of which direct liabilities account for 4.256,7 billion dinars (44,3% of GDP), indirect liabilities 210,3 billion dinars (2,2% of GDP), and non-guaranteed other debt of the state sector 29,5 billion dinars (0,3% of GDP).

*Graph 14. The share of indirect debt in the state sector debt*

The restrictions placed on the issuance of new guarantees over the past 10 years have yielded results, with the share of indirect liabilities in total public debt decreasing year by year. Indirect liabilities (guarantees issued by the Republic of Serbia) accounted for 9,5% of the state sector debt at the end of 2015, while at the end of 2023, they accounted for 5,0% of the state sector debt. As of September 30, 2024, indirect liabilities accounted for 4,7% of the state sector debt.

The principal of guaranteed loans serviced from the Republic of Serbia’s budget in 2023 amounted to 27,2 billion dinars (compared to 21,3 billion dinars in 2022), of which 23,8 billion dinars affected the deficit. The accounting methodology, until 2014, did not include guarantee repayments in expenditures.

Since 2014, part of these expenses has been included in the budget. Regardless of the budgetary and accounting presentation, debt repaid by the state instead of the main debtor increases overall borrowing requirements.

*Graph 15. Debt repayment based on activated guarantees, in billion dinars*

The repayment plan under guarantees (total principal and interest) in the Budget Law of the Republic of Serbia for 2024 amounts to 41,3 billion dinars, of which 28,5 billion dinars for principal repayment under guarantees is included in expenditures that affect the fiscal result.

Indirect debt, along with the inclusion of a portion of guarantee repayments in budgetary expenditures and the resulting increase in the deficit, has raised awareness of the growing fiscal risks stemming from issued guarantees.

The Law on Amendments and Supplements to the Budget Law of the Republic of Serbia for 2024, Article 3a, provides for the issuance of guarantees up to a maximum of 405 billion dinars. Additionally, it allows for the increase in the volume of issued guarantees, aimed at preserving and strengthening financial stability or preventing or mitigating the consequences of extraordinary circumstances that could endanger life and health or cause significant damage, in an amount up to 20 billion dinars, upon the proposal of the ministry responsible for financial affairs.

Beyond limiting the issuance of state guarantees, a key step in reducing and mitigating fiscal risks in this regard is the reform of state-owned enterprises, which are the primary beneficiaries of guarantees, to enable them to repay their loans independently. A significant number of enterprises, including the largest beneficiaries of guarantees, are undergoing restructuring processes or implementing restructuring plans developed in cooperation with international financial institutions.

Structural reforms of public and state-owned enterprises, their preparation for market competition and financial sustainability on the one hand, and the limited and targeted issuance of new guarantees on the other, will contribute to reducing fiscal risks and maintaining expenditures within the planned or projected frameworks in the upcoming medium-term period.

The operations of state-owned enterprises represent a significant source of fiscal risks, both on the revenue side and on the expenditure side of the budget. State-owned enterprises face numerous challenges in their operations, from the collection of receivables to the regular settlement of obligations to creditors, the state, employees, and others. The state, as their founder and sole owner, is responsible for their operations and serves as their primary support in cases of insolvency. Several channels exist through which fiscal risks associated with the operations of state-owned enterprises can materialize. The most significant, but not the only risk, is the state guarantees issued for loans taken by state-owned enterprises. The sustainability, efficiency, and profitability of state-owned enterprises affect budget revenues, specifically the amount of profits they pay into the budget. The quality of goods and services provided by state-owned enterprises impacts the efficiency and profitability of the private sector, and ultimately, the level of taxes paid into the budget.

The Ministry of Finance monitors the performance of 36 strategic enterprises majority-owned by the Republic of Serbia, which represent a significant segment of the Serbian economy. As of the end of the third quarter of 2024, these enterprises employed 65,8 thousand people. Their operations are regulated by the Law on Public Enterprises, adopted in February 2016, the Law on the Management of Companies Owned by the Republic of Serbia, adopted in September 2023, as well as sub-sectoral laws that define specific areas not covered by the Law on Public Enterprises (e.g., the Energy Law, the Law on Companies, etc.).

In the autumn of 2021, disruptions occurred in the global energy market. The energy sector crisis compounded the already existing challenges caused by the COVID-19 pandemic. Due to increased demand driven by the post-pandemic economic recovery, coupled with supply issues, insufficient availability, and inadequate reserves, natural gas prices reached historic highs. This surge stimulated demand for other energy sources, whose prices also skyrocketed. High prices for other energy sources, reduced wind power generation in Europe, and elevated costs of CO2 emission allowances further drove electricity prices to record highs.

It has been repeatedly shown that the rise of key energy sources, such as oil and gas, leads to an increase in other prices in the market. On top of this already difficult situation, the crisis in Ukraine has added further complexity, making energy security and Europe's dependency on Russian fossil fuels one of the key issues. This sequence of events has caused the prices of electricity and natural gas worldwide to reach levels significantly higher than usual in recent years. The energy crisis inevitably spilled over into Serbia, with energy companies, primarily AD "Elektroprivreda Srbije" and JP "Srbijagas," being the most affected.

To mitigate the high electricity prices in the previous period, which endangered the operations of businesses in Serbia, as well as energy entities involved in electricity transmission and distribution (related to electricity procurement for losses), it was recommended that “Elektroprivreda Srbije” supply these entities at prices below market levels. As a result, EPS was exposed to financial risk, with the burden of rising prices entirely shifted onto the company. In the latter half of 2023, energy commodity prices in the global market stabilized, leading to stability in Serbia’s energy sector.

The Republic of Serbia continued in 2023 to ensure the supply of key energy resources through financial and strategic measures. Additionally, significant efforts were made to advance the transformation of energy sector enterprises. On April 6, 2023, EPS transitioned from a public enterprise to a non-public joint-stock company. The increase in electricity prices during 2022–2023, rational resource planning, energy price trends, and favorable hydrological conditions enabled EPS to conclude 2023 with a historic net profit of 112,4 billion dinars. The achieved result was partially used to repay loans for liquidity and investment projects, which will positively impact the company's future operations. Despite positive advancements, the main challenge for the coming period is the continuation of reforms and energy transition, which will enable a gradual shift toward increased renewable energy production. This transition will undoubtedly require financial consolidation and significant investment.

An important role in energy stability is also played by another electricity sector enterprise, “Elektrodistribucija Srbije” (EDS), which has operated independently since 2021 (previously part of EPS). In 2023, EDS’s primary revenues from grid fees were insufficient for sustainable operations, prompting the Republic of Serbia to intervene with short-term interest-free loans. High electricity prices and other energy sector challenges resulted in EDS closing 2023 with a negative result of 1 billion dinars. Despite numerous challenges, EDS has seen positive aspects, including significant investments. In the first half of 2024, the Distribution Network Reconstruction project was completed, replacing over 34,000 wooden poles with concrete ones. Ongoing projects include the Smart Metering project, partially funded by EU grants and loans from the EBRD and EIB, and the Automation of Medium Voltage Distribution Network project in collaboration with Schneider Electric. These projects aim to address EDS's structural issues, significantly improving distribution networks and reducing network losses. Recognizing the challenges faced by this enterprise, the Republic of Serbia has planned continued support for 2024, including guarantees amounting to 32,7 billion dinars.

As for the public enterprise “Srbijagas,” unfavorable market trends in 2021 and 2022, as well as the financial position of natural gas distributors, led the Republic of Serbia to participate in financing the procurement of reserve gas quantities and co-financing regular procurement in the previous period. Through proactive operations during 2022 and 2023, additional natural gas storage capacities were secured in Hungary. Stored quantities were occasionally withdrawn during the winter seasons of 2022/2023 and 2023/2024, while the remaining amounts will ensure additional supply security for the winter season of 2024/2025. Global energy price trends caused “Srbijagas” to adjust its gas sales prices several times during 2022/2023, which improved the financial position of this public enterprise. It is important to note that at the end of 2023, “Srbijagas” signed a natural gas supply contract with the Azerbaijani state oil company SOCAR, a major producer and exporter of fossil fuels, primarily natural gas. This agreement continued the diversification of supply sources, thereby enhancing security in case of disruptions in the global market. For 2024, plans include continued investments, primarily in gas transport and distribution activities, as well as further development of the distribution network and strengthening of gas pipeline transport capacities within the Republic of Serbia.

The effects of the global energy crisis also impacted the public enterprise “Putevi Srbije”, which has been identified as a high fiscal risk due to the rise in prices of essential energy commodities and key raw materials necessary for its core activities. This could further deteriorate its financial position and increase reliance on the budget of the Republic of Serbia. To prevent such budgetary impacts, Serbia implemented a series of measures in 2023. To mitigate negative effects, “Putevi Srbije” increased toll prices by 14% (or 8% for vehicles with TAG devices) starting April 1, 2023, with further adjustments made to the pricing policy in mid-2024.

A similar situation was identified with “Koridori Srbije” d.o.o., which faces high expenses for capital investments under its jurisdiction. As a result, changes in the prices of basic raw materials could significantly increase project implementation costs and reliance on the Republic of Serbia’s budget to ensure the continuous realization of projects.

The total assets of state-owned enterprises at the end of 2023 amounted to 3.587 billion dinars, primarily consisting of fixed assets, which accounted for 85,7%, as most state enterprises operate in capital-intensive industries. Total liabilities include loans, supplier obligations, and other liabilities, which increased significantly between 2021 and 2022, in line with the occurrence of energy shocks in the market. Loan obligations accounted for 38,7% of total liabilities at the end of 2023 and 37,8% by the end of the third quarter of 2024.

*Table 12. Key Financial Indicators of State-Owned Enterprises' Operations, in Billion Dinars*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **2021** | **2022** | **2023** | **Q3 2024** |
| **Total Assets** | 3.217 | 3.454 | 3.587 | 3.615 |
| Fixed Assets | 2.872 | 2.936 | 3.074 | 3.166 |
| Current Assets | 340 | 513 | 507 | 444 |
| **Total Equity** | 1.963 | 1.896 | 2.048 | 2.079 |
| **Total Liabilities** | 1.254 | 1.558 | 1.539 | 1.536 |
| Loan Obligations | 500 | 650 | 596 | 580 |

Source: Financial reports (APR) and quarterly report for 2024

The total net result determined in the third quarter of 2024 is a profit of 31,5 billion dinars. The current year's result has been overestimated for depreciation expenses of JP "Putevi Srbije," as the company records these expenses only at the end of the year in the full amount for the given year. Business revenues and total revenues in state-owned enterprises are showing an upward trend, with the best performance in the last three years recorded at the end of 2023. Meanwhile, business expenses and total expenses have decreased compared to 2022, which is consistent with the more efficient operations of the company.

The net result at the end of 2023 was a positive amount of 114,3 billion dinars, representing a significant improvement compared to previous years when state-owned enterprises recorded negative net results. The greatest contribution to the overall result of state-owned enterprises was made by "Elektroprivreda Srbije" AD. When analyzing quarterly financial performance, it is necessary to take into account that a number of companies have a seasonal component in their operations.

*Table 13. Key business indicators of state-owned enterprises as of September 30, 2024, billion dinars*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **2021** | **2022** | **2023** | **Q3 2024** |
| Business revenues | 739,1 | 905,2 | 1.018,5 | 711,0 |
| Business expenditures | 741,0 | 950,9 | 870,9 | 653,0 |
| Wage costs | 115,0 | 118,5 | 127,9 | 103,6 |
| EBIT (operating result) | (1,9) | (45,7) | 147,6 | 58,0 |
| Total revenues | 775,8 | 937,7 | 1.057,5 | 733,6 |
| Total expenditures | 787,8 | 1.006,0 | 921,8 | 692,6 |
| **Net result** | (13,9) | (68,8) | 114,3 | 31,5 |
| **Number of SO enterprises with profit** | **26** | **25** | **28** | **22** |
| **Number of SO enterprises with loss** | **10** | **11** | **8** | **14** |

Source: Financial reports (APR) and quarterly report for 2024

The majority of subsidies received by companies are mainly used for capital projects, while a certain number of companies also use them to maintain current liquidity. The share of paid subsidies in total budget expenses ranges from 3-4% each year

*Table 14. Overview of subsidy recipients (36 companies) and their share in the total expenses of the budget of the Republic of Serbia*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **2020** | **2021** | **2022** | **2023** |
| Number of subsidy beneficiaries (out of 36 state-owned enterprises) | 23 | 25 | 25 | 27 |
| Paid subsidies (billion RSD) | 66,7 | 67,3 | 56,0 | 67,9 |
| Total budget expenditures of the Republic of Serbia (billion RSD) | 1.717 | 1.751 | 1.915 | 2.068 |
| ***% of paid subsidies/total budget expenditures*** | ***3,9%*** | ***3,8%*** | ***2,9%*** | ***3,3%*** |

Source: Ministry of inance

The new Law on the Management of State-Owned Enterprises, which came into effect in September 2024, is expected to contribute to reducing fiscal risks and improving the performance of state-owned enterprises. This law will enable better monitoring of state-owned enterprises through centralized management, and the change in the legal form of public enterprises into joint-stock companies or limited liability companies will contribute to the professionalization of corporate governance, thereby increasing economic efficiency and competitiveness. The general objective of this law is to create sustainable and efficient management of enterprises owned by the Republic of Serbia.

The assessment of fiscal risks of state-owned enterprises is carried out using the Altman Z-score model. In addition to the basic model, the adjusted Altman Z" model is also used, which is primarily applied to emerging markets, i.e., in countries that do not have a developed capital market. The adjusted Altman Z"-score model represents a linear combination of 4 financial ratio indicators, each assigned the corresponding coefficients.

According to the data from the official financial reports submitted as of December 31, 2023, out of 36 state-owned enterprises, the application of this model identified that 19,4% of state-owned enterprises are high-risk, 16,7% have moderate risk, while the remaining 63,9% of state-owned enterprises have low operational risk. The state-owned enterprises identified as high-risk are from the energy sector, railway transport, and the construction-technical branch. Observed over annual periods, a decreasing trend is noticeable among high-risk enterprises, where there were 10 high-risk enterprises in 2021, and by the end of 2023, this number had decreased to 7.

