Republic of Serbia

Government

REVISED FISCAL STRATEGY

FOR 2025 WITH PROJECTIONS FOR 2026 AND 2027

Based on Article 27v, Paragraph 1, and Article 31, Paragraph 1, Point 1), Subpoints (12) and (13) of the Budget System Law ("Official Gazette of the RS", Nos. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 – correction, 108/13, 142/14, 68/15 – other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20, 118/21, 118/21 – other law, 138/22, and 92/23),

The Government adopts

REVISED FISCAL STRATEGY FOR 2025 WITH PROJECTIONS FOR 2026 AND 2027

I MACROECONOMIC FRAMEWORK FOR THE PERIOD FROM 2025 to 2027

1. General Framework, Main Goals, and Guidelines of Economic Policy

Economic activity in Serbia has demonstrated sufficient resilience despite the challenging global and regional environment. The cumulative 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 align with the projections presented in the Spring Fiscal Strategy. According to preliminary estimates, economic growth in 2024 will reach 3,8%, the labor 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 (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 public debt of the general government sector will amount to 46,5% of GDP at the end of the medium-term period. 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 of the projections in this Fiscal Strategy 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. International Economic Environment Estimates

Despite global challenges, the world economy has shown significant resilience during the period of inflation slowdown. This has been supported by expansionary fiscal policies and the recovery of private consumption, backed by accumulated savings during the pandemic period, employment and income growth, as well as higher labor force participation. According to the IMF's October estimates, the global economy is expected to continue growing at a rate of 3,2% in both 2024 and 2025, unchanged from previous expectations. However, there have been significant revisions for certain regions. Growth prospects for the U.S. economy have improved due to stronger-than-expected domestic demand and labor market resilience. On the other hand, forecasts for other developed economies, particularly for the largest European countries, have been revised downward, primarily due to structural issues in the manufacturing industry and still restrictive monetary conditions. The effects of restrictive monetary policy measures from the previous period, easing of the cost pressures in the labor market, and falling commodity prices, particularly energy prices, have resulted in strong disinflationary trends. Global inflation is projected to slow from 6,7% in 2023 to 5,8% in 2024 and 4,3% in 2025, with core inflation decreasing more slowly than overall inflation due to still-high inflation in the services sector.

If core inflation turns out to be more resilient than expected, consumers may adjust their short-term inflation expectations, which would result in slower easing of monetary policy. However, as inflation approaches central bank targets and interest rates converge to their natural levels, it is expected that the focus of adjustment will shift to fiscal policy. Fiscal deficits and public debt remain significantly above pre-pandemic levels, with high financing costs, which are still rising in many countries. Gradual tightening of fiscal policy will be necessary, with a focus on implementing medium-term fiscal consolidation to ensure the sustainability of public debt and the stability of public finances, as well as rebuilding fiscal reserves that would strengthen resilience to potential future shocks.

Factors that will significantly determine the future growth trajectory depend on the speed and pace of creating new fiscal reserves for potential future shocks, reforms that stimulate productivity, as well as investments in human capital, green and digital transitions. Multilateral cooperation is needed to limit the costs and risks of geoeconomic fragmentation and climate change, accelerate the transition to green energy, and encourage debt restructuring.

Macroeconomic Projections of the International Monetary Fund (IMF)

Despite multiple shocks that have shaped global economic trends in recent years – the pandemic, wars, climate disasters, inflation, and tightening global financial conditions – financial and economic prospects in the international environment have stabilized. According to the IMF's October estimates, global economic growth in 2024 is expected to be 3,2%, and it is projected to continue at the same pace in 2025, unchanged from previous expectations. However, the expansion rate is low compared to historical trends, due to short-term factors such as still-high borrowing costs and reduced fiscal support, as well as long-term effects caused by the COVID-19 pandemic and the conflict in Ukraine, weak productivity growth, increasing geoeconomic fragmentation, and rising regional inequalities.

Table 1. International Environment – Macroeconomic Indicators

	2023	2024	2025	2026	2027
Real GDP growth[1], %					
World Total	3,3	3,2	3,2	3,3	3,2
Developed Economies	1,7	1,8	1,8	1,8	1,7
USA	2,9	2,8	2,2	2,0	2,1
Eurozone	0,4	0,8	1,2	1,5	1,4
Emerging Economies	4,4	4,2	4,2	4,2	4,0
China	5,2	4,8	4,5	4,1	3,6
Russia	3,6	3,6	1,3	1,2	1,2
Global Trade Growth, %	0,8	3,1	3,4	3,4	3,3
Unemployment Rate, %					
Eurozone	6,6	6,5	6,4	6,3	6,3
USA	4,1	3,0	1,9	2,1	2,1
Consumer Prices, Period Average, %					
Eurozone	5,4	2,4	2,0	2,0	1,9
Developed Economies	4,6	2,6	2,0	2,0	2,0
Emerging Economies	8,1	7,9	5,9	4,7	4,2
Exchange rate, euro/dollar, end of period	1,1	1,1	1,1	-	-
Grain prices, in dollars, annual changes	-18,8	-21,7	-3,6	4,2	0,6
Metal prices, in dollars, annual changes	-2,8	-0,2	-1,9	0,3	0,3
Iron ore price, in dollars	-0,3	-7,8	-13,9	-3,7	-1,5
Oil prices, in dollars, annual changes, %	-16,4	0,9	-10,4	-3,6	-2,4

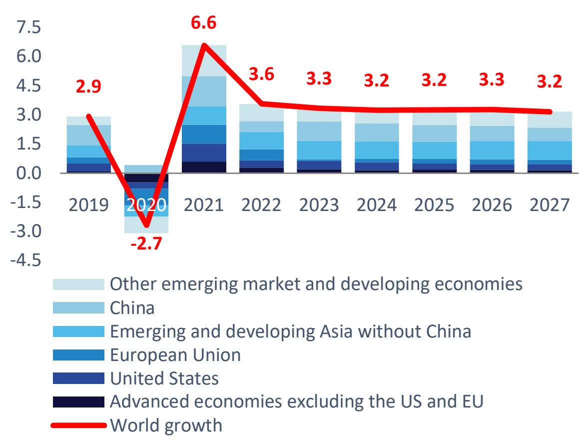
Source: IMF, *World Economic Outlook*, October 2024.
[1] World GDP is calculated according to purchasing power parity.
[2] Grain prices are obtained as a weighted average of the prices of wheat, corn, soybeans, rice, and barley.
[3] Metal prices are obtained as a weighted average of the prices of copper, aluminum, iron ore, tin, nickel, zinc, lead, and uranium.
[4] Iron ore price (62% iron content) for import in China, Tianjin port, in dollars per metric ton.

In developed countries, stable GDP growth is expected to range between 1,7% and 1,8% during the forecast period, but with pronounced differences in the dynamics of economic activity among individual countries.

The growth projection for the US economy in 2024 has been increased to 2,8%, which is 0,2 percentage points higher than the previous forecast, while the 2025 growth forecast has also been revised upwards by 0,3 percentage points. These revisions are based on the continued resilience of the labor market and stronger domestic consumption, with expectations that inflation will continue to decline. Despite the fact that interest rates are expected to remain relatively high, the US economy has demonstrated a greater ability to adapt to these conditions, supported by strong consumer and investment activities.

In emerging economies, the situation is similar to that of developed economies, and growth prospects are extremely stable in the medium term, averaging around 4,2%, but again with notable regional differences.

Global economic growth, pp

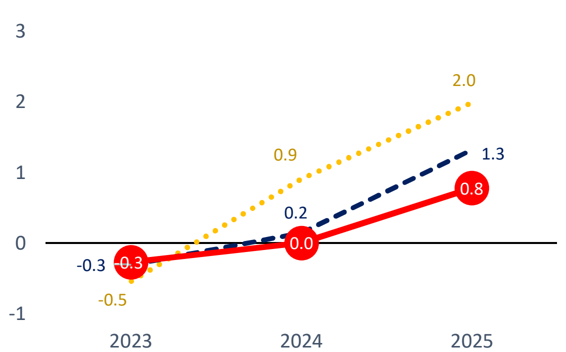


Source: IMF, *World Economic Outlook*, October 2024

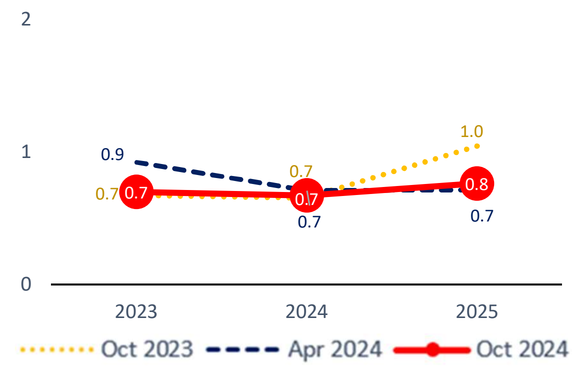
The growth of the Middle East and Central Asia region is expected to accelerate, as it is assumed that the effect of temporary disruptions in oil production and transportation will dissipate. For the Sub-Saharan Africa region, a similar acceleration in growth is forecasted, as the negative impacts of previous weather disasters, as well as supply-side restrictions, gradually fade. It is expected that China's growth will slow down gradually due to instability in the real estate sector and low consumer confidence, while Russia is projected to experience a somewhat sharper slowdown during the forecast period, due to reduced investments and private consumption, caused by unfavorable labor market conditions.

A modest recovery of the Eurozone economy is expected, with growth of 0,8% in 2024 as a result of slightly better exports, particularly of goods. For 2025, growth is projected at 1,2%, which is 0,3 percentage points lower than previous expectations. The weaker economic growth in the Eurozone is primarily the result of challenges faced by key economies, such as Germany, which is recording stagnation, further burdening the overall economic situation. Weaknesses in the manufacturing sector and a low level of productivity represent key obstacles to a stronger recovery. Also, risks related to geopolitics, such as regional conflicts and growing protectionism, could further slow down the recovery. The weakness of the manufacturing industry continues to burden some countries, such as Italy and especially Germany, where growth has been revised downward compared to the July projection by 0,2 percentage points and 0,5 percentage points in 2024 and 2025, respectively. While a recovery in domestic demand is expected for Italy, thanks to the EU support financial plan, Germany will experience continued pressure on growth due to fiscal consolidation and a sharp drop in real estate prices.

GDP growth in Germany, %



GDP growth in Italy, %



Source: IMF, *World Economic Outlook*

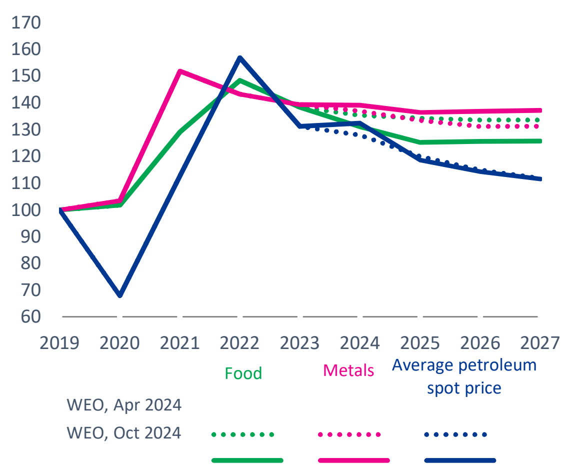
Global inflation is expected to slow down from 6,7% annually in 2023 to 5,8% in 2024 and 4,3% in 2025. The slowdown in global inflation in 2024 and 2025 is based on the reduction of core inflation as a result of the impact of restrictive monetary policy measures from the previous period, unlike in 2023, when headline inflation fell mainly due to lower energy prices. Disinflation is assumed to be faster in developed economies, with a reduction of 2 percentage points in 2024 and stabilization at around 2% in 2025. Somewhat slower disinflation is expected in developing countries, where inflation is expected to slow down slightly from 8,1% in 2023 to 7,9% in 2024, followed by a slightly greater decline to 5,9% in 2025. There is a significant difference between groups of developing countries, with inflation rates ranging from 2,1% in the Asia region due to timely tightening of monetary policy and price controls in many Asian countries, to 18,1% in the Sub-Saharan Africa region.

Prices of primary goods have risen since the beginning of 2024, primarily due to the increase in natural gas and precious metals prices. In the crude oil market, supply cuts by OPEC+ and geopolitical tensions in the Middle East have been offset by a strong increase in supply from outside OPEC+. Crude oil prices, after a 0,9% increase in 2024, are expected to follow a downward trajectory, with a projected decrease from $81,3/barrel in 2024 to $72,8/barrel in 2025. Food prices are expected to fall by 5,2% in 2024 and an additional 4,5% in 2025, as global grain production is forecasted to reach record levels during this period. A decline in the prices of basic metals and iron is projected for the 2024-2026 period, while the price of gold rose in 2024 due to geopolitical uncertainty and expectations of interest rate cuts.

Commodity prices, indices, 2016=100

Source: IMF, *World Economic Outlook*, October 2024

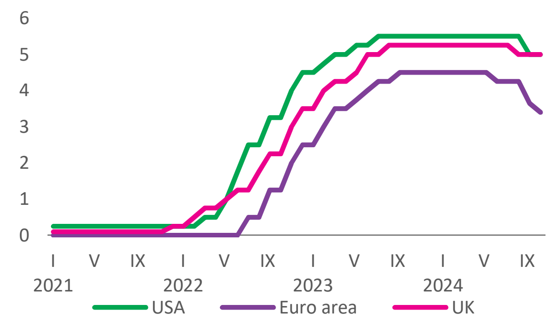
Projection of price trends, indices, 2019=100



Source: IMF, *World Economic Outlook*, October 2024

The U.S. Federal Reserve (hereinafter: the Fed) reduced the key policy rate in September 2024 to a range of 4,75% to 5,00%, marking the first reduction in the past four years. Further monetary policy measures will depend on developments in global markets and the inflation rate, but a continued trend of rate cuts is generally expected in 2025.

Changes in policy rates by selected countries, %



Source: Central banks of selected countries

It is projected that developed economies will tighten their fiscal policies during 2024 and 2025, which will halve their primary deficits by the end of the projection period. However, a notable contrast is highlighted between the United States, where the fiscal deficit will be slightly reduced by the end of the projection period, accompanied by a rising share of public debt in GDP, which is expected to reach 128,4% in 2027, and the Eurozone, where public debt will remain at approximately the same level of around 89% of GDP throughout the projection period. Significant differences are also apparent between underdeveloped and developing countries. While fiscal policy in underdeveloped countries is expected to remain relatively relaxed on average, fiscal consolidation is already underway in developing economies.

The risks to the global economic growth projection are assessed as asymmetric to the downside, reflecting an elevated level of global uncertainty. Sudden disruptions in the financial market could tighten financial conditions and negatively impact investment and growth, particularly in developing economies where high external financing needs could lead to capital outflows and increased debt. Further spikes in commodity prices due to geopolitical tensions could prevent central banks from easing monetary policy, which would pose significant challenges for fiscal policy and financial stability. A slower recovery in the real estate sector in China, especially if it leads to financial instability, could weaken consumer confidence and have negative spillover effects globally, given China's large impact on world trade. Intensification of regional conflicts, particularly considering the wider range of conflicts in the Middle East or Ukraine, could further disrupt global trade, leading to higher prices for food, energy, and other commodities. Growing social tensions could lead to civil unrest, undermining consumer and investor confidence and potentially delaying the adoption and implementation of necessary structural reforms. On the other hand, a stronger recovery in investment in developed economies would accelerate the resolution of various global issues, from the green transition to infrastructure upgrades and increasing investments in science and technology. Furthermore, better and faster implementation of structural reforms in many developing countries could result in improved productivity and potential growth.

Macroeconomic projections of the European Central Bank (ECB) for the Eurozone area.