Risk quantification is one of the main challenges in risk assessment and its material expression. According to the applied model, risk quantification involves identifying and presenting potential expenditures that may arise for individual enterprises, which represent a potential threat to the budget of the Republic of Serbia, as they could lead to unplanned interventions in the repayment of obligations to state-owned enterprises. These expenditures are commonly referred to as "expected expenditures" and represent a statistical calculation that includes a combination of the probability of incurring the expense and the size of annual obligations on loans, as one of the most sensitive and significant expenditures that may require budgetary support.

According to the results of the model, the total fiscal risk, or expected expenditures for 36 state-owned enterprises for 2024, is estimated at around 5,1 billion dinars. These results indicate the need for continuous monitoring and risk management in order to mitigate potential financial consequences for public finances, while simultaneously developing measures that would strengthen the stability of these enterprises.

Expected expenditures in the next three years are projected at slightly lower levels. Estimates indicate that in 2025, they will amount to 4,8 billion dinars, in 2026, also 4,8 billion dinars, while for 2027, a decrease to 4,6 billion dinars is expected. Given that the size of the expected expenditure is directly influenced by annual obligations on loans, any new borrowing by enterprises would lead to an increase in the expected expenditure, which highlights the importance of debt control and sustainable financial obligation management.

The Ministry of Finance will continue to improve analyses, collect qualitative information, enhance models, all with the aim of making the model more comprehensive and accurate, in order to provide a reliable foundation for risk management and support the sustainability of public finances.

The payment of profits by public enterprises and dividends from capital companies in which the state holds ownership is a significant part of non-tax revenues. Economic entities founded by the Republic of Serbia or in which the Republic of Serbia has an ownership stake are required to pay at least 50% of the proportional share of profits from the final account for 2022 into the budget of the Republic of Serbia by November 30 of the current fiscal year. In 2023, a total of 4,3 billion dinars was paid into the budget of the Republic by 36 state-owned enterprises based on this requirement.

Before the period of fiscal consolidation, the Republic of Serbia had significant fiscal costs related to the bailout of state-owned banks. The total costs of state interventions in the banking sector between 2012 and 2015 amounted to around 900 million euros. This amount was allocated for the recapitalization of banks, various financial transactions during the mergers of unsuccessful banks with more successful ones, including the payout of insured and uninsured deposits (for which funds from the Deposit Insurance Fund were also used).

The Republic of Serbia today holds a direct stake in the capital of the Banka Poštanska štedionica a.d. Belgrade (78,54%) and the Srpska Banka a.d. Belgrade (76,69%).

In order to consistently implement the exit strategy and reduce fiscal risks in this regard, reform activities in the area of state financial institutions, initiated in 2012 and 2015, continue.

The Business Strategy for the period 2024-2026 was adopted by the Assembly of Banka Poštanska štedionica (BPS) in December 2023. According to the business strategy, BPS will continue to implement activities focusing on further improvement and development in the following areas: business with individuals, entrepreneurs, micro, small, and medium-sized legal entities, local government units, public enterprises founded by the Republic of Serbia or autonomous provinces or local government units, and business companies in which the Republic of Serbia or autonomous provinces or local government units have ownership; improving the bank's internal organization, corporate governance, and risk management; strengthening IT infrastructure.

To mitigate the economic and financial consequences caused by the COVID-19 pandemic, the Bank acts in accordance with the Law on Establishing a Guarantee Scheme as a measure of support to the economy to mitigate the consequences of the COVID-19 pandemic caused by the SARS-CoV-2 virus ("Official Gazette of RS", no. 153/20 and 40/21) and the Law on Establishing Another Guarantee Scheme as an additional measure of support to the economy due to the prolonged negative impact of the COVID-19 pandemic caused by the SARS-CoV-2 virus ("Official Gazette of RS", no. 40/21 and 129/21).

In accordance with the Government's strategy for state-owned banks, an Expert Working Group for the transformation of Srpska Banka into a specialized financial institution for providing all types of financial services and support to the designated industry of the Republic of Serbia was established on January 21, 2019, and began its formal work in March 2019 when the constitutive meeting was held. Due to the continued COVID-19 pandemic, as well as the crisis caused by the war in Ukraine and ongoing activities within the Ministry of Finance, it is expected that activities aimed at the transformation of Srpska Banka will continue in the coming period.

The reform of regulations governing the Serbian financial system was implemented in February 2015. One of the features of this reform is the transfer of responsibilities for monitoring the performance and management bodies of banks, insurance companies, and other financial institutions in which the Republic of Serbia is a shareholder, as well as the organization and execution of the procedure for selling shares in them, from the AOD to the Ministry of Finance, starting from April 1, 2015. The reform also transposed the Bank Recovery and Resolution Directive (BRRD) into domestic regulations, and the function of bank restructuring was entrusted to the NBS. In December 2016, a set of regulations was adopted to implement the Basel III standards into the domestic regulatory framework, achieving a significant degree of alignment of domestic regulations with relevant EU regulations in this area, and in 2017, activities continued to improve domestic regulations governing the operation of banks, with the goal of further aligning them with EU regulations. The main objectives of adopting these regulations are to increase the resilience of the banking sector by increasing the quality of capital and introducing capital buffers, improving the monitoring and control of liquidity risk exposure in banks, further strengthening market discipline and transparency in the operations of banks in the Republic of Serbia by publishing all relevant information about bank operations, and adapting the reporting system to new regulatory solutions.

One of the limiting factors for the growth of credit activity was the relatively high level of non-performing loans. In August 2015, the Strategy for Resolving Non-Performing Loans was adopted, which is being implemented through two three-year action plans, one prepared by the Government and the other by the NBS, with the aim of reducing the level of non-performing loans. Key areas of implementation included strengthening the capacity of banks to resolve non-performing loans, improving the regulations for the assessment of collateral asset value, developing the market for non-performing loans, and more.

Before the adoption of the mentioned strategy, a number of legislative and sub-legal acts were adopted and amended, institutional capacity was improved, and numerous measures were implemented to facilitate the write-off and transfer of non-collectible receivables. By creating stable operating conditions, the Serbian economy entered an investment cycle in 2015, and since then, investments have represented a significant part of economic growth. The profitability of the economy is growing in conditions of low and stable inflation and a relatively stable exchange rate. These were all key factors for the sustainable resolution of non-performing loans. This is also clearly visible from the fact that in sectors which are the main drivers of growth, the most significant decrease in non-performing loans was recorded, notably in the manufacturing industry and construction.

Deposit insurance is a mechanism that contributes to maintaining financial stability and ensures protection for depositors. The deposit insurance system guarantees that each protected depositor will be paid the full amount of their deposits in each bank up to the insured amount of 50.000 euros in the event of bankruptcy or liquidation of the bank. Deposit insurance is regulated by the Deposit Insurance Law. The guarantee of payment of insured deposits by the state, either directly from the budget or indirectly through the issuance of guarantees for the borrowing of AOD, is a source of fiscal risks and potential fiscal costs. However, thanks to the achieved stability of the banking sector, since 2015, there has been no need to use the funds from the deposit insurance fund, nor has the state had to intervene for the payment of insured deposit amounts.

Considering the situation arising from the declaration of a state of emergency in the Republic of Serbia, in order to mitigate the economic and financial consequences of the COVID-19 pandemic, measures to support the economy were taken, aiming to increase the liquidity of economic entities. One of these measures was the adoption of the Law on Establishing a Guarantee Scheme as a measure to support the economy in mitigating the consequences of the COVID-19 pandemic caused by the SARS-CoV-2 virus. In 2021, the Law on Establishing Another Guarantee Scheme was adopted, which approved an additional 500 million euros in aid. In total, under both guarantee schemes, banks allocated approximately 2,5 billion euros in loans.

There are significant fiscal risks arising from court decisions, both domestic and international, fines, and damages imposed by state authorities. The Republic of Serbia has paid a total of 121 billion dinars from the national budget in the period from 2009 to 2020 for fines and penalties imposed by courts and compensation for damages caused by state authorities. In 2021, 16,6 billion dinars were paid from the national budget for this purpose, 26,8 billion dinars were paid in 2022, 25,4 billion dinars in 2023, and 32,8 billion dinars are planned for 2024. Based on the existing trend of national budget execution from 2018 to 2023, it is expected that in the next 3 years, national budget expenditures related to court proceedings, based on projections from the constant growth rate during the mentioned period, will range from 28,0 to 33,9 billion dinars, or approximately 30.0 billion dinars on average per year, with a potential for slight growth. The decision of the European Court of Human Rights has obliged the Republic of Serbia to settle public debt for unpaid foreign currency savings that were deposited by citizens of former SFRY republics and the Republic of Serbia’s citizens with banks headquartered in the Republic of Serbia and their branches in former SFRY republics. Potential liabilities may also arise from decisions of the Constitutional Court based on constitutional complaints and decisions of the European Court of Human Rights based on complaints filed by workers of former social enterprises (unpaid wages, mandatory social security contributions, interest, procedural costs, claims from commercial transactions).

The constant risk of natural disasters and catastrophes obliges investment in prevention programs in order to reduce potential fiscal costs for eliminating damage caused by such events. Prevention refers to the inclusion of a broader range of financial instruments (such as reserve funds, potential credit lines, and particularly insurance) that should be available to the state. In 2014, the Republic of Serbia faced catastrophic flood consequences, with total damage (including losses) estimated at over 1,7 billion euros. In December 2014, the government adopted the National Program for Disaster Risk Management, which will be implemented in cooperation with the World Bank, the United Nations, and the EU. As part of the National Program, another umbrella law was adopted in November 2018, addressing the issue of natural disasters and catastrophes: the Law on Reducing the Risk of Disasters and Managing Emergency Situations.

The increasing frequency and intensity of natural and other disasters, as well as the growing costs of mitigating their consequences, highlight the need for constant vigilance when dealing with this type of fiscal risk. In 2021, the Unique Methodology for Monitoring Fiscal Risks in the Republic of Serbia was adopted, which, among other things, includes the Methodology for Monitoring Fiscal Risks Arising from Natural Disasters. In 2022, in cooperation with the World Bank, a model for assessing fiscal risks from natural disasters was developed. The model for monitoring fiscal risks from natural disasters provides a quantified estimate of the negative effect of a natural disaster on the country's Gross Domestic Product (GDP), fiscal deficit, and consequently public debt.

According to the assessments based on data from the risk modeling company "Applied Research Institute Worldwide Corporation" (the so-called “AIR” model), the damage related to floods, depending on the intensity and likelihood of occurrence, can range from 135 million dollars to 5,7 billion dollars. Although earthquake risks are considered moderate, the same estimates show that damage associated with earthquakes can range from 132 million dollars to as much as 7,6 billion dollars. Depending on the type and intensity of the natural disaster, the expected contraction of GDP, or a smaller GDP growth in the year when the natural disaster occurs, compared to the growth that would have occurred had the natural disaster not taken place, varies. For earthquakes, GDP growth can decrease from 0,02% for less intense earthquakes to a significant 1,39% for rare, large-scale earthquakes. For floods, the contraction in GDP growth can range from 0,02% for less intense floods to, at most, 1,05% for rare, large-scale floods. Based on the model for assessing fiscal risks from natural disasters for the Republic of Serbia, it can be concluded that in the case of an earthquake, the fiscal deficit can increase by between 0,04% and 2,5% of GDP annually, which can further impact the growth of public debt by 0,05% to over 6,4% of GDP in the years following a major earthquake shock. In the case of floods, a similar situation is observed, with the fiscal deficit potentially increasing between 0,04% and 1,9% of GDP annually, which can further affect the growth of public debt by 0,06% to over 4,8% of GDP in the years following a large-scale flood shock.

*Table 15. Changes in fiscal variables depending on the type of natural disasters, as a percentage of GDP*

| Scenario | | Probability of events | 2024 | 2025 | 2026 | 2027 |
| --- | --- | --- | --- | --- | --- | --- |
| EARTHQUAKES | Fiscal balance | 50% | 0,00 | 0,00 | 0,00 | 0,00 |
| 10% | -0,04 | -0,04 | -0,03 | -0,02 |
| 2% | -0,40 | -0,39 | -0,23 | -0,15 |
| 1% | -0,78 | -0,77 | -0,45 | -0,30 |
| 0,4% | -2,52 | -2,50 | -1,47 | -0,98 |
| Public debt | 50% | 0,00 | 0,00 | 0,00 | 0,00 |
| 10% | 0,05 | 0,09 | 0,11 | 0,11 |
| 2% | 0,50 | 0,83 | 0,97 | 1,02 |
| 1% | 0,97 | 1,63 | 1,90 | 1,98 |
| 0,4% | 3,15 | 5,28 | 6,16 | 6,44 |
| FLOODS | Fiscal balance | 50% | -0,04 | -0,04 | -0,03 | -0,02 |
| 10% | -0,22 | -0,21 | -0,13 | -0,08 |
| 2% | -0,72 | -0,72 | -0,42 | -0,28 |
| 1% | -1,19 | -1,18 | -0,70 | -0,46 |
| 0,4% | -1,89 | -1,88 | -1,11 | -0,74 |
| Public debt | 50% | 0,06 | 0,09 | 0,11 | 0,11 |
| 10% | 0,27 | 0,45 | 0,53 | 0,55 |
| 2% | 0,90 | 1,52 | 1,77 | 1,85 |
| 1% | 1,49 | 2,50 | 2,92 | 3,05 |
| 0,4% | 2,37 | 3,97 | 4,63 | 4,84 |

In 2019, the Republic of Serbia paid 4,22 billion dinars from the budget for damage compensation related to injuries or damages caused by natural disasters or other natural causes. In 2020, 2,8 billion dinars were allocated for this purpose, while in 2021, the amount spent for these purposes was 520,3 million dinars. In 2022, 263,9 million dinars were paid, and for the first nine months of 2023, 270,3 million dinars were allocated for this purpose.

**Alternative Scenario of Fiscal Trends in the Period 2024–2027**

The following graph shows the movement of the deficit and public debt as a percentage of GDP based on an alternative macroeconomic scenario, which assumes growth rates of 3,1%, 2,9%, and 3,2% in the next three-year period.

*Graph 16. Basic and Alternative Fiscal Trend Scenarios for the Period 2024–2027*

Slower growth would affect, through its components, the achievement of fiscal aggregates, primarily on the revenue side, with the greatest impact on labor income and consumption taxes. This GDP dynamic would lead to a higher level of deficit and public debt compared to the baseline scenario, and by the end of the period, deficit and debt levels would be higher than those in 2023. The assumption in this scenario is that the policy regarding wages and pensions, as well as the nominal amounts allocated for capital investments, would remain the same as in the baseline scenario. However, due to fiscal rules, there would have to be a change in policy, either on the revenue or expenditure side, in order to bring the fiscal result back to the level defined by fiscal rules.

**Comparison with the previous program**

The medium-term fiscal framework has been changed in accordance with the announced investment cycle under the "Leap into the Future – Serbia 2027" program and the Expo 2027 exhibition, as well as the revision of the GDP series.

*Table 16. Comparison of fiscal indicators of the two programs, as a percentage of GDP*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023 | 2024 | 2025 | 2026 | 2027 |
| **Fiscal result** |  |  |  |  |  |
| previous program[[10]](#footnote-10) | -2,8 | -2,2 | -1,5 | -1,5 | - |
| current program | -2,1 | -2,7 | -3,0 | -3,0 | -3,0 |
| difference | 0,7 | -0,5 | -1,5 | -1,5 | - |
| **Government sector debt** |  |  |  |  |  |
| previous program | 53,3 | 51,7 | 50,7 | 50,0 | - |
| current program | 48,4 | 47,9 | 47,5 | 47,0 | 46,5 |
| difference | -4,9 | -3,8 | -3,2 | -3,0 | - |

Source: Ministry of Finance

4.7. QUALITY OF PUBLIC FINANCES

After the turbulent year of 2022, marked by the crisis in Ukraine which introduced uncertainty into all economic flows, in 2023, the Republic of Serbia achieved macroeconomic results that turned out to be more favorable than initially expected, despite numerous challenges from the surrounding environment and the continuation and deepening of geopolitical crises. Despite all these challenges, the Republic of Serbia continues its successful path in 2024, as evidenced by the recently completed fourth and final review of the current precautionary arrangement that the Republic of Serbia has with the IMF.

It has also been agreed that by the end of the year, a new arrangement will be concluded – the Policy Coordination Instrument (PCI), which will be non-financial in nature and will last for the next three years. The objectives of the new arrangement will be: maintaining macroeconomic and financial stability, implementing a credible fiscal policy that enables the continuation of public investments and social policies while maintaining the downward trend of public debt-to-GDP ratio, further strengthening the energy sector and new investments in this area, and ensuring inclusive, sustainable growth in the medium term based on structural reforms.

In the upcoming period, the continuation of reforms in the areas of employment, human resource management, and the salary system in the public sector is expected. The medium-term fiscal policy goal is to maintain public sector wage expenses at a sustainable level, with an adequate structure of employees, in order to ensure higher quality of public services. The existing employment system, managed by the Government's Commission for Approving New Hires and Additional Work Engagements in public institutions, will continue to operate during the transition period, i.e., until the new system becomes fully operational. At the end of 2020, amendments to the Budget System Law were adopted to allow institutions to hire new employees during the transition period up to a level of 70% of those leaving the institution or retiring. However, Commission approval is required if the number of new hires exceeds 70%. The purpose of this measure is to provide greater flexibility in hiring at the institutional level, in line with the institutions' needs for new staff. Additionally, a cap of 1% has been set for increasing the total number of permanent employees compared to the level at the end of 2020.

The Central Information System for the Payroll of Employees in the Public Sector, "Iskra" currently covers all direct budget users, including institutions in the fields of culture, justice, labor and social protection, and education (excluding higher education institutions). At the beginning of this year, healthcare institutions were also included in the system. Local government units, along with their indirect budget users (preschools, cultural institutions, sports facilities, and social protection institutions), will be included in the system in the last quarter of 2024. The essence of this system is better planning, execution, and control of employee wage expenditures, increased transparency, and improved human resource management in a context of growing competition from the private sector. This competition negatively impacts the attraction and retention of employees in the public sector, especially considering the attractiveness of salaries in the private sector, which could lead to a significant brain drain if these reforms are not implemented. At this stage, the only sectors not included in the system are defense, security, and internal affairs, as well as higher education institutions. It is planned for these institutions to be included in the system by 2027. Based on this system, a report will be created, publishing data on the number of employees and wage ranges, which will assist in shaping future employment policies in the public sector. The report will include data on the filling of systematized positions, as well as wage amounts by pay grades, specific job types, functions (public administration, education, healthcare, etc.), and other statistically significant data (median, maximum, minimum wages, wages by percentiles, historical data series), all of which will support reforms in this area.

The crisis in Ukraine has highlighted, through its negative impact on the energy markets, all the challenges and problems faced by the energy sector in Serbia. The identified issues can only be addressed through the implementation of comprehensive reforms, which are a prerequisite for ensuring energy security, as well as fiscal and external sustainability. The priority is the restructuring of large state-owned energy companies in order to increase their efficiency and reduce budgetary support and fiscal risks arising from their operations. The gradual increase in energy prices (gas and electricity) was a necessary measure to offset the high procurement costs, which were driven by external factors.

In the case of EPS JSC, these measures, combined with favorable circumstances that impacted the hydropower potential and increased electricity exports, resulted in a significant profit for the company in 2023. Part of these funds was used for repaying loans taken to support liquidity and investments. Since May 1 of this year, lower electricity prices have been secured for commercial customers, reducing prices by approximately 20%, in line with electricity price trends in the region. The methodology has been revised to protect customers from sudden price shocks in the electricity market, while simultaneously balancing the price levels for regulated and unregulated sectors, ensuring that total revenue can cover overall costs, including funds needed for investments in new production capacities. At the same time, the policy for protecting energy-vulnerable customers continues. During the previous heating season, by adjusting the criteria to include more individuals for this type of protection, around 170,000 users were covered. The status change of EPS to a joint-stock company, carried out in April of last year, aims to strengthen the company in the long term through professional management. The strategic restructuring plan for EPS JSC, which was agreed upon with the IMF and adopted in May 2024, outlines the steps for the company's transformation, ensuring its stabilization and specifying reform priorities in management and organizational structure. In line with the principle of transparency, financial plans for EPS JSC and JP "Srbijagas" will be published. Additionally, the practice of publishing the 20 largest debtors to these two companies on a monthly basis will continue. By March 2025, a report will be prepared to assess the adequacy of the grid fee paid to Elektrodistibucija Srbije (EDS), as well as the adequacy of the fees paid by EDS and Elektromreža (EMS) to EPS for losses.

Serbia's Integrated National Energy and Climate Plan for the period up to 2030, with projections until 2050, was adopted in July this year, marking the beginning of a new phase in the development of Serbia's energy sector. This phase aims to contribute to greater supply security, an increased share of clean energy sources, and enhanced environmental protection. The Integrated National Energy and Climate Plan is a key strategic document that defines strategic goals and the timeline for their achievement in the energy transition process. The policies and measures to achieve the goals of this plan are grouped into five key dimensions: decarbonization, energy efficiency, energy security, internal energy market, and research, innovation, and competitiveness. The next step is the adoption of the Energy Development Strategy of the Republic of Serbia until 2040, with projections until 2050. Serbia's energy sector is facing fundamental structural changes driven by both global and national circumstances, including economic, technological, and environmental changes, as well as internationally and nationally accepted development goals.

The increase in gas prices during 2022 and 2023 contributed to stabilizing the financial situation of JP "Srbijagas." The development of a new pricing system for part of the users with unregulated prices has been completed, and it will be applied starting from the 2024–2025 heating season. A reduction in prices for the economy by about 15% has been in effect since May 1 of this year. Among other things, the new methodology introduces new types of contracts and higher margins, which will ensure funding for future investments. It is expected that, in the upcoming period, there will be no need for budgetary support for liquidity purposes for these companies. Next year, the adoption of an amended and supplemented plan for priority investments in the energy sector is expected, which will define investment needs in this area for all projects valued at over 20 million euros, including project evaluations, their contribution to the green transition, funding sources, internal rate of return assessments, etc.

The government, with the support of the European Bank for Reconstruction and Development (EBRD), adopted the State Ownership and Management Strategy for Enterprises Owned by the Republic of Serbia for the period 2021–2027 as a unified document that provides a strategic vision and guidelines regarding the objectives of ownership management, financial and public policy goals, as well as principles of corporate governance and oversight in line with international standards and best practices. In April of this year, an Action Plan for the implementation of this strategy was adopted. The Law on the Management of Enterprises Owned by the Republic of Serbia began to be applied in September 2024, having entered into force in September 2023.

The strict limitation on the issuance of state guarantees for liquidity support continues. In 2024, apart from one new state guarantee for a loan to EPS JSC, no state guarantees were issued for liquidity support to state-owned enterprises, nor for any company from the portfolio of the former Privatization Agency. The issuance of guarantees for project loans provided by multilateral financial organizations, in support of the investment and reform agenda, will continue.

For companies that are part of the strategic portfolio of the former Privatization Agency, the solution lies either through privatization tenders or through bankruptcy. Sufficient funds have been allocated in the budget to support JP PEU "Resavica" in a transparent manner, and it has been ensured that no further accumulation of arrears in payments to EPS JSC will occur in the future. However, the company faces the challenge of finding a solution for economically unsustainable mines that are nearing the exhaustion of their remaining coal reserves, as well as a plan for rationalizing production and operations in parts of the system where analysis shows they may be economically viable, with the possibility of privatizing some of its segments. If privatization is not acceptable, the company will be managed in accordance with the new Law on the Management of Enterprises Owned by the Republic of Serbia.

Improving public financial management is necessary not only as support for fiscal stabilization measures and structural reforms but also as a process that enhances the quality of public administration and ensures an attractive environment for investors. The new Public Financial Management Reform Program for the period 2021–2025 was adopted in June 2021. In order to improve the public investment management system, and particularly in light of the development plan "Leap into the Future 2027," which encompasses over 320 projects with a total value of 18 billion euros, the Ministry of Finance conducted a process in 2023 to adopt new legal regulations. These regulations comprehensively govern the content, preparation, evaluation, readiness assessment, and selection of capital projects, as well as monitoring implementation, reporting on performance, and evaluating all positive and negative effects of capital projects. The new legal regulations include the Decree on Capital Projects, as well as four bylaws adopted under this decree, which provide further detailed rules for its application, thereby significantly facilitating the implementation of the project cycle for all stakeholders. This is another step closer to achieving the goal defined as a "single project pipeline." The adoption of the new legal framework was preceded by a comprehensive analytical process assessing the practical application of the previous legal framework, aimed at addressing identified shortcomings and inconsistencies, as well as implementing regulatory solutions that have proven effective in practice. Parallel to the work on improving the legal framework, efforts were made to upgrade the Centralized Capital Project Database (Public Investment Management Information System - PIMIS), which has been adapted to the new legal framework. An information system has been created that will enable the comprehensive implementation of the project cycle defined by the Decree on Capital Projects, with the goal of ensuring effective and efficient management of public funds.

The new Action Plan for the Transformation of the Tax Administration for the period 2021-2025, adopted in May 2021, is being successfully implemented. This plan defines strategic guidelines and timelines for activities aimed at creating a modern tax administration that, through the use of modern electronic processes, will provide better and more comprehensive services to taxpayers, improve revenue control and collection, and strengthen the fight against the informal economy, alongside the reform and modernization of inspection oversight. In May 2022, a new fiscalization model (e-fiscalization) was introduced, based on which the first round of audits was conducted. The new system contributed to reducing non-compliance among taxpayers and resulted in fewer negative audit opinions. The next step was the implementation of the electronic invoicing system (e-invoice) at the beginning of 2023. A tender for the procurement of a new information system was re-launched with the support of the World Bank, aiming to immediately improve efficiency, particularly in the areas of human resource management and data and documentation processing upon implementation. Ongoing work is being done to monitor and analyze the VAT gap and corporate tax gap, with current analysis focusing on data shortcomings and adjusting analytical tools. Preliminary results suggest that the VAT gap has been significantly reduced compared to 2018. The Tax Administration will publish a list of the largest tax debtors whose debt exceeds 20 million dinars at least once a year. With the adoption of the Law on the Determination of the Origin of Assets and Special Tax and the establishment of a special organizational unit within the Tax Administration, conditions have been created for cross-analysis of individuals' assets and income. The first cases of audits were completed this year. The development of a new human resources strategy for the Tax Administration and the acceleration of hiring procedures remain priorities to ensure an adequate number of employees. The number of employees in the Tax Administration has significantly decreased over recent years. With the upcoming wave of retirements and considering the transformation plan that involves shifting to higher qualification requirements, it is imperative to hire a sufficient number of highly qualified staff in a timely manner, which also necessitates adequate salaries. In this regard, a large recruitment campaign will be launched in the Tax Administration starting in January 2025, supported by significant changes in the job classification system and an eased hiring process.

4.8. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORKS

In order to ensure the stability and sustainability of public finances in the long term, it is necessary to have a functional system of fiscal rules. Fiscal rules were first introduced by the Budget System Law in 2010. The Republic of Serbia was one of the first countries to establish national fiscal rules by law and to create an independent institution, the Fiscal Council, which evaluates the government's economic and fiscal policies, as well as compliance with these rules. Since the rules became effective during the global economic crisis, the numerical debt rule was breached in the first year of its implementation. Meanwhile, more and more countries have introduced fiscal rules, and in addition to national fiscal rules, EU member states also apply rules defined at the EU and EMU levels. European fiscal rules have been amended and redefined several times, taking into account their application and the effects that their implementation has led to. Given that twelve years have passed since the introduction of fiscal rules in the Republic of Serbia, the conditions have now been created for their revision, considering the experiences of other countries, the directions in which EU fiscal rules have changed, the consequences and responses of fiscal policy to the major economic crisis of 2008, as well as the experience of the recent crisis caused primarily by the health emergency of the COVID-19 pandemic, followed by the crisis triggered by the conflict in Ukraine.