According to the ECB's September projections, the economic growth of the Eurozone in 2024 is expected to be 0,8%, which is a slight downward revision of 0,1 percentage points compared to the June forecast. This reduction is due to a carry-over effect, i.e. weaker-than-previously-expected economic activity in the second half of the previous year, as well as slower growth of private consumption and investment in 2024 than previously estimated. Financing conditions, particularly high interest rates, are expected to continue negatively affecting growth, but this impact is projected to gradually weaken over the projection horizon, with economic growth expected to accelerate to 1,3% in 2025 and 1,6% in 2026. Despite somewhat slower growth in private consumption in the first half of 2024, it is still expected to be the main driver of medium-term growth due to strong wage growth and a slowdown in inflation. Housing investment is expected to decline in 2024, before recovering in 2025 as the result of the gradual dissipation of tightened financing conditions and continued real growth in household disposable income. Business investment is expected to accelerate over the projection horizon due to improved demand, the weakening of negative financing conditions, increased green and digital investments, and positive effects from the Next Generation EU program. Factors affecting the competitiveness of the Eurozone, such as the appreciation of the euro and higher production costs driven by rising energy prices, continue to hinder Eurozone exports despite a slight upward revision of external demand. Export recovery is expected to gradually begin in early 2025, but at rates lower than the historical average. At the same time, moderate import growth is expected, leading to a mostly neutral contribution of net exports during the projection period.

Table 2. Macroeconomic Projections for the Eurozone Area, %

	2023	2024	2025	2026
GDP	0,5	0,8	1,3	1,5
Private Consumption	0,7	0,8	1,4	1,5
Government Consuption	1,0	1,2	1,1	1,1
Gross Fixed Capital Formation	1,2	-0,5	1,2	2,1
Export	-0,3	1,2	2,6	3,0
Import	-1,1	0,0	2,8	3,3
Employment	1,4	0,8	0,4	0,4
Unemployment Rate	6,5	6,5	6,5	6,5
Inflation, period average	5,4	2,5	2,2	1,9
Unit labor costs	6,2	4,5	2,6	2,1
Fiscal result of the general government, % of GDP	-3,6	-3,3	-3,2	-3,0
Gross debt of the general government, % of GDP	88,2	88,5	89,3	89,8
Current account balance, % of GDP	1,5	2,6	2,7	2,7

Source: Macroeconomic projections of ECB experts for the Euro area, September 2024.

It is estimated that the labor market will remain resilient and strong, although employment growth will slow down compared to previous years. Nominal wage growth will gradually slow down, but will still remain high, meaning that real wages will reach levels that were typical before the sharp increase in inflation. Productivity growth is expected to strengthen during the projection horizon, but productivity levels will still remain below the long-term linear trend.

The average inflation rate in 2024 is projected to be 2,5%, which is lower compared to previous years but still above the long-term target of 2,0%. In 2025, inflation is expected to fall to 2,2%, and to 1,9% by 2026, which is in line with previous projections. The main factors contributing to the slowdown of inflation include the reduction in energy prices, as well as the effects of restrictive monetary policy from the previous period. While the growth of service prices and wages remains relatively high, their impact on inflation is gradually diminishing. It is expected that core inflation will slow from 2,9% in 2024 to 2,3% in 2025, and then to 2% in 2026, indicating a continued gradual reduction in inflationary pressures.

The risks to the realization of the projection are related to geopolitical tensions and escalations of conflicts in the Middle East and the Red Sea, which could lead to uncertainty regarding commodity price movements, particularly energy prices, with potential negative effects on inflation. Additionally, the Ukraine-Russia conflict could lead to further decline in consumer confidence, which could have negative consequences on private consumption, housing investment, and household savings.

The effects of tightening fiscal policy in the Eurozone will be somewhat weaker than previously estimated. The fiscal tightening in 2024 will relate to the removal of measures introduced during the energy crisis. The fiscal deficit in the Eurozone is expected to decline year on year, reaching the reference value of 3% in 2026. It is projected that the share of public debt in the Eurozone's GDP will follow an upward trajectory during the projection period, as the favorable differences between economic growth and interest rates are expected to be more than compensated by the impact of ongoing primary deficits and new borrowing. The debt-to-GDP ratio has been revised upwards compared to the previous projection, and it is expected to reach 89,8% of GDP in 2026.

After nine months of maintaining interest rates at the same level, the ECB reduced the key policy rate by 0,25 percentage points to 4,25% at the meeting in June 2024, while the interest rate on credit and deposit facilities was lowered to 4,50% and 3,75%, respectively, marking the first easing of monetary conditions since September 2019. After the easing of monetary policy in September, the ECB Governing Council also reduced the key policy rate in October, for the third time this year, to 3,40%, while the interest rate on credit and deposit facilities was lowered to 3,65% and 3,25%, respectively. The ECB will continue to monitor global developments in the coming months and adjust monetary policy to ensure the return of inflation to the targeted 2,0% in the medium term.

3. Current Macroeconomic Developments in the Republic of Serbia and Outlook for the Period 2025–2027.

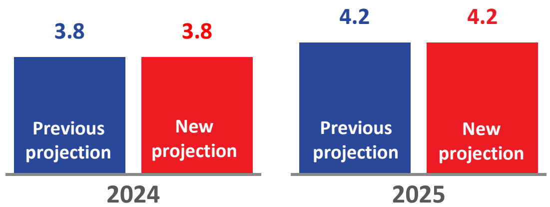
Coordinated fiscal and monetary policy measures, which have preserved macroeconomic stability in the previous period and created reserves for potential shocks, alongside widespread foreign direct investments (FDI) and accelerated infrastructure development, have enabled the economy to successfully absorb the effects of the multidimensional crisis that has lasted for four years. Serbia has managed to maintain economic stability and consumer and investor confidence in the past period, as evidenced by the positive assessment from the IMF during the discussions at the fourth review of the implementation of the agreed economic program under the standby arrangement. The favorable macroeconomic outlook for the country and increased resilience to external shocks were also recognized by the credit rating agency Standard & Poor's, which raised Serbia's credit rating to "BBB-" in October, marking the first time in Serbia's history to be classified among investment-grade countries.

Macroeconomic trends in 2024 are generally in line with the expectations of the previous Fiscal Strategy. Based on current trends in economic activity, considering the adopted economic policy measures and the continued implementation of infrastructure projects, further supported by a new investment cycle under the "Leap into the Future – Serbia 2027" program, and taking into account the economic outlook of major trading partners, the Ministry of Finance expects GDP growth of 3,8% in 2024, with acceleration to 4,2% in 2025, which remains unchanged from previous expectations. After a record low current account deficit-to-GDP ratio in the previous year, growth is expected in 2024 and 2025, reaching 4,4% and 5,2% of GDP, respectively, mainly due to the expected acceleration of the investment cycle. Inflation has been within the target range since May 2024, and in September 2024, it stood at 4,2%. A continued reduction in year-on-year inflation is expected in the coming period, with an estimated average inflation of 3,5% in 2025. This will be supported by the effects of previous tightening of monetary conditions, slowing down of imported inflation, still low external demand, as well as continued reduction of inflation expectations. Fiscal developments in 2024 are characterized by higher-than-expected revenues, mainly as a result of favorable labor market developments, which positively affect the collection of all consumption tax revenues. The profitability of enterprises in 2023 and the collection of corporate income tax in the current year are significant factors for the upward revision of revenues for 2024. On the other hand, public spending has significantly increased, mainly due to additional allocations for capital investments aimed at faster development and permanent enhancement of the economy's potential. This fiscal revenue and expenditure dynamics is reflected in a somewhat higher fiscal deficit, which still ensures a declining public debt-to-GDP ratio.

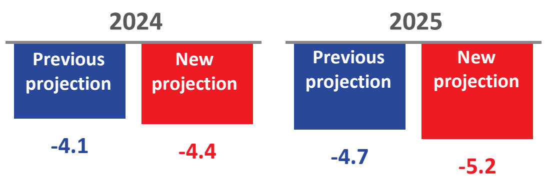
The uncertainty present in the projections presented in this document remains significantly higher than usual due to the nature and scope of potential shocks on the global level. The risks to the macroeconomic framework mostly stem from uncertainties regarding the situation in Ukraine and the Middle East, as well as the impact of new international economic and political relations. The government continues to implement measures aimed at mitigating the adverse effects of the international environment on the economy and population, and maintaining energy stability. This orientation will remain the focus of economic policymakers in the future, with maintaining the downward trajectory of the public debt-to-GDP ratio being a key anchor for fiscal policy management.

Revision of the Trends of Key Macroeconomic Aggregates Compared to the Previous Fiscal Strategy

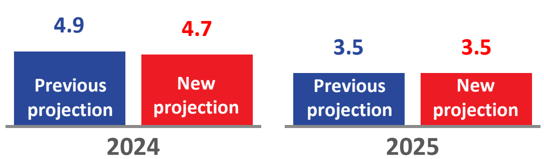
Real GDP growth, %



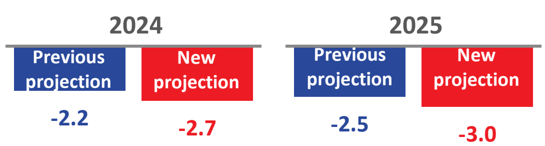
Current account balance, % GDP



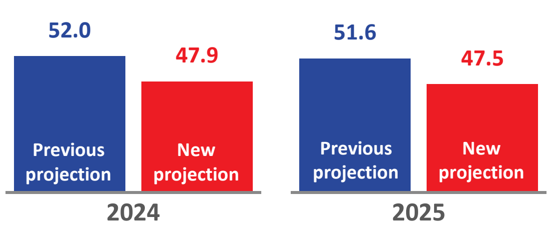
Inflation, period average, %



Fiscal result, % GDP



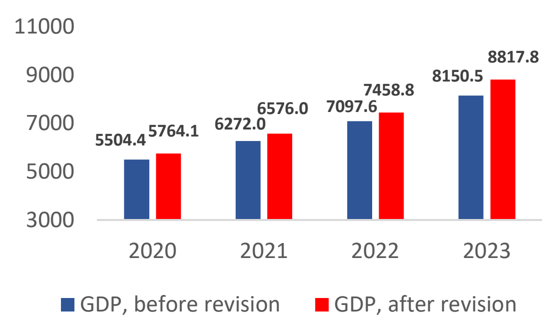
General government public debt, % GDP



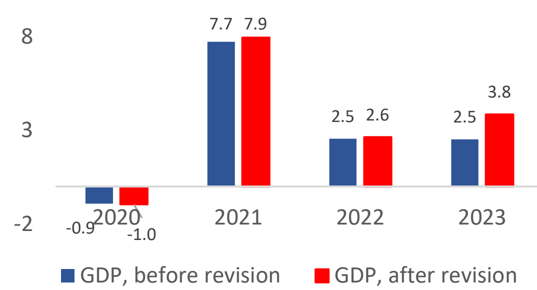
Current Trends in the Real Sector

The Republic Statistical Office conducted its regular five-year benchmark revision of GDP calculations for the period from 1995 to 2022 in October 2024, across all domains of the national accounts system. Numerous methodological improvements were implemented, and both improved existing and new data sources were used. As a result, the nominal value of GDP was increased by about 5% on average, which consequently reflected on the level of all macroeconomic aggregates, assessed through their share in GDP. Real GDP growth rates generally remained at the previously published levels with minor adjustments depending on the year. Data for 2023, which were initially estimated based on quarterly calculations, were influenced by both this revision and the independent annual calculations. Considering this, GDP corrections for 2023 were somewhat larger. Real GDP growth was revised from 2,5% to 3,8%, mainly due to stronger-than-previously-reported growth in the services sector from the production side, as well as more robust investment activity from the expenditure side.

GDP, current prices, billion RSD



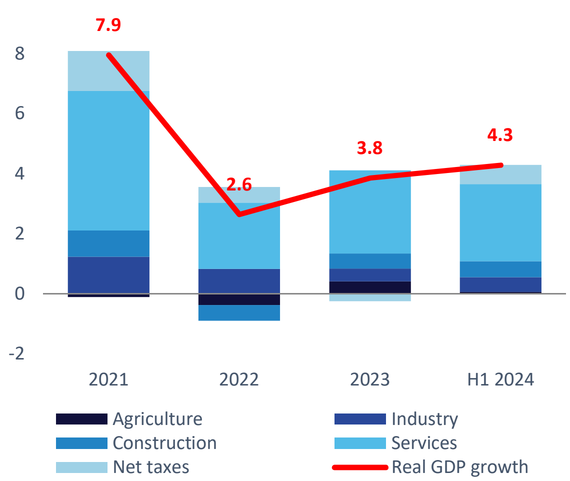
Real GDP Growth Rates, %



According to the data from the Statistical Office of the Republic of Serbia (SORS), GDP growth in the first quarter of 2024 was 4,6% year-on-year, while in the second quarter, economic growth was 4,0%, which aligns with the Ministry of Finance's previous expectations for this period.[1]

On the production side, GDP growth in the first half of 2024, at 4,3%, was driven by the services sector, which grew by 5,0%. Economic activity increased in all service sectors, with the most significant contributions coming from trade, transport, and tourism, as well as from professional and technical services and ICT. Despite still weak external demand and capacity overhaul at NIS, industrial production recorded GDP growth of 2,1% in the first half of the year, primarily due to the activation of new production capacities resulting from previous foreign direct investment (FDI). Construction grew by 9,9% due to the continued implementation of infrastructure projects and the increase in private investments, while agriculture, according to preliminary estimates from RZS, saw a decline of about 4% due to unfavorable agro-meteorological conditions.

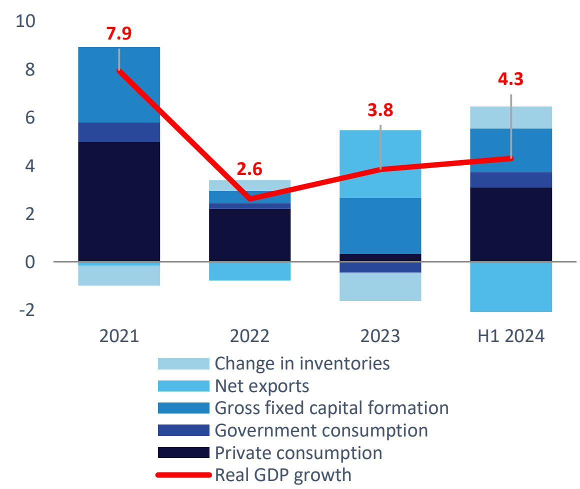
Contributions to the real GDP growth rate, production approach, pp



Sourse: SORS

In terms of expenditure aggregates, GDP growth in the first half of 2024 was entirely driven by domestic demand. The increase in real disposable income of the population, primarily due to higher wages and pensions, along with increased employment, contributed to the acceleration of private consumption, which grew by 4,6%. At the same time, investments in fixed assets increased by 8,0%, primarily due to higher construction activity and the acceleration of private investments. The contribution of net exports was negative due to faster growth in imports (6,0%) compared to exports (2,9%), resulting from increased imports of equipment for investment needs, as well as consumer goods due to the rise in household private consumption.

Contributions to the real GDP growth rate, expenditure approach, pp



Source: SORS

High-frequency indicators also suggest stable economic trends throughout 2024 in all sectors, except agriculture.

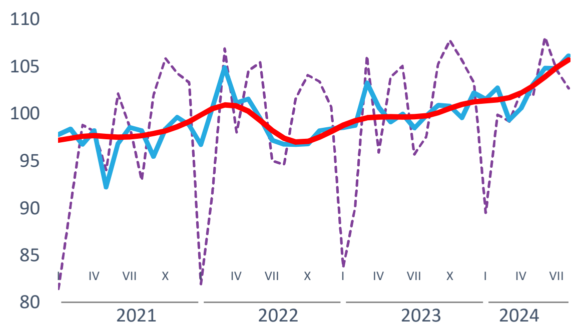
Unfavorable agro-meteorological conditions during the summer months, particularly due to extremely high temperatures and low rainfall, significantly impacted the yields of corn and industrial crops. According to preliminary data from the Statistical Office of the Republic of Serbia (SORS), the corn harvest amounted to 5,4 million tons, marking an 18,2% decrease compared to the previous year. Production of sunflowers fell by 7,1%, and soybeans by 32,3%, while only sugar beet production within industrial crops saw a 4,3% increase. As for wheat, production dropped by 15,9%, primarily due to a reduction in the area planted. Regarding fruit crops,

[1] Quarterly data series on GDP movement have also undergone a revision by the Statistical Office of the Republic of Serbia. However, this data is still not available and will be published in a release scheduled for December 2, 2024, according to the Statistical Office's publication calendar.

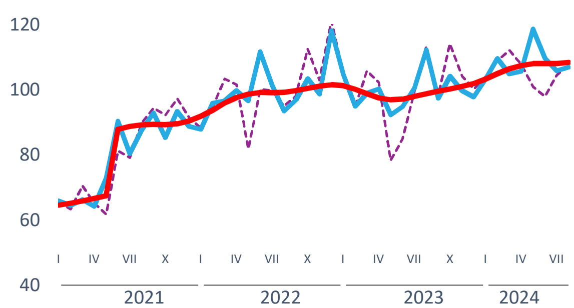
higher production of plums (up 6,8%) and apples (up 2,5%) is expected, while raspberry production decreased by 4,7%, and cherry production by 5,5%.

In the first eight months of 2024, industrial production recorded a 2,6% increase in physical volume. During this period, the growth was primarily driven by an increase in the production volume of the manufacturing industry, while the energy sector had a negative impact due to a decrease in electricity production.

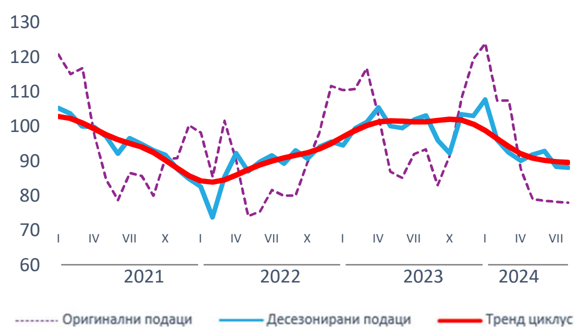
Index of physical volume of manufacturing industry, 2023=100



Index of physical volume of mining, 2023=100



Index of physical volume of electricity, gas, and steam supply, 2023=100

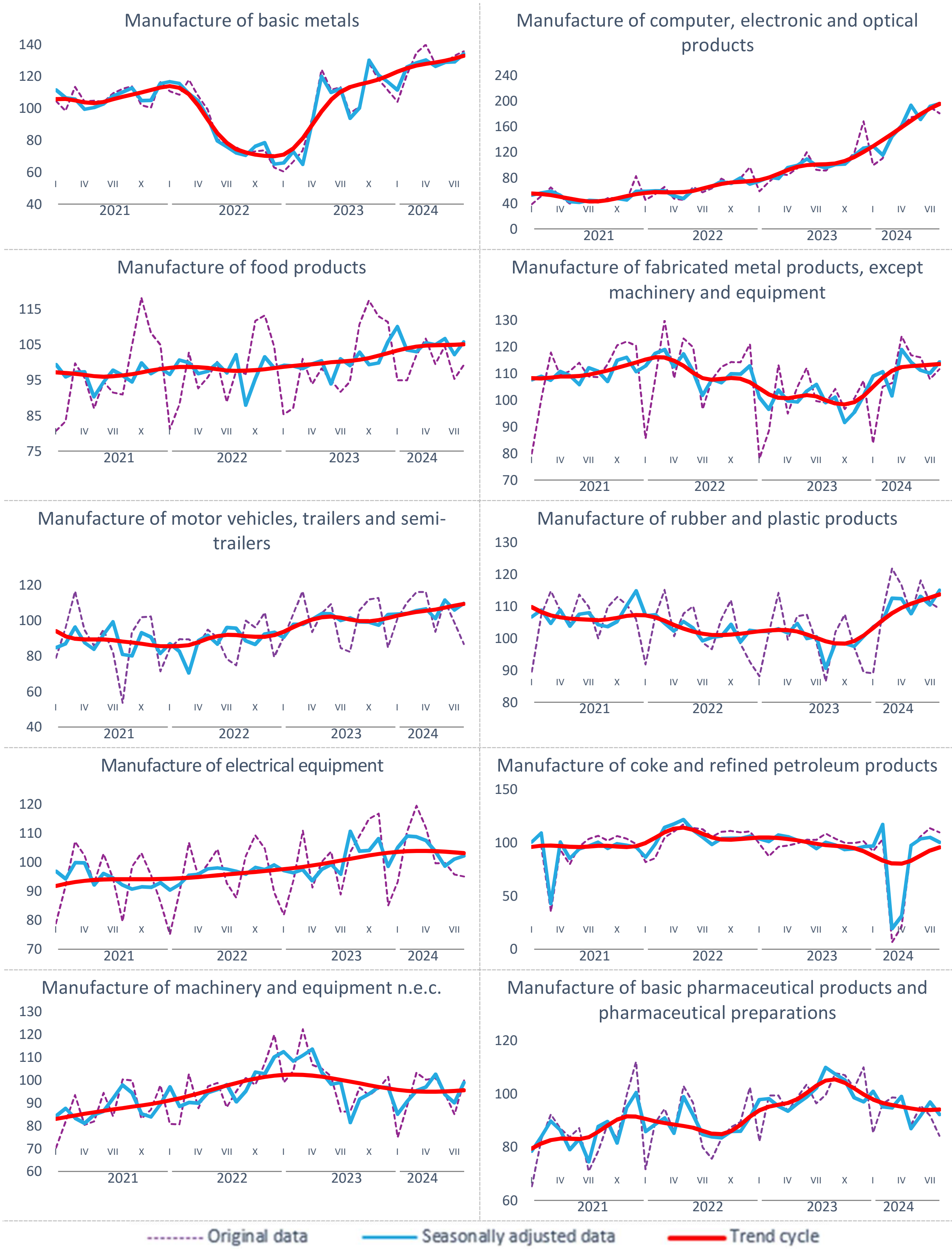


Source: Ministry of Finance

In the first eight months of 2024, the manufacturing industry achieved a growth of 4,1%. The growth was diversified and occurred in 15 out of 24 sectors. The most significant positive contributions to the growth of the manufacturing industry during this period came from the production of basic metals and the electronics industry, which recorded increases of 38,6% and 77,7%, respectively. In the same period, the production of food products, a key sector in manufacturing, saw a 6,5% growth. After a 9,6% decline in metal products production last year, this sector recovered in 2024 with a 10,4% increase. Despite weak external demand, the automotive industry grew by 6,4%, while the production of electrical equipment and rubber industry rose by 6,5% and 9,9%, respectively, due to the effects of previously implemented foreign direct investments. On the other hand, sectors that experienced a production decline had a combined negative impact on the manufacturing sector's growth, contributing -1,9 percentage points. The most significant negative contribution came from the oil industry, where production decreased by 18,2% due to planned overhaul at the NIS refining complex during April and May, leading to nearly complete suspension of oil derivatives production. Additionally, the machinery and pharmaceutical industries saw reductions of 8,0% and 4,3%, respectively.

Energy sector production in the first eight months of 2024 showed divergent trends. Mining increased by 7,8%, mainly due to a 18,0% rise in metal ore extraction, while the most significant negative contribution came from coal extraction, which decreased by 3,9%. At the same time, electricity production was down by 7,2%, primarily due to unfavorable hydrological conditions and the maintenance of EPS production capacities during the summer months.

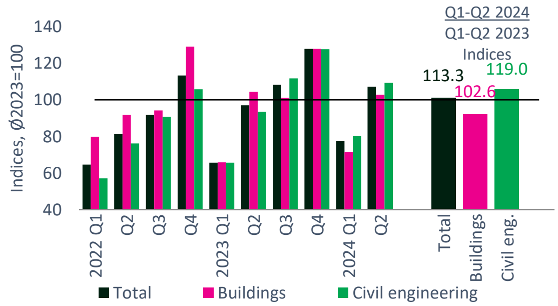
Indices of physical volume of leading manufacturing industries, 2023=100



Source: Ministry of Finance

The continuation of positive trends was also recorded in construction. In the first half of 2024, the value of completed construction works was 13,3% higher in real terms, supported by a 19,0% increase in the value of works in civil engineering and a 2,6% increase in building construction.

Value indices of construction works done (2023=100)



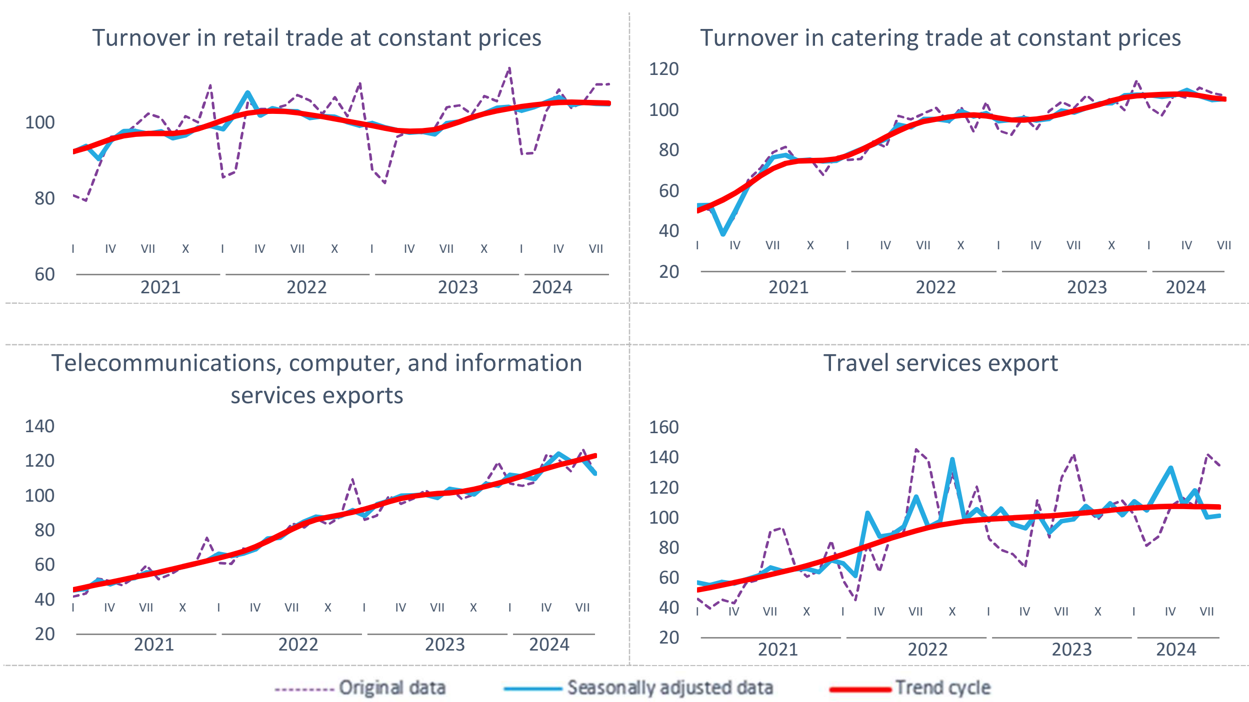
Source: SORS

With the slowdown in inflation and the growth of real disposable income of the population since the middle of the previous year, there has been an acceleration in the real turnover activities in retail trade. These trends continued throughout 2024, with turnover growth in constant prices in the first eight months being 7,1% higher. During this period, the increase in retail trade turnover was accompanied by real growth in the turnover of all three product categories: food products by 7,5%, non-food products by 8,9%, and motor fuels by 3,1%.

Good trends in tourism and hospitality continued throughout 2024, with the number of tourist arrivals and overnight stays in the first eight months increasing year-on-year by 7,3% and 3,4%, respectively, followed by growth in foreign tourist activities. In the first eight months, foreign exchange inflow from tourism increased by 13% year-on-year. Additionally, the growth of turnover in hospitality continued, with a real increase of 10,3% in the first seven months.

The information and communication technology (ICT) sector has been continuously growing, with an increasingly important role of this sector. In the first six months of 2024, the ICT sector saw strong real growth in GDP of 6,1%. This was accompanied by an increase in export activity in 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 accounted for just over two-fifths of the total export of service activities.

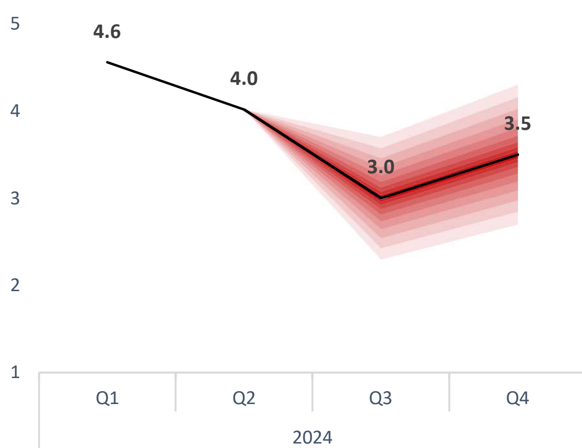
High-frequency indicators of the most significant service activities, 2023=100



Source: Ministry of Finance

Based on current trends in economic activity, taking into account the adopted economic policy measures, the effects of the continuation of infrastructure projects further supported by the new investment cycle under the "Leap into the Future – Serbia 2027" program, and considering the economic outlook of the most important foreign trade partners, the Ministry of Finance expects GDP growth of 3,8% in 2024, which remains unchanged from previous expectations. However, the risk matrix for economic growth in 2024, which was previously assessed as asymmetrical to the upside, is now considered symmetrical, as during the summer months, the materialization of negative risks related to the volume of agricultural production occurred due to extremely unfavorable agro-meteorological conditions, which significantly impacted the agricultural season, making it well below average.

Projection of quarterly GDP dynamics (% real growth) required to achieve the annual economic growth estimate of 3,8% in 2024 with the risk matrix



Source: Ministry of Finance

In the revised estimate, GDP growth in 2024 will also be entirely determined by domestic demand. The increase in wages, both in the private and public sectors, along with a 17,8% rise in the minimum wage, higher employment, and pension growth, will result in a 4,5% increase in real personal consumption. The achieved profitability of the domestic economy in the previous period, along with the continued stable inflow of FDI, further supported by the acceleration of capital infrastructure projects under the *"Leap into the Future – Serbia 2027"* program, will lead to an acceleration of fixed investments, which are expected to grow by 9,2%, a revision upward by 0,3 percentage points compared to the original estimate. The activation of new export-oriented capacities as a result of FDI will ensure the continued stable growth of real exports. However, due to the continued weak performance of the manufacturing industries of our most important foreign trade partners – Germany and Italy – and, as a result, a lower-than-expected growth in exports of goods, the total export growth has been revised slightly downward from 7% to 4,4%. In the new estimate, faster growth in import activity than export activity is also expected due to the strong growth in investment activity and the import of equipment, as well as the increase in the import of consumer goods due to higher household consumption.

From the production side, in 2024, an increase in the value-added creation is expected in all economic sectors, except for agriculture, for which, according to initial estimates from the Statistical Office of the Republic of Serbia, a decline of about 4% is expected due to unfavorable agro-meteorological conditions during the summer months. The services sector remains the dominant source of economic growth in the new projection. Growth is expected to be diversified and achieved in all service activities, with particularly strong growth in trade, transport, tourism, and hospitality, along with continued good results in the ICT sector and technical services. Industry will continue to grow throughout 2024, primarily due to the activation of new production capacities. A stable growth of construction activity is expected due to the continuation of ongoing infrastructure projects.