The new set of fiscal rules is an integral part of the Law on Amendments and Supplements to the Budget System Law, adopted in December 2022. The component related to deficit limits in relation to the level of public debt has been postponed until 2029, while the targets set in the Revised Fiscal Strategy for 2025, with projections for 2026 and 2027, will be applied in the meantime. This is necessary due to the new investment cycle in the upcoming medium-term period (the "Leap into the Future – Serbia 2027" program), which foresees significant new investments in transportation infrastructure, mining, energy, agriculture, healthcare, education, culture, environmental protection, regional development, security, etc. The program will implement a comprehensive modernization of the state and raise the standard of living for citizens, while also ensuring higher GDP growth rates. The medium-term plan foresees that the deficits of the state sector will amount to 3% of GDP, ensuring that the state sector’s debt remains on a downward trajectory (from 47.9% of GDP, as projected for the end of this year, to 46.5% of GDP by the end of 2027), and well below the 60% GDP threshold (including obligations related to restitution), as determined by the fiscal rule. Special fiscal rules regulating wage growth in the public sector and pensions have been in place since 2023, and based on this, salary and pension increases are planned in the 2025 budget. Since fiscal rules relate to the public sector, it was necessary to regulate the procedure and dynamics of including new entities within the public sector, in accordance with the specific sectoral classification methodology established by the Statistical Office of the Republic of Serbia (RZS), in line with the agreement between the RZS, the National Bank of Serbia (NBS), and the Ministry of Finance. Furthermore, fiscal rules for local government will continue to apply in the same manner as defined in 2010, when fiscal rules were first introduced in the Republic of Serbia.

The process of strengthening the importance of the medium-term budget framework continues in line with the Action Plan for Improving the Medium-Term Budget Framework, adopted in September 2023. The goal is to make medium-term budgeting more effective and binding, and to increase budget transparency. For the 2025 budget cycle, the medium-term limits set during the previous budget cycle were of great importance, as they served as the starting point in discussions with relevant ministries. The ministries themselves are becoming increasingly familiar with this approach to budgeting, which improves the quality of their estimates and projections, and thus the overall budget process. One of the innovations is the introduction of so-called green budgeting. The green budgeting methodology was introduced for the national budget for the first time in the budget cycle for the upcoming year.

The improvement of the quality and transparency of public finance statistics is being achieved through the enhancement of comprehensive, timely, and automatic data exchange between the relevant institutions – the Statistical Office of the Republic of Serbia, the National Bank of Serbia, and the Ministry of Finance, in accordance with the Cooperation Agreement in the field of national accounts of the government sector and related statistics. In April 2018, the Statistical Office of the Republic of Serbia published a list of institutions that constitute the government sector, as well as other sectors, in accordance with the European System of National and Regional Accounts (ESA 2010), the System of National Accounts (SNA 2008), and the Manual on Government Deficit and Debt, prepared in cooperation with the National Bank of Serbia and the Ministry of Finance. Since mid-2021, the Public Debt Administration has been publishing Maastricht debt data quarterly, compiled by the National Bank of Serbia in accordance with ESA 2010. A project is currently underway in cooperation with the IMF, aiming to build a system within the Treasury Administration, as the central information system and comprehensive database, which will enable the collection and consolidation of data for the government sector according to both national methodology and the GFSM 2014 methodology, including monthly reporting on public debt through the gradual inclusion of institutions within its scope.

# **5A. COMPLIANCE OF THE REFORM AGENDA WITH THE MACROFISCAL FRAMEWORK OF THE ERP**

The Reform Agenda of the Republic of Serbia, as a central part of the EU Growth Plan for the Western Balkans, represents a strategic framework for accelerating reforms that contribute to economic and social convergence with the European Union. It focuses on four main areas: improving the business environment and private sector development, green and digital transitions, improving human capital and fundamental reforms covering the rule of law, transparency and the fight against corruption. With the engagement of the Government and stakeholders, Serbia will work to address priority challenges, implement structural reforms, and preserve fiscal and macroeconomic stability.

**Overview of reforms and goals:**

**1. Business environment and private sector development**

* **Business environment:**
  + Improving public investment management and sustainable and efficient management of business entities owned by the Republic of Serbia.
* **Private sector development:**
  + Improving investment and development opportunities for entrepreneurs and the private sector.
  + Further development of the scientific and innovation ecosystem for a knowledge-based economy.
* **Business sector competitiveness:**
  + Improving competitivness of agricultural sector.

Objective: Improving the efficient management of business entities owned by the Republic of Serbia, improving the overall management of capital projects, improving investment and development opportunities for entrepreneurs and the private sector through better implementation of state aid and public procurement rules, improved identification of parafiscal levies, increasing the competitiveness of the agricultural sector and developing the scientific and innovation ecosystem necessary for the further development of a knowledge-based economy.

**2. Green and digital transition**

* **Transformation of the energy sector:**
  + Implementation of the Third Energy Package for gas and transmission, as well as the implementation of the electricity integration package.
  + Gradual adjustment of tariffs until cost recovery levels with measures to address energy poverty if and when necessary.
  + Implementation of the Just Transition Action Plan.
  + Ensuring transparent and competitive procedures for the introduction of renewable energy.
  + Implementation of the Renewable Energy Directive (permits, guarantees of origin, prosumers).
  + Implementation of the MRVA22 package.
  + Implementation of the Energy Efficiency Directive, the Energy Performance of Buildings Directive, eco-design and energy labelling regulations.
* **Digitalisation:**
  + Development of secure and sustainable digital infrastructure, including the development of broadband access in rural areas and 5G networks.
  + Further digitalisation of public services and administrative procedures for businesses and citizens.
  + Strengthening adult education, training and relevant opportunities for improving digital skills and literacy.
  + Establishing a comprehensive framework for information security and artificial intelligence.
  + Introducing an intelligent transport system and an electronic freight transport system.

Objective: In the energy sector, the objectives are to ensure the transformation of the energy sector in accordance with European rules governing the energy sector and to ensure the decarbonization process, while ensuring energy security, integrating the energy market of the Republic of Serbia with the single European market, and ensuring affordable electricity prices. In the field of digitalization, the objectives are to develop a secure and sustainable digital infrastructure, including the introduction of rural broadband and 5G networks, further digitalization of public services and administrative procedures for citizens and businesses, strengthening digital skills and literacy and establishing a comprehensive framework for information security and the development of an intelligent transport system and eFreight.

**3. Human capital**

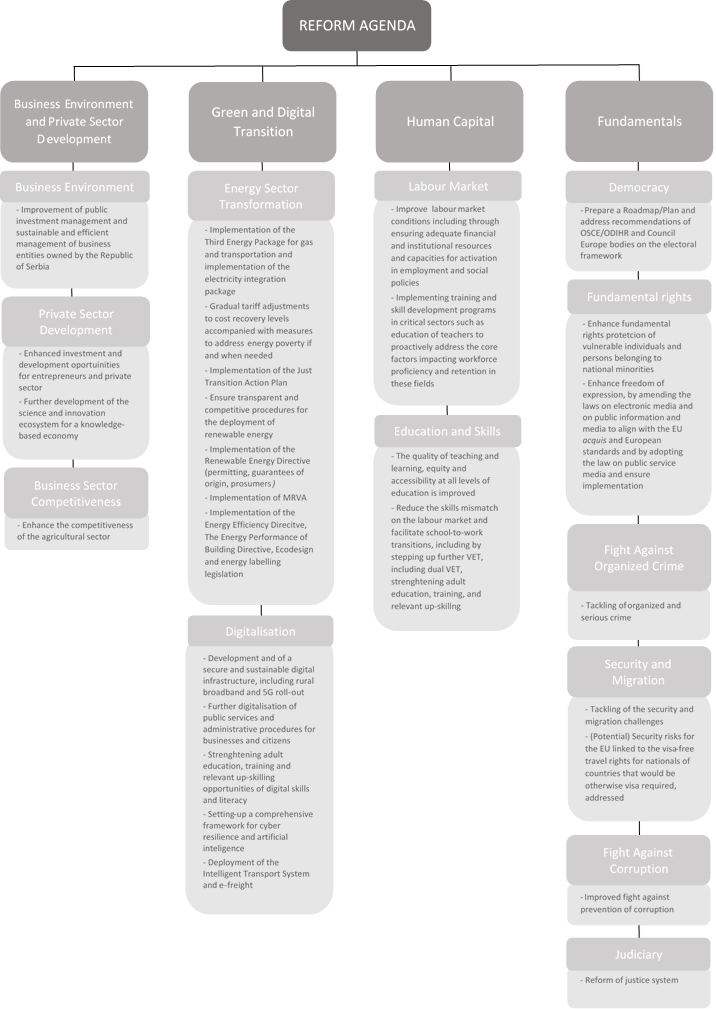
* **Labour market**
  + Improving labour market conditions, including ensuring adequate financial and institutional resources and capacity for activation in the field of employment and social policies.
  + Implementing training and skills development programmes in critical sectors such as teacher education, to proactively address key factors affecting the skills and retention of the workforce in these areas.
* **Education and skills**
  + Improving the quality of teaching and learning, equity and accessibility at all levels of education.
  + Reducing skills mismatches in the labour market and facilitating the transition from school to work, including improvement of further primary and secondary education, including dual primary and secondary education, strengthening education, training and relevant upskilling for adults.

Objective: Comprehensive support for the youth of the Republic of Serbia in formal and non-formal education and career paths to enable them to live fulfilled and independent lives with meaningful engagement in their local communities and the contemporary world.

**4. Basics**

* **Democracy**
  + Preparation of a roadmap/plan and implementation of the recommendations of the OSCE/ODIHR and Council of Europe bodies on the electoral framework.
* **Basic rights**
  + Improving the protection of fundamental rights for vulnerable individuals and members of national minorities.
  + Improving freedom of speech by amending the law on electronic media and public information and media to align it with the EU acquis and European standards and by adopting the law on public media services and ensuring their implementation.
* **Fight against organized crime**
  + Fight against organized and serious crime.
* **Security and migrations**
  + Addressing security and migration challenges.
  + Addressing (potential) security risks across the EU related to visa-free travel rights for citizens of countries that would otherwise require a visa.
* **Fight against coruption**
  + Improved prevention and fight against corruption.
* **Judiciary**
  + Reform of the judicial system.

Objective: Improvement the electoral system, improvement and making significant progress in the area of ​​fundamental rights, improvement of the normative framework in the area of ​​fighting against the organized crime, improvement of the strategic framework in order to confront all forms of violent extremism, radicalization and terrorist threats, improvement of the strategic approach in the most important areas of the fight against corruption, increasing the efficiency of the judiciary by reducing the backlog of cases and shortening the time for resolving cases.

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**Expected effects:**

All planned reforms have the potential to significantly contribute to long-term potential GDP growth. However, precisely quantifying the specific effects of each reform is a challenge, given that many reforms are aimed at amending legislation, improving the business environment and general conditions, the effects of which cannot be immediately expressed in numerical indicators. In the initial stages of the analysis, only the effects of reform measures for which it was possible to conduct a detailed analysis were quantified, using available data and clear indications of upcoming changes. Although these quantifications are not comprehensive, they represent useful guidelines in assessing the possible long-term effects on the Serbian economy. Despite the limitations in precise prediction, initial assessments provide a more comprehensive insight into the expected outcomes of the reform process, their impact on economic development and the improvement of citizens' living standards.

**As part of improving the business environment,** one of the key reforms includes the development of an advanced scientific and innovation ecosystem for a knowledge-based economy, which is crucial for long-term economic success. The goal of this reform is to foster an efficient knowledge-based economy, with the potential to develop and market innovative products and services competitive on the global market. The reform to improve the scientific and innovation ecosystem aims to raise Serbia from the status of an “Early Innovator” to the level of a “Moderate Innovator” through infrastructure development, support for startups and increased private investment in research and development. By mid-2025, it is planned to finance 3,400 researchers and 600 innovative companies, with an increase in the private sector’s share in total research and development spending to 50% by the end of 2026. The economic literature widely confirms that innovation and research and development spending are key to economic growth and competitiveness. Empirical studies show a positive correlation between research and development investment and GDP growth, with the impact of private spending being stronger than public spending. The planned increase in research and development investment is expected to boost technological progress, productivity growth and global competitiveness. As the private sector’s share of total research and development investment is projected to increase from 43.7% in 2022 to 50% by the end of 2026, the estimated effect of this measure on long-term GDP growth will be between 0.067 p.p. and 0.137 p.p.

*Chart 17. Macroeconomic impact of the planned increase in investments in research and development*

**Creation of new jobs in various sectors, including significant potential for new capacities for the production of "green" energy**. As part of the green and digital transition, one of the priority reforms involves ensuring transparent and competitive procedures for the introduction of renewable energy sources and the installation of at least 1.5 GW of renewable energy capacity (solar energy and wind energy) by December 2026. Based on the estimated investment value of around 230 billion dinars in this period and the estimated investment multiplier of 1.12 to 1.73, it is estimated that this reform will contribute to potential GDP growth in the range of 2.4 p.p. to 3.6 p.p. and the creation of around 15 thousand new jobs.

The development of secure and sustainable digital infrastructure, including broadband in rural areas and the introduction of 5G technology, is an important element of the digital transformation. This reform aims to improve the legal framework for the faster and more cost-effective introduction of very high capacity electronic communication networks, including optical networks and 5G, as well as the establishment of sustainable and secure 5G networks. It is planned that by December 2027, 40% of households in Serbia will be covered by the 5G network, which will enable time savings, better access to e-services and more flexible employment opportunities. According to empirical studies[[11]](#footnote-11), investments of EUR 100 million in broadband infrastructure can increase gross value added (GVA) by 0.3% and generate between 3,000 and 10,000 new jobs. With an estimated investment value in 5G infrastructure of around 15 billion dinars, this reform could contribute to GDP growth of 0.35 pp and the creation of around 12 thousand jobs.