Table 3. GDP, real growth rates, %

	2023	Q1 2024	Q2 2024	2024* (Previous estimate)	2024* (Revised estimate)
GDP	3,8	4,6	4,0	3,8	3,8
Private Consumption	0,5	4,4	4,7	4,5	4,5
Government Consumption	-2,4	3,6	4,5	2,4	3,1
Investments in fixed assets	9,7	7,5	8,5	8,9	9,2
Exports of goods and services	2,7	1,3	4,4	7,0	4,4
Imports of goods and services	-1,6	3,5	8,5	8,6	8,0
Agriculture	7,4	-3,7	-4,1	-0,8	-4,2
Industry	2,1	2,9	1,4	2,8	2,8
Construction	10,5	13,7	7,2	9,1	9,1
Services	5,1	5,0	5,1	4,0	4,3
Net taxes	-1,7	3,3	3,7	3,6	3,6

Source: SORS

* Ministry of Finance

Projections of real sector trends for the period 2025–2027.

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.

The acceleration of all administrative procedures, continued tax relief for the economy which aims to enhance its competitiveness, the signing of agreements to preserve existing and open new foreign markets, more intensive and efficient implementation of infrastructure works, ensuring energy stability, and the realization of projects within the green agenda are just some of the measures to ensure a solid foundation for GDP growth in the context of growing geopolitical tensions. The construction of complex infrastructure within the implementation of the *"Leap into the Future – Serbia 2027"* program will be at the core of public investments in the upcoming period. The organization of EXPO 2027 will play a key role in positioning Serbia on the international stage and is expected to significantly boost development in sectors such as construction, tourism, innovation, and technology, further strengthening the country's economic and international position. Digital transformation and the construction of a digital ecosystem remain the strategic orientation of the government. Modernization and digitalization will continue, reflected in the further development and application of artificial intelligence and the expansion of supercomputing systems, as well as the expansion of the State Data Center's capacities. At the same time, efforts to accelerate the development of the innovation ecosystem will continue through the expansion of existing science and technology parks and the construction of new ones, as well as improving conditions for opening research and development centers by well-known global IT and other companies. Plans for reindustrialization and the improvement of agricultural production in the coming period will take into account environmental protection requirements. Securing energy security and sustainable energy sources will be the primary goal of the energy strategy and decarbonization processes. The more efficient functioning of the state administration, shortening procedures for the population and businesses with a focus on digitalization, will accelerate the convergence of the economy toward developed countries. The fiscalization system and changes in customs regulations will reduce the share of the gray economy in overall economic flows, ensuring a favorable business environment. The mechanism for encouraging

FDI will continue to focus on sectoral and regional dispersion to ensure the prerequisites for balanced development and the full utilization of comparative advantages.

In the revised macroeconomic framework, the assumption is also made that there will be no further escalation of military conflicts and no additional aggravation of international economic and political relations, that the energy prices are expected to remain at roughly the same level as current prices, with the security of supply for domestic producers and consumers preserved. No significant disruptions in external demand are expected, particularly regarding the slower recovery of the EU economy, our most important foreign trade partner. Furthermore, a stable inflow of FDI is expected, which will provide knowledge and technology transfer, as well as new sales channels for domestic producers. Uncertainty in projections remains high due to the nature and scale of global shocks. The channels through which these shocks may potentially affect the domestic economy are numerous and often interconnected, and the strength of potential shocks is such that they can significantly influence medium-term trends.

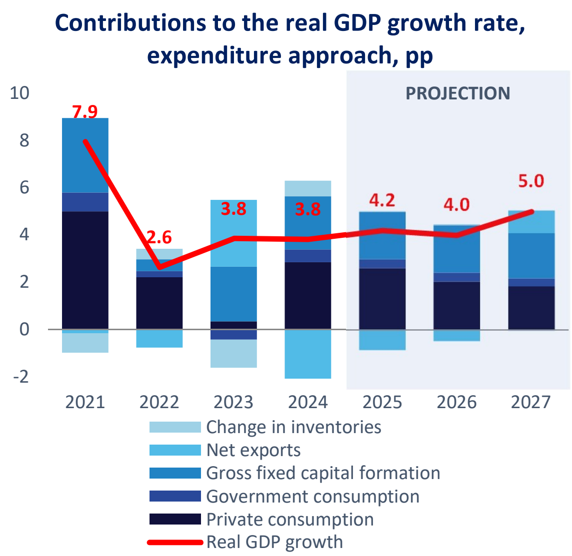
Table 4. Projection of key macroeconomic indicators of the Republic of Serbia

	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 investments in fixed assets	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
Current account balance, in EUR, % of GDP	-4,4	-5,2	-5,4	-4,2
Inflation, average for the period, %	4,7	3,5	3,5	3,3

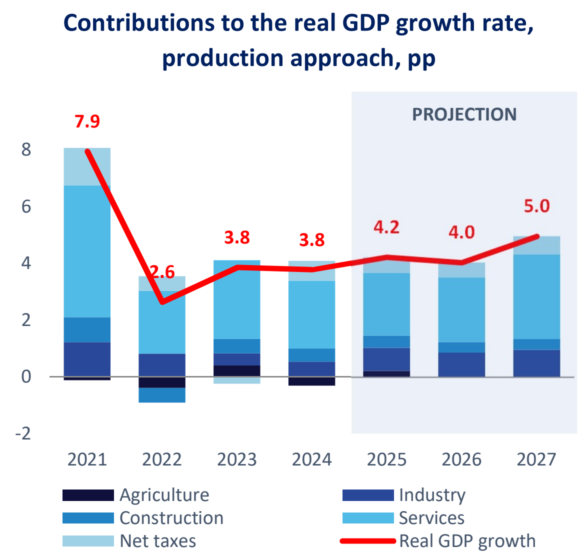
Source: Ministry of Finance

In 2025, GDP growth is expected to accelerate to 4,2%, which remains unchanged from previous expectations. Looking at the aggregates of demand, GDP growth in 2025 will be entirely determined by domestic demand. The anticipated increase in wages, both in the private and public sectors, along with a 13,7% rise in the minimum wage, higher employment and further pension increases, will result in a 4,1% growth in real personal consumption, which is a slight upward revision by 0,2 percentage points compared to the initial projection. A slight positive contribution to GDP growth in 2025 will also come from government spending, which is expected to increase by 2,2%. The acceleration of the implementation of ongoing capital infrastructure projects planned under the "Leap into the Future – Serbia 2027" program, along with continued stable inflows of FDI and the high profitability of the domestic economy from the previous period, will result in a 7,7% increase in investments in 2025, which is unchanged from previous expectations.

The activation of new export-oriented capacities as a result of FDI will ensure continued stable growth in real exports by 5,9%, which is, however, 2 percentage points lower than initial expectations. The main reason for the revision is the slower recovery of external demand, particularly in the manufacturing sector of our key trade partners, leading to a lower increase in goods exports from our suppliers than initially expected. Additionally, a smaller yield of cereals and industrial crops in 2024 will negatively impact the export of agricultural products and thus reduce the growth of goods exports in 2025. Import activity has also been slightly revised downward to 6,5%, so the contribution of net exports to GDP growth in 2025 will remain negative at -0,9 percentage points.



Source: Ministry of Finance



Source: Ministry of FInance

From the production side, in 2025, an increase in GDP creation is expected across all economic sectors. The services sector will remain the dominant driver of economic activity growth, even within the revised framework. Growth is expected to be diversified and achieved in all service activities, particularly strong in trade and transportation, tourism and hospitality, as well as continued good results in the ICT sector and professional technical services. Industry will continue to grow in 2025 with an increase of 4%, which is 0,4 percentage points lower than previously expected, due to a somewhat weaker recovery in external demand, primarily within the manufacturing industry of the Eurozone countries. It is estimated that construction will also see stable growth due to the continuation of ongoing infrastructure projects, as well as the realization of new construction projects and acceleration of private investments. For the agriculture sector, taking into account lower production in 2024 than expected and assuming average agro-meteorological conditions in 2025, a growth of 4,2% is projected, which is a revision upwards by about 4 percentage points compared to the initial projection.

According to the medium-term macroeconomic projection, the cumulative growth rate from 2025 to 2027 is expected to be 13,7%, which is 1 percentage point higher than previous expectations. This revision is the result of including the estimated impact of the realization of the EXPO 2027 exhibition and, consequently, higher growth in the tourism and hospitality sector, with positive spillover effects on retail trade and real estate business from the production side, as well as a larger export of services from the expenditure approach. In the revised projection, economic growth will still be driven by domestic demand, with a slightly negative contribution from net exports. This source of growth is determined by a strong continuation of the investment cycle, an increase in investment activity, and an increase in private consumption due to the rise in real disposable income. On average, the Serbian economy will grow at a rate of 4,4% annually. Real household consumption is expected to grow by 3,4% on average, following the economic activity growth. Stable growth of fixed investments is expected, averaging 7,4% annually. High public investment levels will be accompanied by growth in private investments, so by the end of the projection period, fiscal investments' share of GDP is expected to reach 26,5%. With the activation of new production capacities and the recovery of external demand, the volume of foreign trade exchange will increase. In addition, the effect of FDI from the previous period will contribute to increased competition and affect the efficiency of domestic producers, while new sales channels will open, and new market niches will be created. Exports are expected to 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, net export's contribution to GDP growth will remain slightly negative. On the supply side, the service sector and industry, owing to their largest share in GDP, will continue to play dominant roles in growth and will increase gross value added (GVA) with average annual growth rates of 4,5% and 4,4%, respectively. A significant positive contribution will also come from construction, which is expected to grow by 7,6% on average as a result of accelerating infrastructure projects and starting a new investment cycle, as well as increasing private investments. Reaching European standards and improving competitiveness in agriculture should reduce production volatility in this sector caused by agro-meteorological conditions, although in this macroeconomic framework, the assumption of an average agricultural season has been maintained.

The medium-term scenario for Serbia's economic activity remains 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 geoeconomic fragmentation and trade restrictions could impact global trade volumes and global economic prospects to a greater extent. Escalation of conflicts in Ukraine and the Middle East could trigger sharp increases in energy prices and further increase uncertainty and investor concerns, leading to stronger inflationary pressures and a slower recovery of economies in our largest foreign trade partners. On the other hand, a potential de-escalation of global tensions would result in significant positive effects on global economic flows, which would positively reflect on the domestic economy through a strong synergistic effect with domestic growth factors. Based on this, two additional scenarios have been created – pessimistic and optimistic. The pessimistic scenario assumes the materialization of negative risks from the international environment, which would adversely affect the export activity of our economy, lead to higher inflation due to energy market shocks, reduce real disposable income, private consumption, and slower investment growth, particularly private investments. The materialization of these risks would result in a lower medium-term GDP growth rate of 3,1% annually on average from 2025 to 2027, which is 1,3 percentage points lower than in the base scenario. On the other hand, the materialization of positive risks would result in stronger growth in all aggregates, especially exports and investments, compared to the base scenario, and a somewhat more moderate private consumption. In such an optimistic scenario, the medium-term GDP growth rate from 2025 to 2027 would be 1,3 percentage points higher than in the base scenario, averaging 5,7% annually.

Projection of GDP movements with risk matrix, growth rates, %

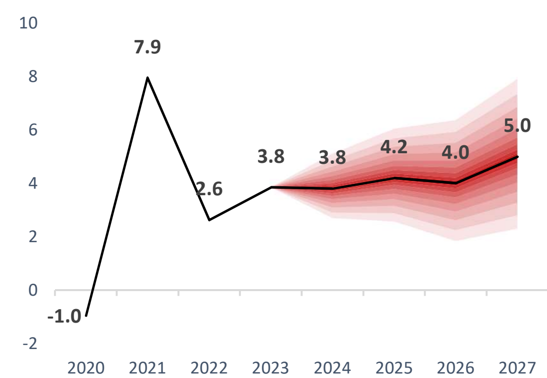


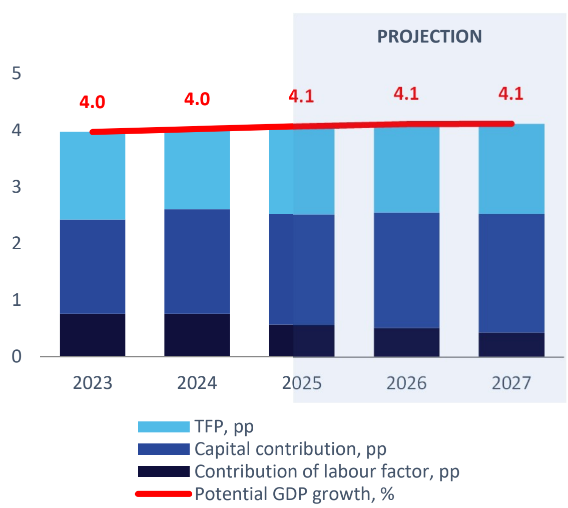
Table 5. Average growth rates in the period 2025-2027 by scenario

	Scenario		
	Central	Optimistic	Pesimistic
Real GDP growth	**4,4**	**5,7**	**3,1**
Private Consumption	3,4	4,8	2,6
Government Consumption	2,2	3,6	1,0
Gross Investments in Fixed Assets	7,4	9,4	3,8
Exports of Goods and Services	7,6	10,4	4,2
Imports of Goods and Services	6,9	9,7	3,0

Source: Ministry of Finance

According to the central scenario, medium-term potential GDP is expected to grow at a rate of 4%. The realization of capital projects and the continuation of the ongoing investment cycle, supported by stable inflows of FDI, and investments in innovation and development, will provide an increasingly stronger contribution from capital and factor productivity to the growth of potential GDP. Digitalization will significantly accelerate these processes and further enhance the efficiency of utilizing available capacities. The government's planned investments in energy infrastructure will also contribute to increasing the economy's potential. An appropriate and credible monetary policy, along with further improvements in the financial system and a more favorable investment climate, as well as the transfer of knowledge and technology from the most developed countries, should have a positive impact on both factors of production. On the other hand, strengthening the rule of law, reforming business and economic legislation, speeding up procedures, and improving administrative efficiency should ensure the maximization of factor productivity in the medium term. Favorable labor market trends will also contribute to the growth of potential GDP, although at a slower pace than in the previous period.

Contributions of the factors of production to the potential GDP growth rate, pp



Source: Ministry of Finance

Labor market

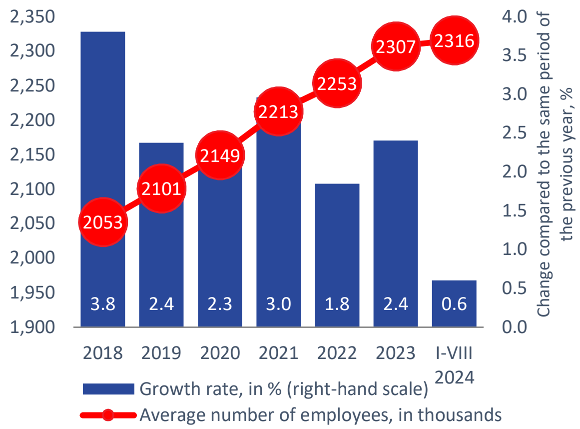
The labor market in Serbia is experiencing positive changes, which are the result of continuous efforts to improve economic policies and create a favorable business environment. In recent years, the employment rate has been steadily rising, while the unemployment rate is decreasing, indicating growing opportunities for employment and professional development. Positive trends are also reflected in significant increases in wages and employment, particularly in the private sector, which suggests stable economic development.

The foundation for this dynamic labor market has been primarily provided by the stability of the economy, which remains resilient despite global uncertainties. Positive trends in the labor market are also a result of the continuous work of policymakers to improve working conditions and enhance labor market institutions. This process includes encouraging employment, especially for harder-to-employ groups such as young people and those with insufficient qualifications.

An important aspect is also the active support for regional and local employment policies, which create opportunities for local development and encourage entrepreneurship. All this indicates that Serbia is not only advancing in terms of employment and wages, but is also establishing a solid foundation for sustainable labor market development in the future.

According to data from the Central Register of Compulsory Social Insurance (CROSS), in the period from January to August 2024, the average number of employed persons was higher by 0,6% compared to the same period in the previous year, mainly due to the increase in private sector employment by 10,8 thousand people, while the public sector grew by 2,8 thousand people. During this period, the strongest sectoral contribution to employment growth came from healthcare and scientific-technical activities, with positive contributions also coming from the ICT and construction sectors. According to data from the National Employment Service, during the same period, the number of people actively seeking employment decreased by 8,4%.

Movement of formal employment

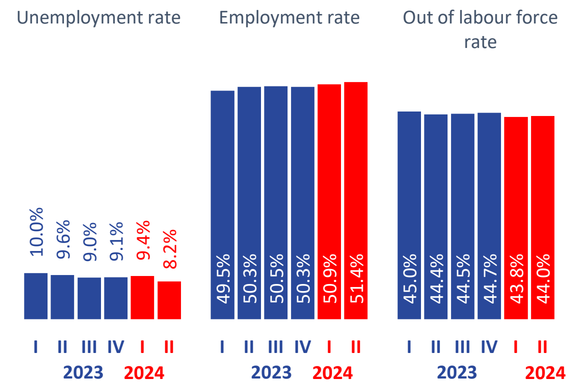


Source: CROSO

Based on data from the Statistical Office of the Republic of Serbia for the period January-July 2024, the average net salary amounted to 96,759 dinars. Compared to the same period in the previous year, the average net salary increased nominally by 15%, while the real increase was 9,6%. The high real wage growth is the result of positive economic developments and productivity growth in various sectors of the economy, as well as significant inflation slowdown. The real wage growth in the private sector was 9,6%, primarily driven by wage increases in manufacturing and trade. At the same time, there was also a real wage increase in the public sector of 9,8%, influenced by the Government's decision to raise wages by 10% from January 2024, as well as the decision to increase wages for teachers and some healthcare workers by 5,5% from October 2023. The favorable wage dynamics were also supported by the effects of the tax relief policy on wages from the previous period, which was accompanied by an increase in the minimum wage, which was raised by 17,8% in 2024, now amounting to 271 dinars per working hour, with the goal of improving the living standards of individuals with the lowest incomes. This wage movement has also positively affected the ratio of the average salary to the average consumer basket, which increased from 86,6% in 2023 to 94% in the January-July 2024 period. The median net salary in the January–July period amounted to 74,479 dinars. These positive trends indicate stable economic growth and improvements in working conditions in Serbia, which are crucial for the country's further development and prosperity.

According to the Labour Force Survey data, in the first quarter of 2024, the employment rate increased by 1,4 percentage points to 50,9% compared to the same period in the previous year, while the unemployment rate decreased by 0,6 percentage points to 9,4%. At the same time, the employed population (aged 15 and over) increased by 2,1%, while the unemployed population decreased by 4,8%. Positive trends continued in the second quarter of 2024, as the number of employed people increased by 48,400, reaching 2,899,700, while the number of unemployed decreased by 44,800 to 257,800. The employment rate reached 51,4%, an increase of 1,1 percentage points compared to the same period in the previous year. This increase in employment indicates positive employment trends, resulting from continuous efforts to improve the business environment and attract investments. Especially significant is that the overall increase in employment is based on formal employment growth, which is key for economic growth and stability as it creates jobs that contribute to tax revenues and provide social security. The unemployment rate decreased to 8,2%, a drop of 1,4 percentage points compared to the same period in the previous year. This reduction in the unemployment rate shows that the labor market is stabilizing and new employment opportunities are opening up. Additionally, the number of people outside the labor force decreased by 30,300, further confirming positive changes in the labor market. Informal employment, which is often an indicator of insecure jobs, also decreased by 8,100. The rate of informal employment was 11,8%, a decrease of 0,5 percentage points compared to the same period in the previous year. Particularly notable is the reduction in informal employment outside agriculture, which fell to 5,9%. The youth unemployment rate decreased by 4,2 percentage points to 20,2%.

Movement of key labor market indicators



Source: SORS

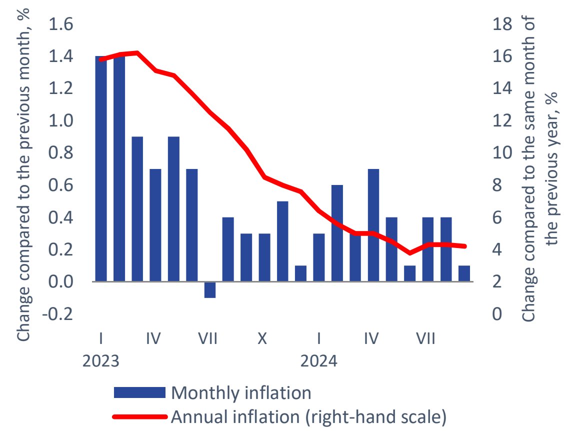
In the coming period, the labor market is expected to maintain positive trends, in line with favorable macroeconomic indicators, as well as due to the stimulation of entrepreneurship, modernization of the education system, and support for the employment of vulnerable groups. The increase in labor mobility and strengthening cooperation between educational institutions and the economy will contribute to further reduction in unemployment and an increase in employment, thereby improving the standard of living. Policymakers are actively working on measures aimed at improving the quality of the workforce and investing in human capital to facilitate employment, particularly in sectors with higher added value. Data on the increase in the number of employed in the information technology (ICT) sector by 59,552 individuals and in scientific and technical activities by 53,141 individuals between 2014 and January-August 2024 confirm the success of these measures. Efforts will continue to reduce the number of workers in the informal economy and move them into the formal sector, which will improve working conditions and positively impact budget revenues. In the medium term, positive effects of active employment policy measures, retraining, and support for social entrepreneurship are expected, which will facilitate access to employment for socially vulnerable categories and ensure the inclusivity of economic growth. Projections indicate a decrease in the unemployment rate and continued real wage growth. In the private sector, wage growth is expected to correlate with productivity growth, while wages in the public sector will increase in line with established fiscal rules.

Monetary movements

Since April 2023, as expected, year-on-year inflation has been on a declining path, returning to the target range in May 2024, and reaching 4,2% in September. The slowdown in inflation was driven by the effects of previous tightening of monetary conditions, slower import inflation, still low external demand, and continued reduction in inflation expectations.

When observing the main groups of products and services, the most significant contribution to the moderation of inflation came from the slower growth of food and energy prices. Additionally, in September, core inflation (measured by the change in the consumer price index excluding food, energy, alcohol, and cigarettes) was slightly higher at 5,3%, mainly due to a faster increase in service prices. Such trends are also characteristic of other countries.

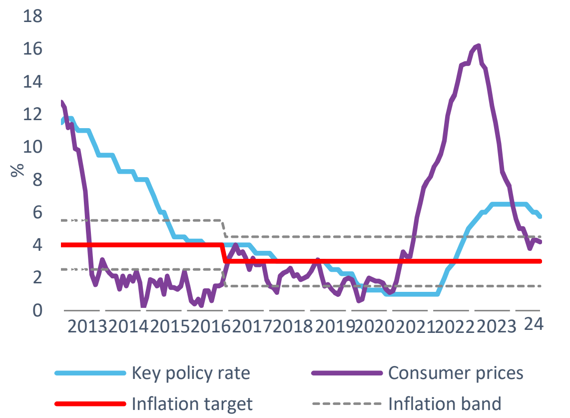
Monthly and year-on-year inflation, %



Source: SORS and NBS

In October 2024, the National Bank of Serbia (NBS) decided to keep the reference interest rate at 5,75%. This decision follows a total reduction of 75 basis points in interest rates starting from June. The NBS Executive Board emphasized that the effects of this easing of monetary policy will be visible in the coming period and that a cautious approach to monetary policy is necessary, considering geopolitical uncertainty.

Inflation and key polcy rate, %

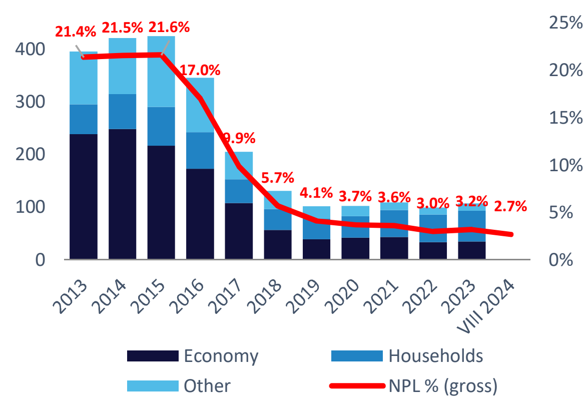


Source: SORS and NBS

In order to further ease inflation and the negative social and economic effects of rising global food and energy prices, the Government has implemented a series of measures to administratively cap prices. The prices of essential food items (flour types 400 and 500) have been capped by a regulation that will remain in effect until February 28, 2025. Additionally, a regulation on the mandatory production and sale of bread made from "T-500" flour has set its maximum retail price. The regulation on limiting the price of oil derivatives specifies the method for calculating the highest retail prices for diesel fuel and premium gasoline BMB 95. A special price cap has been introduced for agricultural producers. The goal of these measures is to reduce inflationary pressures and inflation expectations, as well as to ensure the regular and uninterrupted supply of food and energy products to the market.

Credit activity in 2024 is showing accelerated growth. Furthermore, financing conditions for the private sector and the state have improved since the beginning of the year. Interest rates on dinar-denominated government bonds have decreased, while interest rates on dinar loans to the private sector have been falling since the fourth quarter of 2023. Total domestic credit grew by 5,8% in August, driven by increased demand for credit from businesses and households, supported by eased credit standards for dinar loans and more favorable borrowing conditions. Household loans increased by 6,5% in August, while loans to businesses grew by 5,2%. The positive contribution to credit growth primarily comes from loans to households, with a slightly weaker contribution from loans to businesses. In line with the decision by the National Bank of Serbia to cap interest rates on euro-indexed housing loans until the end of 2024, the average interest rate has continued to hover around 5%. The main positive contribution to business loans came from liquidity and working capital loans and investment loans. For household loans, the most significant contribution came from dinar cash loans and foreign currency and foreign currency-indexed housing loans. The stability of the banking sector has been preserved and further strengthened, and the share of non-performing loans has been reduced to its lowest level of 2,7% in August 2024.

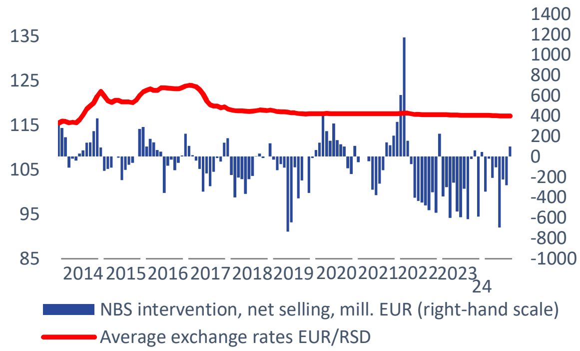
Non-performing loans, billion RSD



Source: NBS

Under conditions of appreciation pressures, relative stability of the exchange rate was maintained, along with a record-high level of foreign exchange reserves held by the National Bank of Serbia (NBS). In 2023, the dinar strengthened against the euro by 0,1%, and it has strengthened by the same percentage since the beginning of 2024. The appreciation pressures reflect favorable balance of payments developments, high foreign currency purchasing by businesses, and inflows from transactions involving payment cards. Thus, in the period from January to September 2024, compared to the same period of the previous year, the dinar appreciated nominally by 0,1% against the euro. Given the higher supply of foreign currency than demand, the NBS was a net buyer of foreign currency in the amount of 1,7 billion euros during the January-September period.

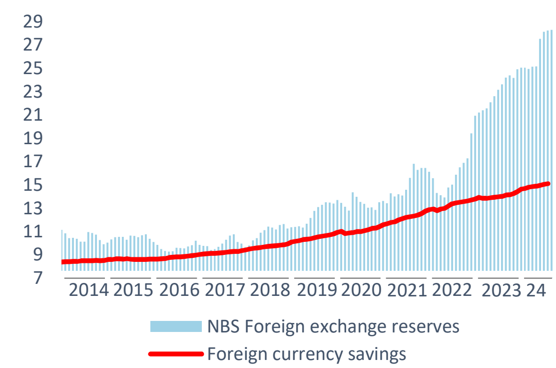
Exchange rate and NBS interventions on the foreign exchange market



Source: NBS

Gross foreign exchange reserves increased by 3,4 billion euros in the first nine months of 2024, reaching 28,3 billion euros in September. This level is the highest since data has been tracked in this way (since 2000). It was sufficient to cover 183,0% of the M1 money supply and 7,3 months of imports of goods and services. The increase in foreign exchange reserves in September was achieved through the allocation of foreign exchange reserve requirements by banks, management of foreign exchange reserves, donations, and other sources.

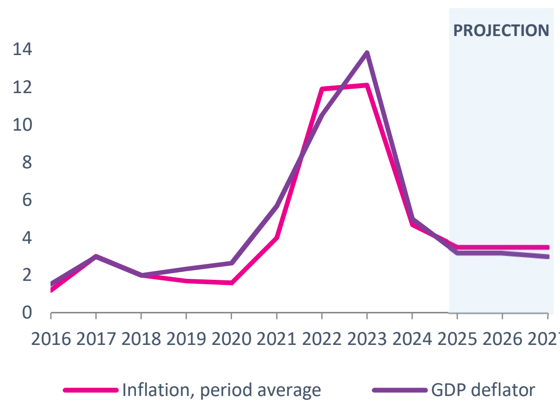
Foreign exchange reserves and foreign currency savings, billion euros



Source: NBS

According to the projection, inflation will continue to remain around 4% by the end of 2024, and during the following year, it is expected to average 3,5%, approaching the central target value of 3% by the end of the projection horizon. The main factors contributing to the continued slowdown of inflation will be restrictive monetary conditions, lower import inflation and inflation expectations, the expected gradual slowdown in real wage growth, and the anticipated decline in global oil prices. The risks to the projection primarily stem from the international environment, including geopolitical developments and the outlook for global economic growth, as well as their impact on energy prices and primary commodity prices on the global market. In terms of domestic factors, the risks to the projection relate to the pace of domestic demand growth and the nature of the agricultural season. Overall, the risks to the inflation projection are considered to be symmetric.

Inflation projection, %



Source: Ministry of Finance

External sector

After a decline in foreign trade of goods in the previous year, an increase was recorded in 2024, along with simultaneous growth in both export and import activities. In the first eight months of 2024, goods worth a total of 19,4 billion euros were exported, representing a 1,5% increase compared to the same period in the previous year. At the same time, exports of the manufacturing industry, which is the main driver of export growth, increased by 559,5 million euros or 3,4%, with growth achieved in 12 out of 23 sectors. Despite continued weak external demand, the sustained positive export results of the manufacturing industry are primarily due to the activation of new export-oriented capacities, a result of high inflows of foreign direct investment from the previous period, much of which was directed towards tradable sectors. The largest contributions to the growth of manufacturing exports came from the export of basic metals, other means of transportation, and the electronic, metal, and food industries. Agriculture, despite a decline in the prices of agricultural products on the global market, recorded a 46,4% increase, thanks to a good agricultural season in the previous year and due to base effect. The negative contribution to export growth came from the decrease in electricity exports, which were at about 2/5 of the export level in the same period of the previous year (a decrease of 573,4 million euros). This reduction was primarily a result of lower production due to unfavorable hydrometeorological conditions and the overhaul of EPS (Electric Power Industry of Serbia) capacities during the summer months, as well as the exceptionally high base from the first eight months of the previous year. Mining exports recorded a 3,0% growth compared to the same period last year. The somewhat slower growth of mining exports in the first eight months was almost entirely due to the decrease in the export of copper ore and concentrate, particularly in the first quarter, when the exported amount was 110 thousand tons lower. This decrease is a consequence of the strengthening of the domestic raw materials base due to the activation of the copper smelter in Bor, which allowed for a higher export of value-added products (basic metals) within the manufacturing industry.