**Improving living standards and reducing poverty through economic growth and supporting vulnerable groups.** The reform of improving labour market conditions is aimed at improving the employability of young people by providing adequate financial and institutional resources, as well as strengthening the capacity for activation in the field of employment and social policy. The main objectives of the reform include improving the legal framework for internship programs, which will facilitate the smooth transition of young people from education to employment, as well as strengthening the “Youth Guarantee” program to increase the availability of subsidized offers of employment, training and internships within four months of formal registration. By the end of 2027, the reform aims to reach 30% of young people with NEET status (young people who are not in employment, education or training), of which at least 50% are women, and to have 30% of program participants continue in employment, education, training or internship within four months. The reform, together with the reduction of skills mismatches in the labour market, is expected to contribute to the creation of around 17 thousand new jobs and an increase in total employment by 0.6%. Through this reform, Serbia aims to strengthen human capital, better integrate young people into the labour market. The impact assessment of the reform includes the verification of data on the NEET population, the projection of new employment and the calculation of the effects on GDP, which will allow for a more precise measurement of the success of the program and its contribution to social and economic progress.

# **6. INSTITUTIONAL ISSUES AND INVOLVEMENT OF STAKEHOLDERS**

The Republic of Serbia has a developed structure of interdepartmental coordination for the preparation of the Economic Reform Programme. Deputy Prime Minister and Minister of Finance Siniša Mali was appointed as the national coordinator and head of the Working Group for the development and monitoring of ERP implementation by the decision of the Government of the Republic of Serbia from 28 August 2018, and then by the decision of the Government from 22 December, 2022. By the decision of the Minister of Finance from 13 December 2024, the membership of the **Working Group for the preparation and monitoring of the ERP implementation** was renewed, to which representatives of the following institutions were appointed:

* Ministry of Finance,
* National Bank of Serbia,
* Ministry of Economy,
* Statistical Office of the Republic of Serbia.

In accordance with already established practice, the core of the document is based on the macro-fiscal framework and relies to the greatest extent on the Fiscal Strategy for 2025 with projections for 2026 and 2027. The ERP 2025-2027, in line with the Guidelines of the European Commission, starting from 2024, is focused on a more concise format compared to previous cycles, with the primary focus on the implementation of the defined priorities. Specifically, the Guidelines of the European Commission have been updated in such a way that the document no longer includes planned structural reforms, as these are presented within the "Reform Agenda of the Republic of Serbia 2024-2027 in line with the Growth Plan for the Western Balkans," which was adopted by the Government of the Republic of Serbia on 3 October 2024.

The eleventh cycle of drafting the ERP for the period 2025-2027 started with the holding of an introductory **online regional meeting in July 2024, organized by the European Commission** and supported by the Center of Excellence in Finance (CEF, Ljubljana, Slovenia). The meeting presented the new, revised Guidelines of the European Commission for the preparation of the ERP 2025-2027 and analyzed the previous ERP document in order to primarily address any potential challenges in the upcoming cycle. The Republic of Serbia submitted a request to the EC for additional clarifications on the Guidelines.

Along with these activities, work continued on the development of the **Fiscal Strategy for 2025** with projections for 2026 and 2027, which was adopted on 4 July, while the Revised Fiscal Strategy with projections for 2026 and 2027 was adopted on 31 October 2024, and serves as the basis for the preparation of the corresponding chapters of the ERP.

**The draft ERP document** was made available for public review via the Ministry of Finance’s website and e-consultations from 29 November to 13 December 2024, with an invitation to interested parties to provide their comments and suggestions. Comments on the Draft Economic Reform Programme 2025-2027 were submitted by representatives of Transparency Serbia.

Bearing in mind that the ERP is a portable document, and that the preparation is a continuous process, a large number of suggestions and comments of interested parties from the previous cycle are taken into account in the current cycle of drafting the ERP.

After the consultation with the stakeholders and after the completion of the internal procedure, the document is to be adopted by the Government of the Republic of Serbia and submitted to the European Commission within the stipulated time, i.e. **by 15 January 2025.** The ERP shall then be further discussed with the representatives of the EU institutions and member states in the European Semester Light process for the Western Balkans and Turkey, and in the mid 2025, the preparation of the next document for the period 2026-2028 is scheduled to begin.

# **ANNEX 1: TABLES 1 - 8**

Table 1: Macroeconomic framework



|  |
| --- |
| [1] average January – October 2024 |
| [2] end October 2024 |



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|  |
| --- |
| [1] Age group of 15-64 years |
| [2] Occupied population, domestic concept national accounts definition |
| [3] National accounts definition |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **1g: Sustainability indicators** | Dimension | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| 1. Current Account Balance | Bn NCU or EUR | -3,2 | -1,9 | -2,3 | -4,2 | -1,8 | -3,9 |
| 2. Net International Investment Position | Bn NCU or EUR | -40,5 | -42,3 | -44,3 | -49,4 | -50,1 |  |
| 3. Export market shares | % of total export market |  |  |  |  |  |  |
| 4. Real Effective Exchange Rate [1] | Index | 122,7 | 124,8 | 127,1 | 128,4 | 138,2 | 141,1 |
| 5. Nominal Unit Labour Costs | Index |  |  |  |  |  |  |
| 6. Private sector credit flow [1] | bn NCU | 178,4 | 219,4 | 222,9 | 139,6 | 49,0 | 193,6 |
| 7. Private sector debt [2] | bn NCU | 2.268,1 | 2.487,4 | 2.710,4 | 2.850,0 | 2.898,9 | 3.092,6 |
| 8. General Government Debt | bn NCU | 2.864,0 | 3.181,2 | 3.581,8 | 3.945,8 | 4.266,6 | 4.596,8 |
| p.m. GDP at current market prices | bn NCU | 5.669,2 | 5.764,1 | 6.576,0 | 7.458,8 | 8.817,8 | 9.604,8 |
| p.m. Exchange rate (Annual average) [3] | NCU/EUR | 117,85 | 117,58 | 117,57 | 117,5 | 117,3 | 117,1 |

|  |
| --- |
| [1] January – September 2024 |
| [2] end September 2024 |
| [3] average January - September |

Table 1a: Macroeconomic prospects

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Percentages unless otherwise indicated | ESA Code | Year | Year | Year | Year | Year | Year |
| 2023 | 2023 | 2024 | 2025 | 2026 | 2027 |
|  |  | **Level (bn EUR)** | **Rate of change** | | | | |
| 1. Real GDP at market prices | B1\*g | 59,8 | 3,8 | 3,8 | 4,2 | 4,0 | 5,0 |
| 2. Current GDP atmarket prices | B1\*g | 75,2 | 18,2 | 8,9 | 7,5 | 7,3 | 8,2 |
| **Components of real GDP** | | | | | | | |
| 3. Private consumption expenditure | P3 | 37 | 0,5 | 4,5 | 4,1 | 3,2 | 2,9 |
| 4. Government consumption expenditure | P3 | 10 | -2,4 | 3,1 | 2,2 | 2,2 | 2,0 |
| 5. Gross fixed capital formation | P51 | 14 | 9,7 | 9,2 | 7,7 | 7,5 | 7,0 |
| 6. Changes in inventories and net acquisition of valuables (% of GDP) | P52+P53 | 1 | 1,2 | 1,8 | 1,8 | 1,8 | 1,7 |
| 7. Exports of goods and services | P6 | 35 | 2,7 | 4,4 | 5,9 | 6,9 | 9,9 |
| 8. Imports of goods and services | P7 | 38 | -1,6 | 8,0 | 6,5 | 6,8 | 7,4 |
| **Contribution to real GDP growth** | | | | | | | |
| 9. Final domestic demand |  | 62,2 | 2,1 | 5,6 | 5,0 | 4,4 | 4,1 |
| 10. Change in inventories and net acquisition of valuables | P52+P53 | 0,7 | -1,0 | 0,7 | 0,0 | 0,0 | 0,0 |
| 11. External balance of goods/services | B11 | -3,2 | 2,7 | -2,5 | -0,9 | -0,5 | 1,0 |

Table 1b: Price developments

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Percentage changes, annual averages | ESA Code | Year | Year | Year | Year | Year |
|  | 2023 | 2024 | 2025 | 2026 | 2027 |
| 1. GDP deflator |  | 13,8 | 5,0 | 3,2 | 3,2 | 3,0 |
| 2. Private consumption deflator |  | 12,1 | 4,2 | 3,1 | 3,1 | 2,9 |
| 3. HICP |  | 12,2 | 4,7 | 3,7 | 3,3 | 3,0 |
| 4. National CPI change |  | 12,1 | 4,7 | 3,7 | 3,3 | 3,0 |
| 5. Public consumption deflator |  | 13,0 | 4,7 | 3,2 | 3,9 | 3,6 |
| 6. Investment deflator |  | 5,3 | 4,6 | 3,3 | 2,6 | 2,6 |
| 7. Export price deflator (goods & services) |  | 4,3 | 2,0 | 2,2 | 2,2 | 2,3 |
| 8. Import price deflator (goods & services) |  | 0,3 | 0,8 | 2,0 | 2,0 | 2,0 |

Table 1c: Labour markets developments

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | ESA | Year | Year | Year | Year | Year | Year |
|  | Code | 2023 | 2023 | 2024 | 2025 | 2026 | 2027 |
|  |  | Level | Level/Rate of change | | | | |
| 1. Population (thousands) |  |  | 6.622,0 | 6.579,7 | 6.537,5 | 6.498,3 | 6.459,3 |
| 2. Population (growth rate in %) |  |  | -0,6 | -0,6 | -0,6 | -0,6 | -0,6 |
| [3. Working-age population (persons)[1]](file:///C:\\Users\\ognjen.jancic\\Documents\\kopija\\Ognjen\\memorandum\\ERP%202025-2027\\engleska%20verzija-ubacivanje%20tabela\\2025_ERP_Annex_tables_RS.xlsx" \l "RANGE!B21) |  |  | 4.189 | 4.191 | 4.193 | 4.185 | 4.182 |
| 4. Participation rate |  |  | 71,7 | 71,7 | 71,7 | 71,7 | 71,7 |
| [5. Employment, persons [2]](file:///C:\\Users\\ognjen.jancic\\Documents\\kopija\\Ognjen\\memorandum\\ERP%202025-2027\\engleska%20verzija-ubacivanje%20tabela\\2025_ERP_Annex_tables_RS.xlsx" \l "RANGE!B22) |  |  | 2.711 | 2.738 | 2.749 | 2.760 | 2.771 |
| [6. Employment, hours worked[3]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B23) |  |  | : | : | : | : | : |
| 7. Employment (growth rate in %) |  |  | 0,2 | 1,0 | 0,4 | 0,4 | 0,4 |
| 8. Public sector employment (persons) |  |  | : | : | : | : | : |
| 9. Public sector employment (growth in %) |  |  | : | : | : | : | : |
| [10. Unemployment rate [4]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B24) |  |  | 9,7 | 8,9 | 8,6 | 8,0 | 7,6 |
| [11. Labour productivity, persons[5]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B25) |  | 2585,4 | 3,7 | 2,7 | 3,7 | 3,6 | 4,6 |
| [12. Labour productivity, hours worked[6]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B26) |  |  | : | : | : | : | : |
| 13. Compensation of employees | D1 | : | : | : | : | : | : |

|  |
| --- |
| [1] Age group of 15-64 years |
| [2] Occupied population, domestic concept national accounts definition |
| [3] National accounts definition |
| [4] Harmonised definition, Eurostat; levels |
| [5] Real GDP per person employed |
| [6] Real GDP per hour worked |

Table 1d: Sectoral balances

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Percentages of GDP | ESA code | Year | Year | Year | Year | Year |
| 2023 | 2024 | 2025 | 2026 | 2027 |
| 1. Net lending/borrowing vis-à-vis the rest of the world | B.9 | -2,4 | -4,7 | -4,9 | -5,3 | -4,1 |
| *of which:* |  |  |  |  |  |  |
| *- Balance of goods and services* |  | -4,7 | -5,9 | -6,3 | -6,5 | -5,0 |
| *- Balance of primary incomes and transfers* |  | 2,3 | 1,2 | 1,4 | 1,2 | 0,9 |
| *- Capital account* |  | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 2. Net lending/borrowing of the private sector | B.9/ EDP B.9 | -0,3 | -2,0 | -1,9 | -2,3 | -1,1 |
| 3. Net lending/borrowing of general government |  | -2,1 | -2,7 | -3,0 | -3,0 | -3,0 |
| 4. Statistical discrepancy |  | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |

Table 1e: GDP, investment and gross value added

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | ESA Code | Year | Year | Year | Year | Year |
|  |  | 2023 | 2024 | 2025 | 2026 | 2027 |
| **GDP and investment** | | | | | | |
| GDP *level* at *current* market prices (in domestic currency) | B1g | 8.817,8 | 9.604,8 | 10.328,9 | 11.087,6 | 11.993,1 |
| Investment ratio (% of GDP) |  | 23,4 | 24,5 | 25,4 | 26,1 | 26,5 |
| **Growth of Gross Value Added, percentage changes at constant prices** | | | | | | |
| 1. Agriculture |  | 7,4 | -4,2 | 4,2 | 0,0 | 0,0 |
| 2. Industry (excluding construction) |  | 2,1 | 2,8 | 4,0 | 4,3 | 4,8 |
| 3. Construction |  | 10,5 | 9,1 | 8,4 | 7,3 | 7,2 |
| 4. Services |  | 5,1 | 4,3 | 4,0 | 4,1 | 5,4 |

Table 1f: External sector developments

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Billion Euro unless otherwise indicated |  | Year | Year | Year | Year | Year |
|  |  | 2023 | 2024 | 2025 | 2026 | 2027 |
| 1. Current account balance(% of GDP) | % of GDP | -2,4 | -4,7 | -4,9 | -5,3 | -4,1 |
| 2. Export of goods | bn EUR | 27,9 | 29,0 | 31,1 | 32,6 | 34,9 |
| 3. Import of goods | bn EUR | 34,6 | 36,5 | 39,4 | 41,6 | 44,0 |
| 4. Trade balance | bn EUR | -6,6 | -7,5 | -8,3 | -9,0 | -9,1 |
| 5. Export of services | bn EUR | 13,1 | 14,4 | 16,0 | 17,8 | 20,8 |
| 6. Import of services | bn EUR | 10,0 | 11,7 | 13,3 | 15,0 | 16,8 |
| 7. Service balance | bn EUR | 3,1 | 2,7 | 2,7 | 2,8 | 4,0 |
| 8. Net interest payments from abroad | bn EUR | -1,3 | -1,6 | -1,6 | -1,3 | -1,1 |
| 9. Other net factor income from abroad | bn EUR | -2,6 | -3,1 | -2,7 | -3,1 | -3,6 |
| 10. Current transfers | bn EUR | 5,6 | 5,6 | 5,6 | 5,6 | 5,6 |
| *11. Of which* from EU | bn EUR | 3,5 | 3,7 | 3,8 | 3,9 | 3,9 |
| 12. Current account balance | bn EUR | -1,8 | -3,9 | -4,3 | -5,0 | -4,2 |
| 13. Capital and financial account | bn EUR | 1,6 | 4,6 | 4,3 | 5,0 | 4,2 |
| 14. Foreign direct investment | bn EUR | 4,3 | 4,3 | 4,5 | 4,4 | 4,4 |
| 15. Foreign reserves | bn EUR | 24,9 | 29,0 | 31,8 | 33,9 | 35,2 |
| 16. Foreign debt | bn EUR | 17,5 | 18,1 | 19,2 | 20,9 | 21,5 |
| *17. Of which*: public | bn EUR | 3,5 | 3,0 | 2,7 | 2,9 | 2,2 |
| *18. O/w:* foreign currency denominated | bn EUR | 16,1 | 16,7 | 17,6 | 19,2 | 19,8 |
| *19.O/w:* repayments due | bn EUR | 5,2 | 7,8 | 5,8 | 5,5 | 6,2 |
| 21. Exchange rate vis-à-vis EUR (annual average)[1] | NCU/EUR | 117,3 | 117,1 | : | : | : |
| *p.m. Exchange rate vis-à-vis EUR (annual average)* | *%, year-on-year* | *-0,2* | *-0,1* | *:* | *:* | *:* |
| 20. Exchange rate vis-à-vis EUR (end-year)[2] | NCU/EUR | 117,2 | 117,0 | : | : | : |
| *p.m. Exchange rate vis-à-vis EUR (end-year)* | *%, year-on-year* | *-0,1* | *-0,1* | *:* | *:* | *:* |
| 22. Net foreign saving | % of GDP | : | : | : | : | : |
| 23. Domestic private saving | % of GDP | : | : | : | : | : |
| 24. Domestic private investment | % of GDP | : | : | : | : | : |
| 25. Domestic public saving | % of GDP | : | : | : | : | : |
| 26. Domestic public investment | % of GDP | : | : | : | : | : |

|  |
| --- |
| [1] average January-October 2024 |
| [2] end-October 2024 |

Table 1g: Sustainability indicators

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Dimension | Year | Year | Year | Year | Year |
| 2020 | 2021 | 2022 | 2023 | 2024 |
| 1. Current Account Balance | % of GDP | -3,9 | -4,1 | -6,6 | -2,4 | -4,7 |
| 2. Net International Investment Position | % of GDP | -86,2 | -79,2 | -77,8 | -66,6 | : |
| 3. Export market shares | %, yoy | : | : | : | : | : |
| 4. Real Effective Exchange Rate [1] | %, yoy | 1,7 | 1,8 | 1,0 | 7,7 | 2,1 |
| 5. Nominal Unit Labour Costs | %, yoy | : | : | : | : | : |
| 6. Private sector credit flow [1] | % of GDP | 2,5 | 2,3 | 1,4 | 0,4 | 1,6 |
| 7. Private sector debt [2] | % of GDP | 43,2 | 41,2 | 38,2 | 32,9 | 32,2 |
| 8. General Government Debt | % of GDP | 55,2 | 54,5 | 52,9 | 48,4 | 47,9 |

|  |
| --- |
| [1] January - September |
| [2] end - September |

Table 2a + 2b: General government budgetary prospects

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **bn NCU** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |  |
| **Net lending (B9) by sub-sectors** |  |  |  |  |  |  |  |  |
| 1. General government | S13 | -224,8 | -181,1 | -263,0 | -314,0 | -336,0 | -360,0 |  |
| 2. Central government | S1311 | -233,4 | -177,2 | -263,0 | -314,0 | -336,0 | -360,0 |  |
| 3. State government | S1312 |  |  |  |  |  |  |  |
| 4. Local government | S1313 | 9,3 | -8,9 | 0,0 | 0,0 | 0,0 | 0,0 |  |
| 5. Social security funds | S1314 | -0,8 | 5,0 | 0,0 | 0,0 | 0,0 | 0,0 |  |
| **General government (S13)** |  |  |  |  |  |  |  |  |
| 6. Total revenue | TR | 3.103,3 | 3.473,3 | 3.922,2 | 4.264,3 | 4.534,0 | 4.854,7 |  |
| [7. Total expenditure[1]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B139) | TE | 3.328,2 | 3.654,4 | 4.185,2 | 4.578,3 | 4.870,0 | 5.214,7 |  |
| 8. Net borrowing/lending | EDP.B9 | -224,8 | -181,1 | -263,0 | -314,0 | -336,0 | -360,0 |  |
| 9. Interest expenditure | EDP.D41 incl. FISIM | 107,2 | 149,3 | 187,6 | 222,7 | 235,6 | 236,5 |  |
| [10. Primary balance[2]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B140) |  | -117,6 | -31,8 | -75,4 | -91,3 | -100,4 | -123,5 |  |
| [11. One-off and other temporary measures [3]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B141) |  |  |  |  |  |  |  |  |
| **Components of revenues** |  |  |  |  |  |  |  |  |
| 12. Total taxes (12 = 12a+12b+12c) |  | 1.807,5 | 2.017,9 | 2.258,8 | 2.405,4 | 2.572,6 | 2.756,4 |  |
| 12a. Taxes on production and imports | D2 | 1.242,4 | 1.340,4 | 1.510,8 | 1.630,2 | 1.741,8 | 1.866,6 |  |
| 12b. Current taxes on income and wealth | D5 | 563,7 | 676,6 | 747,0 | 773,9 | 829,3 | 887,9 |  |
| 12c. Capital taxes | D91 | 1,3 | 0,9 | 1,0 | 1,3 | 1,6 | 1,9 |  |
| 13. Social contributions | D61 | 952,2 | 1.060,9 | 1.220,1 | 1.344,6 | 1.466,9 | 1.602,3 |  |
| 14. Property income | D4 | 90,6 | 96,7 | 120,4 | 116,5 | 127,0 | 139,1 |  |
| [15. Other (15 = 16-(12+13+14)) [4]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B142) |  | 253,1 | 297,9 | 322,9 | 397,8 | 367,5 | 357,0 |  |
| 16 = 6. Total revenue | TR | 3.103,3 | 3.473,3 | 3.922,2 | 4.264,3 | 4.534,0 | 4.854,7 |  |
| [p.m.: Tax burden (D2+D5+D61+D91-D995) [5]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B143) |  | 2.759,7 | 3.078,7 | 3.478,9 | 3.750,0 | 4.039,5 | 4.358,6 |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Selected components of expenditures** |  |  |  |  |  |  |  |
| 17. Collective consumption | P32 | 1.251,9 | 1.403,0 | 1.618,0 | 1.836,1 | 1.952,5 | 2.105,0 |
| 18. Total social transfers | D62 + D63 | 926,2 | 1.098,6 | 1.250,0 | 1.344,3 | 1.448,7 | 1.539,9 |
| 18a. Social transfers in kind | P31 = D63 |  |  |  |  |  |  |
| 18b. Social transfers other than in kind | D62 | 926,2 | 1098,6 | 1250,0 | 1344,3 | 1448,7 | 1539,9 |
| 19 = 9. Interest expenditure (incl. FISIM) | EDP.D41 + FISIM | 107,2 | 149,3 | 187,6 | 222,7 | 235,6 | 236,5 |
| 20. Subsidies | D3 | 160,5 | 213,8 | 243,6 | 245,7 | 261,8 | 268,6 |
| 21. Gross fixed capital formation | P51 | 526,1 | 568,6 | 706,3 | 761,7 | 796,9 | 884,2 |
| [22. Other (22 = 23-(17+18+19+20+21) [6]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B144) |  | 356,2 | 221,1 | 179,6 | 167,8 | 174,6 | 180,5 |
| [23. Total expenditures [7]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B145) | TE | 3.328,2 | 3.654,4 | 4.185,2 | 4.578,3 | 4.870,0 | 5.214,7 |
| p.m. compensation of employees | D1 | 694,9 | 774,9 | 911,3 | 1.016,4 | 1.088,2 | 1.177,8 |

|  |
| --- |
| [1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9. |
| [2] 2The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9). |
| [3] A plus sign means deficit-reducing one-off measures |
| [4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91 |
| [5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate. |
| [6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8 |
| [7] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9. |

Table 2a: General government budgetary prospects

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | ESA code | Year | Year | Year | Year | Year | Year |
| 2023 | 2023 | 2024 | 2025 | 2026 | 2027 |
|  | Level (bn NCU) | % of GDP | | | | |
| **Net lending (B9) by sub-sectors** |  |  |  |  |  |  |  |
| 1. General government | S13 | -181,1 | -2,1 | -2,7 | -3,0 | -3,0 | -3,0 |
| 2. Central government | S1311 | -177,2 | -2,0 | -2,7 | -3,0 | -3,0 | -3,0 |
| 3. State government | S1312 | : | : | : | : | : | : |
| 4. Local government | S1313 | -8,9 | -0,1 | 0,0 | 0,0 | 0,0 | 0,0 |
| 5. Social security funds | S1314 | 5,0 | 0,1 | 0,0 | 0,0 | 0,0 | 0,0 |
| **General government (S13)** | | | | | | | |
| 6. Total revenue | TR | 3.473,3 | 39,4 | 40,8 | 41,3 | 40,9 | 40,5 |
| 7. Total expenditure[1] | TE | 3.654,4 | 41,4 | 43,6 | 44,3 | 43,9 | 43,5 |
| 8. Net borrowing/lending | EDP.B9 | -181,1 | -2,1 | -2,7 | -3,0 | -3,0 | -3,0 |
| 9. Interest expenditure | EDP.D41 incl. FISIM | 149,3 | 1,7 | 2,0 | 2,2 | 2,1 | 2,0 |
| 10. Primary balance[2] |  | -31,8 | -0,4 | -0,8 | -0,9 | -0,9 | -1,0 |
| 11. One-off and other temporary measures [3] |  | : | : | : | : | : | : |
| **Components of revenues** | | | | | | | |
| 12. Total taxes (12 = 12a+12b+12c) |  | 2.017,9 | 22,9 | 23,5 | 23,3 | 23,2 | 23,0 |
| 12a. Taxes on production and imports | D2 | 1.340,4 | 15,2 | 15,7 | 15,8 | 15,7 | 15,6 |
| 12b. Current taxes on income and wealth | D5 | 676,6 | 7,7 | 7,8 | 7,5 | 7,5 | 7,4 |
| 12c. Capital taxes | D91 | 0,9 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 13. Social contributions | D61 | 1.060,9 | 12,0 | 12,7 | 13,0 | 13,2 | 13,4 |
| 14. Property income | D4 | 96,7 | 1,1 | 1,3 | 1,1 | 1,1 | 1,2 |
| 15. Other (15 = 16-(12+13+14)) [4] |  | 297,9 | 3,4 | 3,4 | 3,9 | 3,3 | 3,0 |
| 16 = 6. Total revenue | TR | 3.473,3 | 39,4 | 40,8 | 41,3 | 40,9 | 40,5 |
| p.m.: Tax burden (D2+D5+D61+D91-D995) [5] |  | 3.078,7 | 34,9 | 36,2 | 36,3 | 36,4 | 36,3 |
| **Selected components of expenditures** | | | | | | | |
| 17. Collective consumption | P32 | 1.403,0 | 15,9 | 16,8 | 17,8 | 17,6 | 17,6 |
| 18. Total social transfers | D62 + D63 | 1.098,6 | 12,5 | 13,0 | 13,0 | 13,1 | 12,8 |
| 18a. Social transfers in kind | P31 = D63 | : | : | : | : | : | : |
| 18b. Social transfers other than in kind | D62 | 1.098,6 | 12,5 | 13,0 | 13,0 | 13,1 | 12,8 |
| 19 = 9. Interest expenditure (incl. FISIM) | EDP.D41 + FISIM | 149,3 | 1,7 | 2,0 | 2,2 | 2,1 | 2,0 |
| 20. Subsidies | D3 | 213,8 | 2,4 | 2,5 | 2,4 | 2,4 | 2,2 |
| 21. Gross fixed capital formation | P51 | 568,6 | 6,4 | 7,4 | 7,4 | 7,2 | 7,4 |
| 22. Other (22 = 23-(17+18+19+20+21)) [6] |  | 221,1 | 2,5 | 1,9 | 1,6 | 1,6 | 1,5 |
| 23. Total expenditures | TE [1] | 3.654,4 | 41,4 | 43,6 | 44,3 | 43,9 | 43,5 |
| p.m. compensation of employees | D1 | 774,9 | 8,8 | 9,5 | 9,8 | 9,8 | 9,8 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| [1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9. | | | | | | | |
| [2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9). | | |  |  |  |  |  |
| [3] A plus sign means deficit-reducing one-off measures |  |  |  |  |  |  |  |
| [4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91). |  |  |  |  |  |  |  |
| [5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate. | | | | | |  |  |
| [6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8. | |  |  |  |  |  |  |