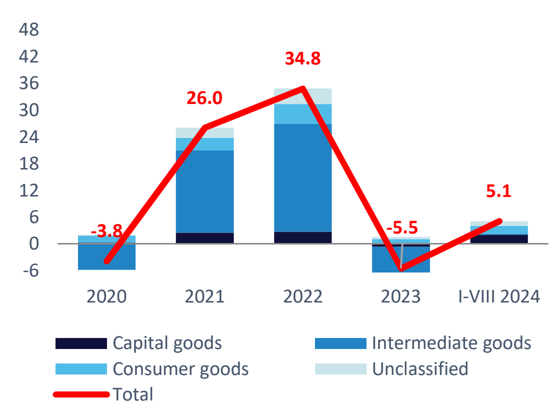
In the period from January to August 2024, the import of goods amounted to 25,5 billion euros, a 5,1% increase compared to the same period last year. Observed by economic destination, the growth in goods imports was mostly driven by the import of equipment, which increased by 17,1% (an increase of 485,9 million euros). The high growth in equipment imports will enable further modernization of production capacities in the economy and an increase in productivity, which will enhance competitiveness in international markets and improve export performance. At the same time, the positive contribution to the growth of imports came from the import of consumer and intermediate goods, which increased by 8,9% and 0,5%, respectively (increases of 419,4 million euros and 63,0 million euros).

Impact of the Modernization of Zijin Group's Production Capacities on Export Activity

Zijin Mining Group operates in Serbia with two branches, Serbia Zijin Mining and Serbia Zijin Bor Copper, which are the two largest exporters in Serbia. According to data from the Customs Administration, these companies collectively exported goods worth 1,9 billion euros in 2023, while in the first nine months of the current year, their export value amounted to 2,1 billion euros, a 50,7% increase compared to the same period in the previous year.

In March 2023, the modernization of the copper smelter in Bor was completed, finalizing the project of expanding production capacity and technical reconstruction. During the time the smelter was down for reconstruction and expansion, the ore concentrate was exported without further processing. However, the reopening of the smelter has allowed the ore to be processed in Serbia, leading to the export of higher-value products, which will impact GDP growth and improve the country’s balance of payments position. Positive effects are already visible in the first nine months of the current year, as the net export value of Serbia Zijin Copper increased by 150 million euros, or 39,0%. In the coming period, further investments are planned for the development of underground deposits and the improvement of infrastructure related to surface exploitation, which will further support the ongoing new investment cycle.

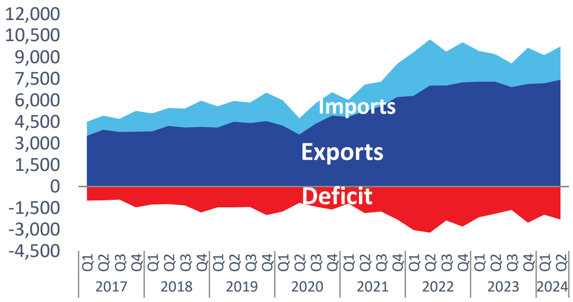
Imports structure by economic destination, pp



Source: SORS

Such developments in foreign trade resulted in an increase in the trade deficit during the first eight months of 2024 by 939,0 million euros, along with a decline in the import coverage by exports – from 78,8% to 76,2%.

Merchandise trade, mil. EUR



Source: SORS

The most important foreign trade partners during the first eight months of 2024 were the EU countries, which accounted for 62,0% of total exports and 56,6% of total imports. The largest share of total exports (38,3%) during this period was directed to the markets of five countries: Germany, Bosnia and Herzegovina, China, Italy, and Hungary. Imports from Germany, China, Italy, Turkey, and Hungary made up 43,3% of total imports. The foreign trade surplus in this period was achieved with Montenegro, Bosnia and Herzegovina, North Macedonia, Romania, Slovakia, Bulgaria, the Czech Republic, Sweden, and Croatia. The surplus with these countries during the observed period amounted to 2,7 billion euros. The largest deficit occurred in trade with China, Turkey, Italy, Germany, and Kazakhstan.

The current account deficit in the first eight months of 2024 amounted to 2,5 billion euros, and was 1,8 billion euros higher compared to the same period of the previous year. The increase in the current account deficit is the result of a higher deficit on the goods and services account, as well as an increase in the primary income deficit, alongside a decrease in the secondary income surplus. On the goods and services account, the deficit amounted to 3,3 billion euros and was 1,1 billion euros higher year-on-year, primarily due to the increase in the trade deficit, while the services surplus was reduced. The goods deficit amounted to 4,9 billion euros, an increase of 814,5 million euros, while the services account recorded a surplus of 1,6 billion euros, which was 329,3 million euros lower than in the previous year. The increase in the trade deficit in the first eight months of 2024 was primarily due to the decrease in the surplus in electricity trade, mainly due to the high base from the same period of the previous year. After the stabilization of the global market following the initial surge in energy prices due to the outbreak of the conflict in Ukraine, the import of energy products, expressed in euros, significantly decreased. In Serbia, the production of electricity in 2023 was at a level that exceeded domestic needs, which enabled the export of surplus to foreign markets. In addition to electricity, the largest contributions to the trade deficit were from deficits in the oil, metal, electrical, and automotive industries. The positive net export of services was primarily the result of higher exports of ICT services during the observed period. The net inflow of ICT services increased by 20,5% and amounted to 2,0 billion euros. A significant net inflow was also recorded in other business services, which amounted to 742,4 million euros. The primary income deficit increased by 267,6 million euros, or 11,1%, while the secondary income surplus was 9,6% lower year-on-year, amounting to 3,6 billion euros. The net inflow of remittances from abroad decreased by 5,9% and amounted to 2,5 billion euros.

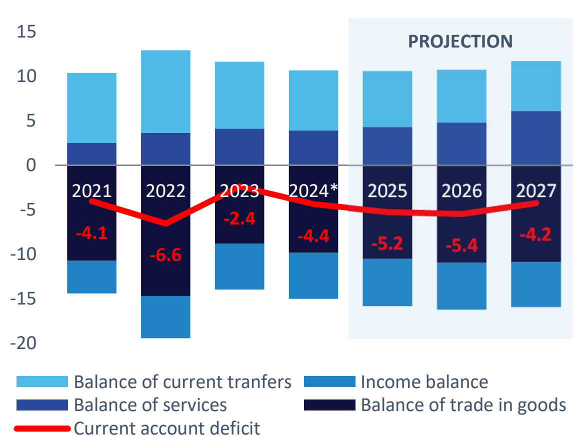
The total FDI inflow in the first eight months of 2024 amounted to 3,2 billion euros, while the net inflow of FDI was 2,9 billion euros, which is more than enough to fully cover the current account deficit, contributing to the long-term sustainability of the external position. The largest portion of FDI inflows was in the form of equity capital and reinvested earnings (76,4%), confirming foreign investors' commitment to continuing investments in Serbia. By sector, the largest FDI inflows in the first half of the year were in construction (670,5 million euros), mining (582,9 million euros), then in the IT sector (338,7 million euros), and in manufacturing industry, the sector that traditionally attracts the most FDI, with 274,6 million euros. In addition to production diversity, FDIs are also geographically diversified, with a growing share from the Asia-Pacific region. Geographically, most of the FDI (close to two-thirds) comes from Europe. The total FDI inflow from the European Union in the first half of 2024 amounted to 1,0 billion euros, or 43,4% of the total FDI inflow. On the other hand, by country, the largest FDI inflows came from China,[2] the Netherlands, Luxembourg, the United Kingdom, and the Czech Republic, together accounting for slightly more than four-fifths of total FDI inflows. The share of FDI from China has significantly increased over the last eight years, from 3,1% in 2015 to 30,4% in the previous year. China has, individually, been the largest investor in Serbia's economy over the last three years. In 2023, the total inflow of investments from China amounted to 1,4 billion euros, while in the first six months of this year it amounted to 697,9 million euros.

In the first eight months of this year, a net inflow of portfolio investments amounting to 264,9 million euros was recorded. In June 2024, the Republic of Serbia successfully completed the issuance of sustainable eurobonds denominated in US dollars on the international financial market. Eurobonds were issued with a 10-year maturity in a total amount of 1,5 billion dollars, with a coupon rate of 6,00%. After the issuance of green eurobonds on the international financial market in 2021, Serbia became the only country outside the European Union to issue a sustainable eurobond (ESG - Environmental, Social, and Governance). At the auction, in which several hundred interested investors from all over the world participated, the total demand for this eurobond on the trading day exceeded 6,5 billion dollars.

The external position of Serbia during 2024 has been characterized by resilience to financial shocks from the international environment. The ratio of foreign exchange reserves to short-term debt increased compared to the end of 2023, due to the growth of foreign exchange reserves and a reduction in short-term debt. The share of external debt in GDP decreased by 5,6 percentage points, from 66,0% in 2022 to 60,4% in 2023, alongside a reduction in the share of short-term debt in GDP. At the end of June, the ratio of external debt to exports of goods and services was 115,0%, which represents an increase of 4,3 percentage points compared to 110,7% at the end of the previous year. This ratio is significantly below the World Bank's criterion of 220%, which guarantees the sustainability of its servicing. Gross foreign exchange reserves of the National Bank of Serbia in the first nine months of this year increased by 3,4 billion euros, reaching 28,3 billion euros at the end of September, the highest level ever, surpassing the reference values of all measures used to assess their adequacy.

The total current account deficit for 2024 is expected to increase to 3,6 billion euros, or 4,4% of GDP. The faster growth of imports compared to exports this year, due to the implementation of planned investment activities, will result in a larger current account deficit in 2024 compared to 2023. Even under conditions of slow recovery of external demand, export resilience has been demonstrated, while import growth has been driven by higher equipment imports. The current account deficit will continue to gradually grow to 5,4% in 2026, due to the expected acceleration of the investment cycle and growth in household consumption, after which it is expected to decrease to 4,2% of GDP in 2027. Despite the expected high growth rates of exports in the medium term, the possibility of renewed energy price increases on the global market, caused by rising geopolitical tensions, may lead to an increase in the deficit in goods trade and, consequently, the current account deficit.

Current account structure, % of GDP



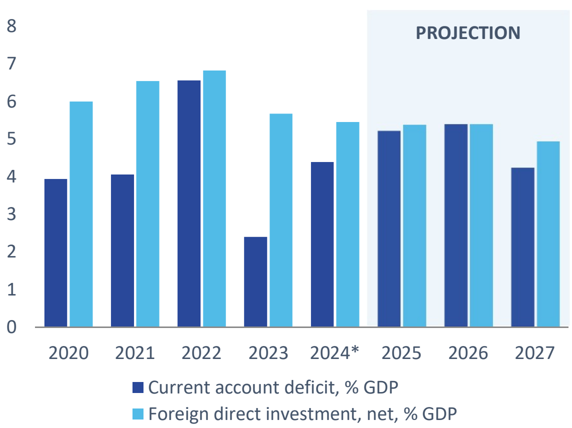
Source: Ministry of Finance, NBS, SORS
* Ministry of Finance estimate

Projected faster average growth of goods imports compared to goods exports due to the accelerated pace of investments will lead to a slight increase in the trade deficit of goods to 10,9% of GDP in 2027, up from 9,9% this year. Favorable trends are expected to

[2] The data refer collectively to the People's Republic of China, Macau, Hong Kong and the Chinese Province of Taiwan.

continue on the services account, where the surplus over the projected three-year period will average 4,9 billion euros. The inflow from current transfers will average 5,9% of GDP annually, with remittances maintaining their dominant role. The net effect of current transfers and net factor payments in the next three years will be positive, which will ease the deficit in the trade balance of goods and services. These developments, combined with the projected economic activity dynamics, will result in a gradual increase in the current account deficit share of the balance of payments to 5,4% in 2026. However, in 2027, a significant reduction in the current account deficit is expected, to 4,2%, due to a substantial increase in service exports during the year of the specialized "EXPO 2027" exhibition, as well as improvements in the foreign trade of goods.

Current account deficit and FDI, % of GDP



Source: NBS and Ministry of Finance
* Ministry of Finance estimate

The structure of the financial account will be dominated by FDI, with a share of 5,2% of GDP on average per year. This inflow will also be the main source of financing for the current account deficit. The maintained favorable investment perspective for our country and the expected continuation of high FDI inflows, as well as their further diversification towards the tradable goods sector, will contribute to the continued growth of exports and strengthening of both external and internal macroeconomic balance.

II THE FISCAL FRAMEWORK FOR THE PERIOD FROM 2025 TO 2027

1. Medium-term Fiscal Policy Objectives

The containment of the coronavirus pandemic, high inflation caused by the crisis in international energy and raw materials markets, and the conflict in Ukraine marked the previous period globally, with uncertainty that could last for an extended period. In such a situation, the task of economic and fiscal policy was to ensure the stability of economic flows and preserve citizens' living standards.

The previous year, however, was relatively stable in economic terms, with expected macroeconomic dynamics and somewhat better fiscal aggregate results. Favorable fiscal trends, represented by higher-than-expected revenue collection and savings on funds allocated to overcome the energy crisis, led to lower levels of deficit and debt. This development allows for a better fiscal outlook in the medium term, faster reduction of public debt levels, and greater fiscal space.

The larger fiscal space, i.e., the overall favorable fiscal position, along with expected favorable macroeconomic developments, enables a new investment cycle embodied in the "Leap into the Future - Serbia 2027" program and the EXPO 2027 exhibition. This program will be the backbone of the country's economic and social development in the coming period. Given the anticipated large investments within the program and preparations for Expo, a more generous fiscal policy is temporarily expected, but with adherence to the principle of reducing public debt levels. Importantly, the increase in the deficit will be the result of higher capital expenditures, which will further support macroeconomic flows and accelerate economic growth. In parallel, it will be necessary to ensure space for timely fiscal policy responses to economic shocks. The international environment remains uncertain regarding global economic trends, so any potential fiscal intervention by the state to minimize negative external effects will certainly be combined with efforts to continue development programs and infrastructure projects financed from the budget.

Given the uncertain economic situation, the budget will certainly serve as a "safety net" in case of an escalation of unfavorable trends. On one hand, it will ensure the continuity of development and social programs, and on the other hand, the sustainability of public finances and the continuation of reducing public debt share in GDP. Taking into account the expected macroeconomic trends, the projected annual fiscal deficits will allow for a reduction in the share of government debt in GDP in the coming period.

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

2. Current Fiscal Trends and Outlook for 2024

The fiscal framework for 2024 has been planned taking into account the uncertainty both in the domestic market and the international environment. The planning approach was cautious to leave necessary space for budgetary interventions in the case of unfavorable events. The macroeconomic framework for 2024 anticipates moderate acceleration in economic activity compared to 2023, with a gradual easing of inflation, which, among other things, should contribute to increased real consumption.

Measures implemented at the end of 2023 have impacted the planning of the fiscal framework for 2024. At the end of the previous year, a 5,5% increase in salaries for employees in education and part of the healthcare sector was carried out, along with an extraordinary 5,5% pension increase and, at the beginning of 2024, pensions were increased by 14,8% in accordance with the legal adjustment formula. In order to maintain the standard of living and purchasing power of the population, the following measures were adopted: a 17,8% increase in the minimum wage for 2024, a 10% salary increase in the public sector and further reduction of the tax burden on net wages to the level below 60%. These measures are expected to increase personal consumption and, consequently, revenue from consumption taxes. A positive trend in labor tax revenue is also anticipated despite the reduction in tax burden, due to the effects of the proposed measures on employment and wages in the private sector. In 2024, significant funds have been allocated for energy market intervention; however, due to price stabilization and the availability of energy resources, some unspent funds have been reallocated.