Table 2b: General government budgetary prospects

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | ESA code | Year | Year | Year | Year | Year |
| 2023 | 2024 | 2025 | 2026 | 2027 |
|  | bn NCU | | | | |
| **Net lending (B9) by sub-sectors** |  |  |  |  |  |  |  |
| 1. General government |  | S13 | -181,1 | -263,0 | -314,0 | -336,0 | -360,0 |
| 2. Central government |  | S1311 | -177,2 | -263,0 | -314,0 | -336,0 | -360,0 |
| 3. State government |  | S1312 | : | : | : | : | : |
| 4. Local government |  | S1313 | -8,9 | 0,0 | 0,0 | 0,0 | 0,0 |
| 5. Social security funds |  | S1314 | 5,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **General government (S13)** | | | | | | | |
| 6. Total revenue |  | TR | 3473,3 | 3922,2 | 4264,3 | 4534,0 | 4854,7 |
| 7. Total expenditure[1] |  | TE | 3654,4 | 4185,2 | 4578,3 | 4870,0 | 5214,7 |
| 8. Net borrowing/lending |  | EDP.B9 | -181,1 | -263,0 | -314,0 | -336,0 | -360,0 |
| 9. Interest expenditure |  | EDP.D41 incl. FISIM | 149,3 | 187,6 | 222,7 | 235,6 | 236,5 |
| 10. Primary balance[2] |  |  | -31,8 | -75,4 | -91,3 | -100,4 | -123,5 |
| 11. One-off and other temporary measures [3] |  |  | : | : | : | : | : |
| **Components of revenues** | | | | | | | |
| 12. Total taxes (12 = 12a+12b+12c) |  |  | 2017,9 | 2258,8 | 2405,4 | 2572,6 | 2756,4 |
| 12a. Taxes on production and imports |  | D2 | 1340,4 | 1510,8 | 1630,2 | 1741,8 | 1866,6 |
| 12b. Current taxes on income and wealth |  | D5 | 676,6 | 747,0 | 773,9 | 829,3 | 887,9 |
| 12c. Capital taxes |  | D91 | 0,9 | 1,0 | 1,3 | 1,6 | 1,9 |
| 13. Social contributions |  | D61 | 1060,9 | 1220,1 | 1344,6 | 1466,9 | 1602,3 |
| 14. Property income |  | D4 | 96,7 | 120,4 | 116,5 | 127,0 | 139,1 |
| 15. Other (15 = 16-(12+13+14)) [4] |  |  | 297,9 | 322,9 | 397,8 | 367,5 | 357,0 |
| 16 = 6. Total revenue |  | TR | 3473,3 | 3922,2 | 4264,3 | 4534,0 | 4854,7 |
| p.m.: Tax burden (D2+D5+D61+D91-D995) [5] |  |  | 3078,7 | 3478,9 | 3750,0 | 4039,5 | 4358,6 |
| **Selected components of expenditures** | | | | | | | |
| 17. Collective consumption |  | P32 | 1403,0 | 1618,0 | 1836,1 | 1952,5 | 2105,0 |
| 18. Total social transfers |  | D62 + D63 | 1098,6 | 1250,0 | 1344,3 | 1448,7 | 1539,9 |
| 18a. Social transfers in kind |  | P31 = D63 | : | : | : | : | : |
| 18b. Social transfers other than in kind |  | D62 | 1098,6 | 1250,0 | 1344,3 | 1448,7 | 1539,9 |
| 19 = 9. Interest expenditure (incl. FISIM) |  | EDP.D41 + FISIM | 149,3 | 187,6 | 222,7 | 235,6 | 236,5 |
| 20. Subsidies |  | D3 | 213,8 | 243,6 | 245,7 | 261,8 | 268,6 |
| 21. Gross fixed capital formation |  | P51 | 568,6 | 706,3 | 761,7 | 796,9 | 884,2 |
| 22. Other (22 = 23-(17+18+19+20+21)) [6] |  |  | 221,1 | 179,6 | 167,8 | 174,6 | 180,5 |
| 23. Total expenditures |  | TE [1] | 3654,4 | 4185,2 | 4578,3 | 4870,0 | 5214,7 |
| p.m. compensation of employees |  | D1 | 774,9 | 911,3 | 1016,4 | 1088,2 | 1177,8 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| [1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9. | | | | | | | |
| [2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9). | | |  |  |  |  |  |
| [3] A plus sign means deficit-reducing one-off measures |  |  |  |  |  |  |  |
| [4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91). |  |  |  |  |  |  |  |
| [5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate. | | | | | | |  |
| [6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8. | |  |  |  |  |  |  |

Table 2c: Discretionary measures adopted/announced according to the Programme

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
| **Measures** | **ESA Code (Expenditure / Revenue component)** | **Date of adoption  (yyyy-mm)** | **Budgetary impact** (bn NCU) | | | | | |
| *Temporary* measures1 |  |  |  |  |  |  |  |  |
| Assistance to pensioners | D62 | 2020-04;2021-04;2021-11;2023-09 | -33,6 | -33,6 |  |  |  |  |
| Assistance to unemployed | D62 | 2021-04 |  |  |  |  |  |  |
| Assistance to young people | D7 | 2022-02;2022-06;2022-12 | -30,6 |  |  |  |  |  |
| Assistance to health, education and science workers in public sector | D1 | 2022-01;2022-04 | -3,15 |  |  |  |  |  |
| Temporary reduction in oil excises | D2 | 2022-04 | -16 | -19 |  |  |  |  |
| Energy sector subsidies | D3 | 2022-11 | -189 | -43 | -16 |  |  |  |
| Assistance to mothers | D7 | 2023-09 |  | -12 |  |  |  |  |
| Assistance to social benefits users | D62 | 2023-10 |  | -2,5 |  |  |  |  |
| Increase in gross fixed capital formation spending | P51 | 2024-12 |  |  | -49 | -72 | -144 | -180 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | Subtotal | | **-272,35** | **-110,1** | **-65** | **-72** | **-144** | **-180** |
| *Non-temporary* measures1 |  |  |  |  |  |  |  |  |
| Decrease of pension contribution and increase of nontaxable census on wages | D5, D61 | 2019-11;2020-11;2021-11;2022-11 | -16,2 | -41 |  |  |  |  |
| Change in demographic policy | D62 | 2021-12 | -15 | -10 |  |  |  |  |
| Increase of nontaxable census on wages | D5,D61 | 2023-10;2024-12 |  |  | -14 | -14,5 |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | Subtotal | | **-31,2** | **-51** | **-14** | **-14,5** | **0** | **0** |
|  | **Total** | | **-303,55** | **-161,1** | **-79** | **-86,5** | **-144** | **-180** |

[1] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond the year of submission. By contrast, those measures adopted o

Table 2c: Discretionary measures adopted/announced according to the Programme

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Measures** | | **ESA Code (Expenditure / Revenue component)** | **Date of adoption** | **Budgetary impact** (% of GDP - change from previous year) | | | | | |
| **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
| *Temporary* measures1 | Assistance to pensioners | D62 | : | -0,3 | 0,1 | : | : | : | : |
| Assistance to unemployed | D62 | : | : | : | : | : | : | : |
| Assistance to young people | D7 | : | -0,4 | : | : | : | : | : |
| Assistance to health, education and science workers in public sector | D1 | : | 0,0 | : | : | : | : | : |
| Temporary reduction in oil excises | D2 | : | -0,2 | 0,0 | : | : | : | : |
| Energy sector subsidies | D3 | : | -2,7 | 2,0 | 0,3 | : | : | : |
| Assistance to mothers | D7 | : | : | -0,1 | : | : | : | : |
| Assistance to social benefits users | D62 | : | : | 0,0 | : | : | : | : |
| Increase in gross fixed capital formation spending | P51 | : | : | : | -0,5 | -0,2 | -0,6 | -0,2 |
| : | : | : | : | : | : | : | : | : |
| : | : | : | : | : | : | : | : | : |
| : | : | : | : | : | : | : | : | : |
| **Subtotal** | | | **-3,7** | **2,0** | **-0,2** | **-0,2** | **-0,6** | **-0,2** |
| *Non-temporary* measures1 | Decrease of pension contribution and increase of nontaxable census on wages | D5, D61 | : | -0,1 | -0,2 | : | : | : | : |
| Change in demographic policy | D62 | : | -0,2 | 0,1 | : | : | : | : |
| Increase of nontaxable census on wages | D5,D61 | : | : | : | -0,1 | 0,0 | : | : |
| : | : | : | : | : | : | : | : | : |
| **Subtotal** | | | **-0,3** | **-0,2** | **-0,1** | **0,0** | **0,0** | **0,0** |
|  | **Total** | | | **-4,0** | **1,8** | **-0,3** | **-0,2** | **-0,6** | **-0,2** |

[1] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond the year of submission. By contrast, those measures adopted or announced for 2024 that continue to have a fiscal effect of 0.1% of GDP or greater until at least 2026 are considered as 'non-temporary' for the purpose of this table.

Table 3: General government expenditure by function

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| in billion rsd | COFOG Code | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
| 1. General public services | 1 | 611,1 | 531,7 | 662,2 | 710,5 | 711,8 | 753,3 |
| 2. Defence | 2 | 137,3 | 165,5 | 216,3 | 262,0 | 277,2 | 299,8 |
| 3. Public order and safety | 3 | 174,2 | 192,1 | 214,4 | 225,8 | 243,9 | 263,8 |
| 4. Economic affairs | 4 | 576,6 | 665,3 | 677,3 | 707,5 | 754,3 | 803,6 |
| 5. Environmental protection | 5 | 34,8 | 40,1 | 49,6 | 53,1 | 55,4 | 60,0 |
| 6. Housing and community amenities | 6 | 64,7 | 72,3 | 73,8 | 80,9 | 88,7 | 95,9 |
| 7. Health | 7 | 496,0 | 530,9 | 593,7 | 642,8 | 687,4 | 743,6 |
| 8. Recreation, culture and religion | 8 | 67,7 | 80,3 | 84,3 | 88,1 | 99,8 | 107,9 |
| 9. Education | 9 | 259,1 | 297,8 | 366,4 | 435,1 | 465,7 | 503,7 |
| 10. Social protection | 10 | 906,6 | 1.078,4 | 1.247,1 | 1.372,6 | 1.485,7 | 1.583,1 |
| Other relevant variables |  |  |  |  |  |  |  |
| 11. Total expenditure (item 7 = 23 in Table 2) | TE | 3.328,2 | 3.654,4 | 4.185,2 | 4.578,3 | 4.870,0 | 5.214,7 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| % of GDP | COFOG Code | Year | Year | Year | Year | Year |
| 2023 | 2024 | 2025 | 2026 | 2027 |
| 1. General public services | 1 | 6,0 | 6,9 | 6,9 | 6,4 | 6,3 |
| 2. Defence | 2 | 1,9 | 2,3 | 2,5 | 2,5 | 2,5 |
| 3. Public order and safety | 3 | 2,2 | 2,2 | 2,2 | 2,2 | 2,2 |
| 4. Economic affairs | 4 | 7,5 | 7,1 | 6,8 | 6,8 | 6,7 |
| 5. Environmental protection | 5 | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 |
| 6. Housing and community amenities | 6 | 0,8 | 0,8 | 0,8 | 0,8 | 0,8 |
| 7. Health | 7 | 6,0 | 6,2 | 6,2 | 6,2 | 6,2 |
| 8. Recreation, culture and religion | 8 | 0,9 | 0,9 | 0,9 | 0,9 | 0,9 |
| 9. Education | 9 | 3,4 | 3,8 | 4,2 | 4,2 | 4,2 |
| 10. Social protection | 10 | 12,2 | 13,0 | 13,3 | 13,4 | 13,2 |
| 11. Total expenditure (item 7 = 23 in Table 2) | TE | 41,4 | 43,6 | 44,3 | 43,9 | 43,5 |

Table 4: General government debt developments

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **General government debt developments** |  | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
| [Gross debt [1]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B175) | bn NCU | 3.945,8 | 4.266,6 | 4.596,8 | 4.906,0 | 5.206,8 | 5.581,5 |
| **Contributions to change in gross debt** |  |  |  |  |  |  |  |
| 5. Stock-flow adjustment | bn NCU |  | 139,7 | 67,2 | -4,8 | -35,2 | 14,7 |
| *of which:* |  |  |  |  |  |  |  |
| [- Differences between cash and accruals[4]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B176) | bn NCU |  |  |  |  |  |  |
| [- Net accumulation of financial assets[5]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B177) | bn NCU |  |  |  |  |  |  |
| *of which:* |  |  |  |  |  |  |  |
| - Privatisation proceeds | bn NCU |  |  |  |  |  |  |
| [- Valuation effects and other[6]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B178) | bn NCU |  |  |  |  |  |  |
| **Other relevant variables** |  |  |  |  |  |  |  |
| [6. Liquid financial assets[8]](file:///C:\Users\ognjen.jancic\Documents\kopija\Ognjen\memorandum\ERP%202025-2027\engleska%20verzija-ubacivanje%20tabela\2025_ERP_Annex_tables_RS.xlsx#RANGE!B179) | bn NCU |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| [1] As defined in Regulation 3605/93 (not an ESA concept). |  |  |  |  |  |  |
| [4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant. | | | |  |  |  |
| [5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant. | | | | | | |
| [6] Changes du to exchange rage movement, and operation in secondary market could be distinguished when relevant. | | | |  |  |  |
| [8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares). | | | |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| % of GDP | ESA code | Year | Year | Year | Year | Year |
| 2023 | 2024 | 2025 | 2026 | 2027 |
| **1. Gross debt [1]** |  | 48,4 | 47,9 | 47,5 | 47,0 | 46,5 |
| **2. Change in gross debt ratio** |  | -4,5 | -0,5 | -0,4 | -0,5 | -0,4 |
| **Contributions to change in gross debt** | | | | | | |
| **3. Primary balance [2]** |  | 0,4 | 0,8 | 0,9 | 0,9 | 1,0 |
| **4. Interest expenditure [3]** | EDP D.41 | 1,7 | 2,0 | 2,2 | 2,1 | 2,0 |
| **5. Real growth effect** |  | -1,7 | -1,7 | -1,9 | -1,8 | -2,2 |
| **6. Inflation effect** |  | -6,2 | -2,2 | -1,4 | -1,4 | -1,3 |
| **7. Stock-flow adjustment** |  | 1,3 | 0,6 | -0,1 | -0,4 | 0,1 |
| *of which:* |  |  |  |  |  |  |
| - Differences between cash and accruals [4] |  | : | : | : | : | : |
| - Net accumulation of financial assets [5] |  | : | : | : | : | : |
| *of which:* |  |  |  |  |  |  |
| - Privatisation proceeds |  | : | : | : | : | : |
| - Valuation effects and other [6] |  | : | : | : | : | : |
| **p.m. implicit interest rate on debt [7]** |  | 3,8 | 4,4 | 4,8 | 4,8 | 4,5 |
| **Other relevant variables** | | | | | | |
| **8. Liquid financial assets [8]** |  | : | : | : | : | : |
| **9. Net financial debt (9 = 1 - 8)** |  | : | : | : | : | : |

|  |
| --- |
| [1] As defined in Regulation 3605/93 (not an ESA concept). |
| [2] Cf. item 10 in Table 2. |
| [3] Cf. item 9 in Table 2. |
| [4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant. |
| [5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and |
| non-quoted assets could be distinguished when relevant. |
| [6] Changes du to exchange rage movement, and operation in secondary market could be distinguished when relevant. |
| [7] Proxied by interest expenditure divided by the debt level of the previous year. |
| [8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares). |



Table 5: Cyclical developments

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 5: Cyclical developments** |  |  | **2023** | **2024** | **2025** | **2026** | **2027** |
| 4. One-off and other temporary measures [1] | % of GDP | | -0,7 | -0,4 | -0,7 | -1,3 | -1,5 |
| 5. Potential GDP growth | %, yoy | | 4,0 | 4,0 | 4,1 | 4,1 | 4,1 |
| Contributions: |  |  |  |  |  |  |  |
| - labour |  | | 0,8 | 0,8 | 0,6 | 0,5 | 0,4 |
| - capital |  | | 1,7 | 1,8 | 1,9 | 2,0 | 2,1 |
| - total factor productivity |  | | 1,5 | 1,4 | 1,5 | 1,5 | 1,6 |
| 6. Output gap | % of GDP | | 0,1 | -0,2 | 0,0 | 0,0 | 0,7 |
| 7. Cyclical budgetary component | % of GDP | | 0,0 | -0,1 | 0,0 | 0,0 | 0,2 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| % of GDP | ESA Code | Year | Year | Year | Year | Year |
|  |  | 2023 | 2024 | 2025 | 2026 | 2027 |
| 1. Real GDP growth (%, yoy) | B1g | 3,8 | 3,8 | 4,2 | 4,0 | 5,0 |
| 2. Net lending of general government | EDP.B.9 | -2,1 | -2,7 | -3,0 | -3,0 | -3,0 |
| 3. Interest expenditure | EDP.D.41 | 1,7 | 2,0 | 2,2 | 2,1 | 2,0 |
| 4. One-off and other temporary measures [1] |  | -0,7 | -0,4 | -0,7 | -1,3 | -1,5 |
| 5. Potential GDP growth (%, yoy) |  | 4,0 | 4,0 | 4,1 | 4,1 | 4,1 |
| Contributions: |  |  |  |  |  |  |
| - labour |  | 0,8 | 0,8 | 0,6 | 0,5 | 0,4 |
| - capital |  | 1,7 | 1,8 | 1,9 | 2,0 | 2,1 |
| - total factor productivity |  | 1,5 | 1,4 | 1,5 | 1,5 | 1,6 |
| 6. Output gap |  | 0,1 | -0,2 | 0,0 | 0,0 | 0,7 |
| 7. Cyclical budgetary component |  | 0,0 | -0,1 | 0,0 | 0,0 | 0,2 |
| 8. Cyclically-adjusted balance (2-7) |  | -2,1 | -2,6 | -3,0 | -3,0 | -3,2 |
| 9. Cyclically-adjusted primary balance (8+3) |  | -0,4 | -0,7 | -0,9 | -0,9 | -1,2 |
| 10. Structural balance (8-4) |  | -1,4 | -2,2 | -2,3 | -1,7 | -1,7 |

[1] A plus sign means deficit-reducing one-off measures.

Table 6: Divergence from previous programme

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Divergence from previous programme** |  |  | **2023** | **2024** | **2025** | **2026** | **2027** |
| 1. GDP growth | %, yoy, previous programme | | 2,5 | 3,5 | 4,0 | 4,3 |  |
| 2. General government net lending | % of GDP, previous programme | | -2,8 | -2,2 | -1,5 | -1,5 |  |
| 3. General government gross debt | % of GDP, previous programme | | 53,3 | 51,7 | 50,7 | 50,0 |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Year | Year | Year | Year | Year |
| 2023 | 2024 | 2025 | 2026 | 2027 |
| **1. GDP growth (%, yoy)** | | | | | |
| Previous programme | 2,5 | 3,5 | 4,0 | 4,3 | : |
| Latest update | 3,8 | 3,8 | 4,2 | 4,0 | 5,0 |
| Difference (percentage points) | 1,3 | 0,3 | 0,2 | -0,3 | : |
| **2. General government net lending (% of GDP)** | | | | | |
| Previous programme | -2,8 | -2,2 | -1,5 | -1,5 | : |
| Latest update | -2,1 | -2,7 | -3,0 | -3,0 | -3,0 |
| Difference | 0,7 | -0,5 | -1,5 | -1,5 | : |
| **3. General government gross debt (% of GDP)** | | | | | |
| Previous programme | 53,3 | 51,7 | 50,7 | 50,0 | : |
| Latest update | 48,4 | 47,9 | 47,5 | 47,0 | 46,5 |
| Difference | -4,9 | -3,8 | -3,2 | -3,0 | : |

Table 7: Long-term sustainability of public finances (% GDP)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 7: Long-term sustainability of public finances (% GDP)** | **2007** | **2010** | **2020** | **2030** | **2040** | **2050** | **2060** |
| Total expenditure |  |  |  |  |  |  |  |
| of which: |  |  |  |  |  |  |  |
| - Age-related expenditures |  |  |  |  |  |  |  |
| - Pension expenditure |  |  |  |  |  |  |  |
| - Social security pension |  |  |  |  |  |  |  |
| - Old-age and early pensions |  |  |  |  |  |  |  |
| - Other pensions (disability, survivors) |  |  |  |  |  |  |  |
| - Occupational pensions (if in general government) |  |  |  |  |  |  |  |
| - Health care |  |  |  |  |  |  |  |
| - Long-term care (this was earlier included in the health care) |  |  |  |  |  |  |  |
| Education expenditure |  |  |  |  |  |  |  |
| Other age-related expenditures |  |  |  |  |  |  |  |
| Interest expenditure |  |  |  |  |  |  |  |
| Total revenues |  |  |  |  |  |  |  |
| *of which*: property income |  |  |  |  |  |  |  |
| *of which*: from pensions contributions (or social contributions, if appropriate) |  |  |  |  |  |  |  |
| Pension reserve fund assets |  |  |  |  |  |  |  |
| *of which*: consolidated public pension fund assets (assets other than government liabilities) |  |  |  |  |  |  |  |
| **Assumptions** |  |  |  |  |  |  |  |
| Labour productivity growth |  |  |  |  |  |  |  |
| Real GDP growth |  |  |  |  |  |  |  |
| Participation rate males (aged 20-64) |  |  |  |  |  |  |  |
| Participation rates females (aged 20-64) |  |  |  |  |  |  |  |
| Total participation rates (20-64) |  |  |  |  |  |  |  |
| Unemployment rate |  |  |  |  |  |  |  |
| Population aged 65+ over total population |  |  |  |  |  |  |  |

Table 7a: Stock of General Government guarantees adopted/announced according to the Programme

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Stock of General Government guarantees adopted/announced according to the Programme** | |  |  |  |  |
| **Measures** | | | **Date of adoption (yyyy-mm)** | **Maximum amount of contingent liabilities (in bln rsd)** | **Estimated  take-up (in bln rsd)** |
| **In response to COVID-19** | | |  | **2024** | **2024** |
|  |  | **Subtotal** |  | **0,0** | **0,0** |
| **Others** | | |  | **2024** | **2024** |
| Srbijagas | | bn NCU |  | 64,0 | 64,0 |
| Elektroprivreda Srbije | | bn NCU |  | 87,0 | 73,4 |
| Putevi Srbije | | bn NCU |  | 20,5 | 20,5 |
| Local government | | bn NCU |  | 16,0 | 16,0 |
| Srbija Voz | | bn NCU |  | 18,8 | 13,0 |
| Železnice Srbije | | bn NCU |  | 6,2 | 6,2 |
| Infrastruktura železnice Srbije | | bn NCU |  | 4,4 | 3,7 |
| Elektromreža Srbije | | bn NCU |  | 11,4 | 3,2 |
| Srbija Kargo | | bn NCU |  | 8,0 | 1,3 |
| Skijališta Srbije | | bn NCU |  | 1,6 | 1,6 |
| Jugoimport - SDPR | | bn NCU |  | 0,9 | 0,9 |
| Elektrodistribucija Srbije | | bn NCU |  | 31,3 | 6,3 |
| Emisiona tehnika i veze | | bn NCU |  | 0,0 | 0,0 |
|  |  | **Subtotal** |  | **270,3** | **210,3** |
|  | | **Total** |  | **270,3** | **210,3** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Measures** | **Date of adoption** | **Maximum amount of contingent liabilities1** (% of GDP) | **Estimated take-up** (% of GDP) |
|  |  |  | **2024** | **2024** |
| COVID | **Subtotal** | **% of GDP** | **0,0** | **0,0** |
| Others | Srbijagas | : | 0,7 | 0,7 |
|  | Elektroprivreda Srbije | : | 0,9 | 0,8 |
|  | Putevi Srbije | : | 0,2 | 0,2 |
|  | Local government | : | 0,2 | 0,2 |
|  | Srbija Voz | : | 0,2 | 0,1 |
|  | Železnice Srbije | : | 0,1 | 0,1 |
|  | Infrastruktura železnice Srbije | : | 0,0 | 0,0 |
|  | Elektromreža Srbije | : | 0,1 | 0,0 |
|  | Srbija Kargo | : | 0,1 | 0,0 |
|  | Skijališta Srbije | : | 0,0 | 0,0 |
|  | Jugoimport - SDPR | : | 0,0 | 0,0 |
|  | Emisiona tehnika i veze | : | 0,0 | 0,0 |
|  | **Subtotal** | **% of GDP** | **2,3** | **2,1** |
|  | **Total** | **% of GDP** | **2,3** | **2,1** |

The definition and issuance of guaranteed debt are regulated by the Public Debt Law. The maximum amount of guaranteed debt that can be issued in a year is defined by the Budget Law for the current year.

As of the cut-off date (30.09.2024):

The "Maximum Amount of Contingent Liabilities" column shows the sum of the guaranteed debt stock and the amount of guaranteed debt available for withdrawal.

Table 8: Basic assumptions on external economic environment

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 8: Basic assumptions on external economic environment** | **Dimension** | **2023** | **2024** | **2025** | **2026** | **2027** |
| Short-term interest rate [1] | Annual average |  |  |  |  |  |
| Long-term interest rate | Annual average |  |  |  |  |  |
| USD/EUR exchange rate | Annual average |  |  |  |  |  |
| Nominal effective exchange rate | Annual average |  |  |  |  |  |
| Exchange rate vis-à-vis the EUR | Annual average |  |  |  |  |  |
| Global GDP growth, excluding EU | Annual average |  |  |  |  |  |
| EU GDP growth | Annual average |  |  |  |  |  |
| Growth of relevant foreign markets | Annual average |  |  |  |  |  |
| World import volumes, excluding EU | Annual average |  |  |  |  |  |
| Oil prices (Brent, USD/barrel) | Annual average |  |  |  |  |  |

# **ANNEX 2: EXTERNAL CONTRIBUTION TO THE ERP 2024-2026**

This Annex should include information on the consultation process of external stakeholders, including the national parliament, local and regional government, social partners and civil society. All contributors should be included in this annex of the ERP.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Remark area section | Comment received *(include date received, format of the comment, main content)* | Contributing stakeholder *(include institution, contact person and contact details)* | Status of comment *(accepted/*  *rejected)* | Comment *(justification for acceptance/*  *rejection)* |
| Macro-fiscal framework | The comment was received on 6 December 2024, in electronic form.  A request was made for the program "Leap into the Future – Serbia 2027" to be made available for public review. | Transparency Serbia (Nemanja Nenadić, email address: [ts@transparentnost.org.rs](mailto:ts@transparentnost.org.rs), contact phone: +381 11 303 38 27) | Accepted | The program "Leap into the Future – Serbia 2027" has been published at the following link:  <https://srbija2027.gov.rs/> |
| Structural reforms |  |  |  |  |
| Reform area |  |  |  |  |
| Measure A |  |  |  |  |

1. Data on total exports and imports of goods are given according to the balance of payments methodology, while detailed data (by different classifications) are given according to the external trade methodology. [↑](#footnote-ref-1)
2. Balance in June 2024. [↑](#footnote-ref-2)
3. This ceiling is further cut to 64% in 2026 and 57% in 2027. [↑](#footnote-ref-3)
4. If non-residents are included, dinar savings measured RSD 174.0 billion in September. Flash estimate shows that in October they stood at the record RSD 175.6 billion or EUR 1.5 billion. [↑](#footnote-ref-4)
5. In accordance with the Decision on Establishing a List of Systemically Important Banks in the Republic of Serbia and Capital Buffer Rates for Those Banks of 10 May 2024. [↑](#footnote-ref-5)
6. In the ratio 80:20. [↑](#footnote-ref-6)
7. New entities can be included or excluded from the coverage of the general government sector in accordance with statistical criteria and international standards that determine them. [↑](#footnote-ref-7)
8. A more detailed description of the methodology used and the results can be found in the Fiscal Strategy for 2013 with projections for 2014 and 2015, or via the link https://www.mfin.gov.rs//upload/media/jzsbpL\_601ab1585ca02.pdf [↑](#footnote-ref-8)
9. Law on Public Debt (“Official Gazette of the Republic of Serbia”, No. 61/05, 107/09, 78/11, 68/15, 95/18, 91/19 and 149/20). [↑](#footnote-ref-9)
10. Economic Reform Program 2024-2026 [↑](#footnote-ref-10)
11. Digital WB6+ Initiative (2018): The Impact of Digital Transformation on the Western Balkans. [↑](#footnote-ref-11)