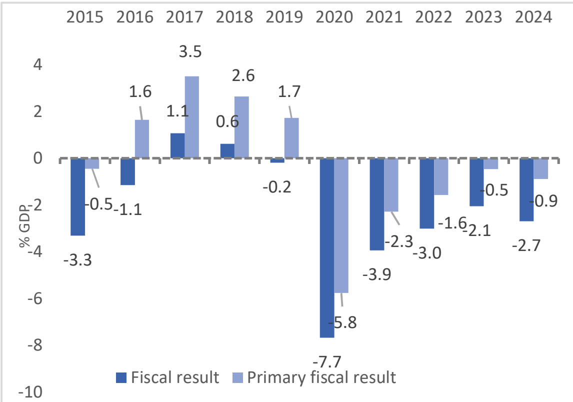
Excise policy has returned to normal processes, including a partial increase in excise duty rates. Under the adopted legal regulation at the end of the previous year, excise duty rates were increased by 8%, with further adjustments planned to align with inflation in 2023, at the beginning of 2024. These increases only partially compensate for the real value of excise duties compared to the period before the energy crisis and accelerated inflation, meaning the excise rates remain 13% lower than they would have been with regular indexing. The estimated revenue loss in 2022 and 2023, due to the absence of regular indexing, amounted to over 100 billion dinars, or 1,3% of GDP. In early 2024, it was decided to delay the planned inflation adjustment by three months due to solid revenue growth from excise duties at the end of the previous year, and to mitigate the inflationary effect of the excise increase.

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

Revenue performance in the first eight months of this year has exceeded the original plan. Labor market trends are better than expected, which, along with real income growth, positively affects the collection of all consumption tax revenues. The profitability of business entities in 2023 and the collection of corporate income taxes in the first nine months of this year are significant factors in revising revenue estimates for 2024 upwards. The decision to delay the excise duty indexing had no negative impact on the amount of excise revenue collected, primarily due to the recovery of consumption in the last quarter of the previous year and the first half of this year. As usual, unplanned extraordinary non-tax revenues collected in the previous period, as well as better realization of regular revenues, have been included in the revised estimate of non-tax revenues. Better performance at the end of the previous year was also a significant factor in the upward revision of revenue estimates.

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 is expected to be 47,9%. The revenue side has been increased by 166 billion dinars, and the expenditure side by 232,1 billion dinars. Higher revenues and expenditures, along with a reallocation of funds originally intended for the energy sector, have created fiscal space for a significant increase in public investment, as well as in certain categories of current expenditures (social assistance and transfers to the population). In this way, along with maintaining and increasing the standard of living for certain categories of the population, infrastructure development is accelerating, and the country's economic potential is increasing. The implementation of these measures, along with achieving the projected fiscal result for the general government sector, will not disrupt the established trajectory of reducing the share of public debt in GDP, which has been present since 2016. An analysis of the structural fiscal result for 2024 indicates that around 0,47% of GDP relates to one-off and temporary effects on both the revenue and expenditure sides.

General government fiscal result for the period 2015-2024, in % of GDP



Source: Ministry of Finance

Table 6. General government revenues, expenditures and fiscal result in 2024, in RSD bln[3]

	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		

[3] Source: Ministry of Finance

* The original budget for 2024 has been adjusted for the purposes of comparability with the new estimate for the current year, by including amounts resulting from the expanded scope of the general government sector, which pertains to the inclusion and reporting of own resources (revenues and expenditures) of extrabudgetary users (public agencies and institutes). The total amount of these funds is 20,2 billion dinars on both the revenue and expenditure sides.

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

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

- The base effect (performance at the end of the previous year) and performance during the period January–August 2024;
- Corporate profitability in 2023;
- Faster growth in personal consumption than expected;
- Higher consumption of excise products;
- Stronger growth in the collection of regular non-tax revenues and receipt of certain extraordinary and one-off non-tax revenues;
- More favorable developments in the labor market.

The projection for personal income tax revenues has been increased by 17,7 billion dinars compared to the budgeted amount, while the projection for social security contributions has been raised by 30 billion dinars. The assumptions underlying the original projections for these revenues, such as trends in average wages and employment during the first part of 2024, have exceeded expectations. The effects of reducing the tax burden on wages in 2024 have also been taken into account. The main reason for the increase in the projections for personal income tax and social security contributions is the base effect, as well as developments in the labor market during the previous part of the year. Other personal income tax (such as taxes on dividends, interest income, annual income tax, rental income tax, etc.), have also been revised upwards, primarily due to the base effect and better performance during the past period, especially in the collection of annual personal income tax on citizens.

The estimate for corporate income tax revenues, compared to the previous revision, has been significantly increased relative to the original estimate. The percentage increase of 13,8% is the largest among all taxes, with the absolute increase amounting to 35,5 billion dinars. Final data on profitability were not available at the time of budget planning, so these revenues were originally planned conservatively. The high level of corporate income tax collected in 2022 and 2023 led to an increase in its share of GDP (around 3%) exceeding the average levels recorded in previous periods. Following the principle of prudence, the original projection anticipated a gradual reduction in this tax's share in GDP, bringing it back to the average level of the previous period. After the final calculation of corporate income tax for 2023 (at the end of June 2024), the annual estimate for this tax was revised upwards. According to data from the Business Registers Agency (APR), the total profit of profitable companies in 2023 was 1.297 billion dinars, an increase of 3,6% compared to 2022. The net profit reached 972,4 billion dinars, representing a 12,3% increase.

VAT revenues have been revised upwards by 52 billion dinars, or 5,7% compared to the budget plan. At the end of the previous year, VAT collection was significantly higher than planned, which served as the basis for the planning of the current year. This better performance is attributed to a stronger recovery in personal consumption during the last quarter of 2023. This trend continues in 2024. Unlike the previous two years, when consumption patterns and VAT collection were disturbed due to factors like "panic" spending, non-resident consumption, etc., VAT collection is now following the expected patterns. The real growth in household income is a key contributor to the growth in personal consumption and the stronger increase in VAT revenues.

Customs revenue remains at the level planned in the original 2024 budget. The revenue performance during 2024 is in line with expectations. These revenues largely, though not entirely, follow the dynamics of VAT on imports. However, changes in the structure of import demand (type of goods, geographical region) have altered this relationship over the past two years, resulting in customs revenue growing faster than VAT on imports.

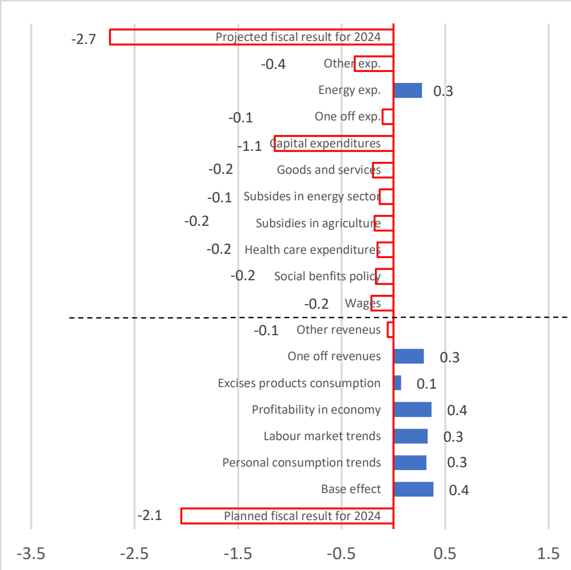
The estimate for excise revenues has been increased by 12 billion dinars compared to the budget plan. Excise taxes on petroleum products have been increased by 5,5 billion dinars, excises on tobacco products by 5 billion dinars, and the projection for revenues from other excise taxes has been raised by 1,5 billion dinars. Revenues from excises on petroleum products have increased mainly due to significantly better performance at the end of the previous year. This trend continues in 2024 for most excise products. Unlike the previous two years, when excise policy was used to mitigate inflationary pressures, in 2024, the policy returns to regular trends. Temporary reductions in excise taxes on petroleum products were lifted at the end of last year, and nominal excise rates were raised by 8%. Furthermore, an adjustment of excise rates in line with 2023 inflation was initially planned for 2024 but has been postponed by three months to help alleviate inflationary pressures. In 2024, a mechanism for refunding excise taxes on petroleum products used in agriculture will also be reintroduced. The increase in tobacco excise revenues is the result of a smaller-than-expected decline in consumption at the end of the previous year and consumption trends in 2024. When preparing the budget, a decline in consumption had been assumed, which had been ongoing for several years. However, market developments indicate that the expected decline in tobacco consumption has not materialized, as indicated by data for the first six months of 2024.

Revenues from other excise products (electricity, alcohol, and coffee) have been revised upwards due to better-than-expected excise revenue performance in all three categories compared to the plan.

Non-tax revenues have been revised upwards by 20,5 billion dinars, in line with the current trends in both regular and extraordinary non-tax revenues. Regular non-tax revenues include various fees, charges (including road tolls), fines, revenues from government bodies and organizations, and other revenues that are collected according to a regular pattern throughout the year, with some seasonal variations. The increase in projections for these revenues is largely due to higher interest income on term deposits and revenues from fees for the use of public goods. Extraordinary non-tax revenues include payments from public enterprises and agencies, dividends to the budget, revenues from the Agency for Deposit Insurance, emission premiums, interest, etc. This group of non-tax revenues has been revised upwards due to the realization of income that was not included in the original budget plan (surplus of the National Bank of Serbia, budget dividends, bond emission premiums).

As part of a comprehensive effort to improve the quality and transparency of government finance statistics, the statistical coverage of the general government sector was expanded 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 their funding sources, while in 2024, a number of extrabudgetary users (public agencies, scientific institutes, etc.) were included in the reporting system. As a result, this year, the statistical coverage of general government revenues and expenditures has increased by 20,2 billion dinars. On the revenue side, this pertains exclusively to non-tax revenues, while on the expenditure side, the majority of the increase relates to employee costs, with the remainder allocated to other categories. For comparability purposes, the original plan has been adjusted by the same amount, taking into account that this is not a reflection of better-than-expected revenue collection or over-expenditure on the expense side, but rather an expanded scope of reporting for the revenues and expenditures generated by these entities. In this way, and according to the planned dynamics of aligning general government sector coverage with international standards, the expansion not only increases the scope but also provides a more accurate representation of consumption by end-users. Some expenditure categories are now included under economic classifications that reflect where the expenditures were actually made.

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



The projected expenditures of the general government sector have been revised upwards by 232,1 billion dinars compared to the budget plan. The largest increase is in capital expenditures, while the most significant decrease pertains to budget loans, which were initially planned to provide intervention funds for the energy sector.

The projected expenditures for employees in 2024 have been revised upwards by 20,7 billion dinars. This increase is primarily due to changes in the calculation method for salaries in the education sector and the Ministry of the Interior. This estimate (as well as the original plan) includes salary expenditures financed from the own revenues of public agencies and institutes, amounting to 17 billion dinars. This change will, in accordance with the Budget System Law and specific fiscal rules, lead to a shift in the upper limit for the share of salary expenditures in GDP.

Expenditures for goods and services have been revised upwards by 34,1 billion dinars. Of this, 15 billion dinars pertains to an increase in expenditures for the Health Insurance Fund (RFZO), 15 billion dinars for the Republic budget, while the remainder of the increase is attributed to other levels of government. Also, expenditures resulting from the expanded coverage of the general government sector have been included, amounting to approximately 0,3 billion dinars.

The projected interest expenditures have been revised upwards by 1,7 billion dinars compared to the original plan.

Subsidy expenditures have been significantly revised upwards under this fiscal framework, by 33,7 billion dinars. The largest part of the increase concerns subsidies in agriculture, which have been raised by 17,6 billion dinars. This increase includes higher payments in livestock farming, beekeeping, and other sectors. A significant portion of the subsidy increase also relates to the energy sector, approximately 12 billion dinars, for the modernization of electricity consumption metering systems. The remainder of the increase pertains to tourism, environmental protection and sports. Due to the expansion of the general government sector coverage, this category of expenditures also includes 1,7 billion dinars.

Social protection expenditures have been revised upwards by 37,5 billion dinars compared to the original plan. A significant part of this increase relates to compensation payments to maternity leave recipients, following the Constitutional Court's decision on the method of calculating salary compensation during maternity leave. The effects of this decision have both a one-time impact for retroactive payments (from 2018) and a permanent effect on the increased benefits for future maternity leave recipients. Additionally, changes to the financial support regulations for families with children have been adopted, significantly increasing benefits for parental leave. Part of the increase is also due to higher execution of this expenditure category during 2023.

The estimate for other current expenditures in 2024 has been increased by 20,5 billion dinars compared to the original plan, primarily due to an increased forecast for the execution of this expenditure category at the Republic budget level. Due to the expansion of the general government sector, this category includes 1,7 billion dinars.

It is estimated that public investment realization will exceed the initial plan by 111,1 billion dinars. Most of this increase is related to infrastructure projects, such as the construction of road and railway infrastructure, as well as the procurement of equipment for the security and defense sector. According to estimates, capital expenditures will reach 7,4% of GDP in 2024. The inclusion of capital expenditures for public agencies and institutions has led to an increase in both the original and revised plans by 1,5 billion dinars.

The planned amount for budget loans, which were intended to fund the procurement of energy supplies, has been significantly revised downwards by 28,2 billion dinars. The expansion of the general government sector coverage has also impacted this category of expenditures, in terms of the reclassification of certain expenses, executed through the Development Fund, amounting to 2 billion dinars, to other categories.

Table 7. General government revenues, expenditures and fiscal result, January-August 2023 and 2024, in RSD bln

	I–VIII 2023	I–VIII 2024*	2024 plan/2023 execution nominal growth, in %
PUBLIC REVENUES	2.242,3	2.565,6	14,4
Current revenues	2.213,9	2.554,0	15,4
Tax revenues	2.003,1	2.311,9	15,4
Personal income tax	224,9	261,5	16,3
Corporate income tax	203,0	224,3	10,5
VAT	532,4	626,1	17,6
Excises	240,9	279,5	16,0
Customs	52,1	57,4	12,0
Other tax revenues	73,6	77,6	5,5
Contributions	676,2	785,4	16,2
Non-tax revenues	210,8	242,1	14,8
Grants	28,4	11,6	-59,1
PUBLIC EXPENDITURES	2.181,4	2.539,2	16,4
Current expenditures	1.846,8	2.180,8	18,1
Expenditures for employees	505,3	594,3	17,6
Purchase of goods and services	361,7	411,1	13,7
Repayment of interest	109,6	121,6	10,9
Subsidies	105,2	144,0	36,9
Social assistance and transfers	694,6	827,9	19,2
Of which: pensions	509,4	616,6	21,0
Other current expenditures	70,4	82,0	16,4
Capital expenditures	272,3	331,1	21,6
Net lending	49,4	9,7	-80,5
Activated guarantees	12,9	17,7	37,5
Fiscal result	60,9	26,4	

Source: Ministry of Finance
* Data for 2024 include own resources of extrabudgetary units (Public agencies and institutes).

State of arrears in payments (over 60 days)* of budget beneficiaries and mandatory social security insurance institutions by the end of September 2024 amounted to 5,7 RSD bln of which budget beneficiaries and "Putevi Srbije" PE amount for 4,5 RSD bln, while mandatory social security insurance institutions amount for 1,2 RSD bln.

Table 8. Payment arrears of budget beneficiaries and mandatory social security insurance institutions

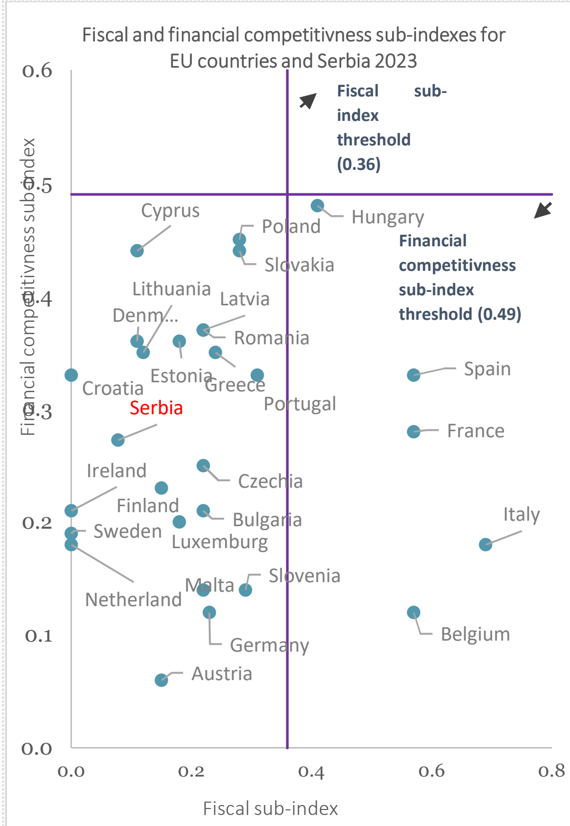
	31.12.2023.	30.9.2024.
Budget beneficiaries and "Putevi Srbije" PE	2,3	4,5
Mandatory social security insurance institutions	1,2	1,2
TOTAL	3,5	5,7

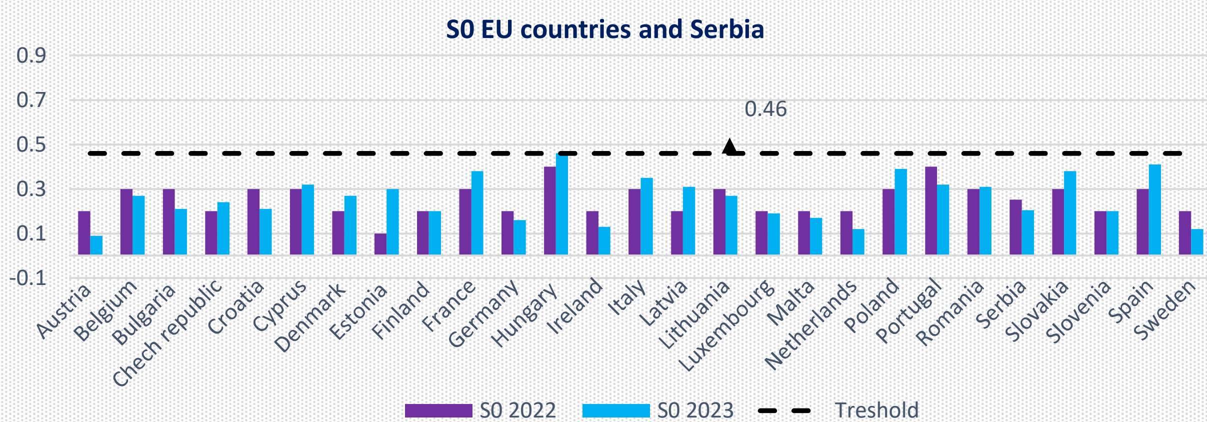
Source: Ministry of Finance; * In accordance with the definition used for IMF program monitoring.

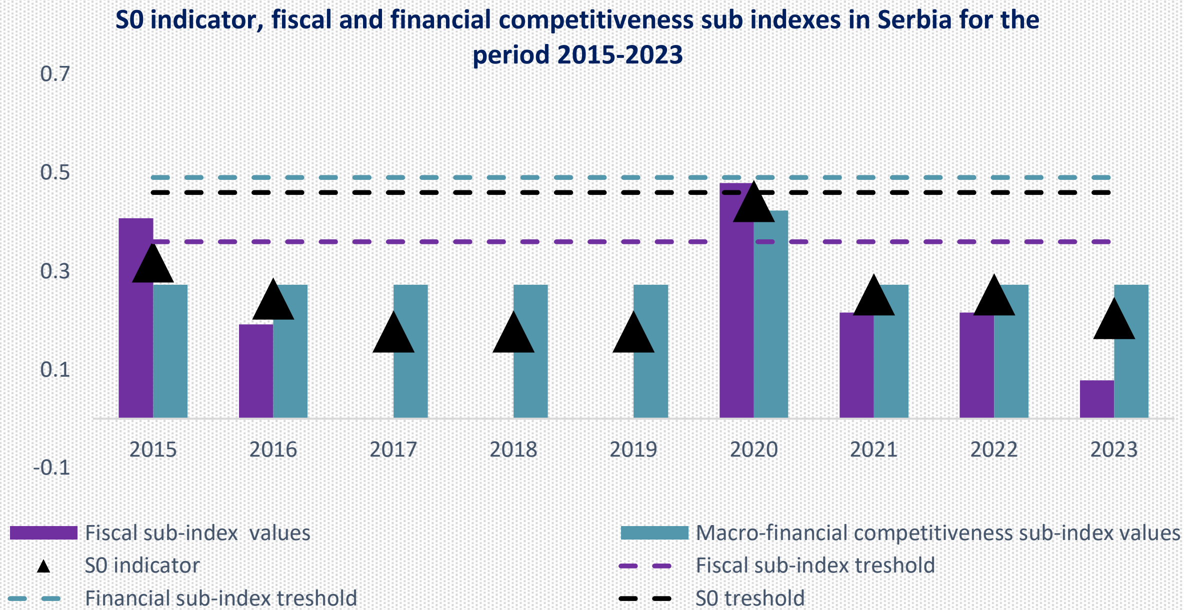
S0 indicator of short-term fiscal sustainability

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.







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.

3. Fiscal Projections for the Period 2025–2027

The main objectives of fiscal policy are focused on maintaining fiscal stability and reducing the share of public debt in GDP. Fiscal aggregate projections for the period from 2025 to 2027 are based on macroeconomic indicator projections for that 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 fiscal consolidation measures in the previous period, fiscal space was created, which allowed for substantial packages of measures as part of the fight against 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 a way that does not threaten the stability of public finances and the pace of public debt reduction, while maintaining the standard of living for the population, supporting economic development, and ensuring flexibility in the event of a stronger crisis impact.

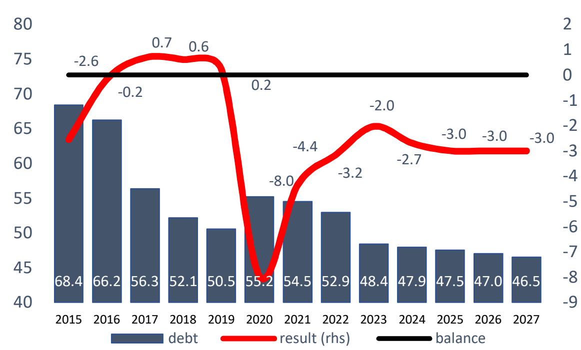
Table 9. Fiscal aggregates in the period 2023–2027, % of GDP

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 goals 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 in debt share is closely linked to the dynamics of the planned deficit as the main factor driving borrowing. Rising borrowing costs on the international financial market also call for caution in conducting fiscal policy.

General government fiscal result and public debt, % GDP



The expansionary fiscal policy during 2020 and 2021 mitigated the negative economic impacts of the pandemic. In 2022, the focus shifted to protecting the economy and population from the energy crisis, while in 2023, fiscal policy returned to a relatively stable framework. To support faster economic growth, activities to implement the development plan "Leap into the Future" began in early 2024. In the coming period, the fiscal impulse will focus on increasing public investments, emphasizing those that are priority and productive, while the reform of public investment management will further support high-quality investments.

On the revenue side, priority will continue to be given to further reducing tax burdens on wages and continuing the fight against tax evasion and the shadow economy.

The revenue projection for the period from 2025 to 2027 is based on:

- the projected trends of key macroeconomic indicators: GDP and its components, inflation, the exchange rate, foreign trade, employment, and wages;
- the current and planned changes in tax policy;
- the estimated effects of fiscal and structural measures in the upcoming period.

Table 10. 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

A slight downward trend in total public revenues, as a share of GDP, is expected over the observed period due to the projected structure of medium-term growth in the Serbian economy. The tax revenue projection assumes maintaining the current level of tax collection efficiency.

The predominant form of personal income tax is payroll tax, so changes in wage levels and employment are the main factors influencing this type of tax. Given that these two components are expected to grow faster than nominal GDP, a slight increase in the share of personal income tax in GDP is anticipated.

Two measures will impact payroll tax trends differently. The 13,7% increase in the minimum wage will raise wage levels and thus payroll tax revenue. Conversely, the 13,7% increase in the non-taxable threshold will have a negative impact of 10,1 billion dinars on payroll tax revenue. The overall revenue effect is estimated at 14,5 billion dinars, with a loss of 4,4 billion dinars in contribution collection.

Other types of personal income tax (tax on dividends, interest income tax, annual income tax, etc.) are expected to grow at a slower rate, aligned with the general economic activity trends. Contribution share trends in GDP follow a similar trajectory to payroll tax share trends, as the same wage and employment growth assumptions were used in the projection. Due to the expected faster wage growth, and consequently payroll taxes and contributions relative to nominal GDP, a rise in the contribution level relative to GDP is anticipated, with adjustments made for losses from the increased non-taxable threshold.

Corporate income tax revenue from 2025 to 2027 will depend on economic growth, the relative stability of the dinar exchange rate, and the general profitability of the economy. Revenue estimates from this source are uncertain due to economic factors and the potential use of tax credits or refunds and discrepancies between accounting and tax balance sheets. By 2027, corporate income tax collection is expected to stabilize in line with GDP trends.

The main determinant of VAT trends is domestic demand driven by household disposable income, which depends on wage, pension, social assistance, and other income trends, including remittances and credit activity from banks to households.

As with personal income tax, VAT projection risks for the coming period include the general uncertainty of the international economic environment, private-sector wage trends, economic activity growth, and the extent of the informal economy and efficiency in reducing it.

Efforts to improve tax collection and taxpayer control will continue, but the medium-term public revenue projection does not explicitly include effects from combating the informal economy. Room for further improvement in this area will be created through strengthening and modernizing the tax administration.

Excise revenue projections are based on the current excise policy and projected consumption of excisable products. In October 2023, there was an extraordinary excise increase of 8%, while regular adjustment with consumer price growth was applied in May 2024. In the coming years, no increase in oil derivative consumption is assumed due to caution.

For tobacco products within excise policy, a further anticipated market decline for tobacco products is expected. Excise revenue from alcoholic beverages, coffee, and electricity is projected according to existing consumption structures and current excise policy. As of 2026, an excise tax on natural gas used for heating and motor vehicle fuel is planned.

Customs revenue will stabilize at 0,9% of GDP in the coming period, projected in line with expected import, exchange rate, and consumption trends.

Stabilization in the share of other tax revenues in GDP is projected. The most significant tax revenue in this category is property tax, which accounts for about 70%. Nominal increases in this revenue may be expected through base expansion. However, increased collection through broader real estate coverage (i.e., expanding the tax base) is not included in the medium-term projections and represents a positive risk. Besides property tax, other local tax revenues include taxes on use, possession, and carrying of goods, among other forms. These are projected in line with inflation trends, as an inflation component is embedded in a significant portion of these tax types.

The spike in non-tax revenue in 2025 results from expected revenues from the 5G technology license auction, expected to take place in 2025, after which non-tax revenue's share of GDP is expected to decrease to 3,8%, which it will also be in 2027. The projected decrease in non-tax revenue share in GDP also accounts for the exclusion of non-structural, i.e., non-recurring revenues from the base year, primarily extraordinary non-tax revenues. The self-generated revenues of indirect users, included in the government sector for the first time in 2025, will offset the exclusion of some non-structural (non-recurring) non-tax revenues.

Extraordinary non-tax revenues are mainly one-off and somewhat uncertain regarding the amount and timing of payment. The largest portion of these revenues comprises extraordinary public enterprise and agency profit payments, budget dividends, receivable collections from the AOD, bond emission premiums, etc. Regular non-tax revenues include various fees, charges, fines, revenues from institutions, and other income generated in a regular cycle throughout the year. This type of non-tax revenue is indexed to the inflation achieved in the previous year or follows changes in the base value to which it applies and is therefore adjusted by projected inflation.

The process of the state's progress toward EU membership increases the availability of IPA and IPARD funds, which make up the predominant portion of grant revenues. Projected grant revenues also include EU sector budget support. Grant revenues are neutral concerning the result, as they equal expenses on this basis.

A responsible fiscal policy combined with strong macroeconomic performance in the past period has enabled the relaxation of wage and pension policies and a significant increase in capital investments as a key component of economic development. Special attention has been paid to improving the efficiency of public capital investment execution. The social component of the budget has been enhanced through better-targeted social assistance programs and increased allocations for healthcare and education functions. Wages and pensions together account for over 40% of expenditures at the general government sector level, and their stabilization is crucial for the sustainability of public finances.

Table 11. 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 allocated for wage growth in the coming period will increase moderately and in a controlled manner, taking into account their share in GDP. The increase in 2025 is mainly due to the expansion of the general government sector's scope. Article 27e of the Budget System Law provides a limit on employee expenses in the general government sector at 10% of GDP. Wage adjustments across all institutions (entities) within the general government sector are constrained by the defined share of these expenses in GDP. Furthermore, this limit is adjusted upward if the general government sector scope expands through the inclusion of new entities or downward if entities are excluded from the general government sector[4].

As of 2023, the fiscal framework for the general government sector has been expanded to include the own funds of healthcare institutions and secondary schools, with estimated employee expenditures from these funds at 0,2% of GDP. This expansion implies a correction of the maximum limit for general government sector employee expenditures to 10,2% of GDP. In 2024, the general government sector's scope further expanded to include several extra-budgetary entities (public agencies, institutes, and other entities), raising the maximum limit for employee expenditures to 10,4%, as wages in these institutions account for around 0,2% of GDP. Including the remaining own revenues and expenditures of indirect beneficiaries of the national budget within the general government sector scope in 2025 will increase the employee expenditure limit to 10,6% of GDP, given that these expenditures constitute about 0,2% of GDP. Therefore, the total wage mass in the general government sector will reach a slightly higher level than this year.

[4] The new entities can be included or excluded from the coverage of the general government sector based on statistical criteria and international standards that define them.

Including expenditures from the own funds of indirect beneficiaries will impact 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, with their GDP share gradually decreasing in the medium term.

Social assistance and transfers to the population represent the largest expenditure category in the state budget. The largest single item within this expense group, and the largest item among all expenditures, is pensions. From 2020 to 2022, pensions were adjusted using the "Swiss formula" to ensure both pensioners' standard of living and the sustainability of the pension and public finance systems. The Swiss formula entails indexation, i.e., pension increases equal to the sum of half the growth rate of the average wage and half the growth rate of consumer prices. Since 2023, a different pension indexation method has been applied, which also considers the share of pensions in GDP to further protect pensioners' standard of living. Pension indexation, and thus their trend, also determines the trajectory of total expenditure for population transfers and social protection concerning GDP share. In 2024, pensions were indexed to wage growth, while the Swiss formula will apply in 2025. Other forms of social benefits and transfers to the population will be adjusted in the coming period using prescribed indexation, current and planned policy changes in this area, and the projected number of beneficiaries.

During 2024, a temporary increase in subsidies as a percentage of GDP is observed, caused by additional subsidies for agriculture, energy, and transportation infrastructure. In the upcoming medium-term period, the nominal amount of subsidies is expected to remain relatively unchanged, while their share of GDP will be 2,2% by the end of 2027.

Other current expenditures include various disbursements, such as grants to associations, political parties, religious and sports organizations, fines, compensation for damages, etc. A declining trend in these expenditures is expected in the coming period.

In recent years, the efficiency of public investment execution has significantly improved despite challenges caused by the pandemic and energy crisis. In the coming medium-term period, increased investment levels in public infrastructure are anticipated following the decision to hold the Expo 2027 in Belgrade and the implementation of the "Leap into the Future - Serbia 2027" program. Major projects include road, rail, utility, and water infrastructure. In addition to transport infrastructure, funds have been allocated for additional capital investments in health, energy, environmental protection, education, culture, defense, and other essential state functions.

The overarching medium-term fiscal policy objective is to increase infrastructure investments across all levels of government. At the local government level, this primarily refers to investments in water supply and sewage infrastructure, waste management, local road infrastructure, and more.

In the medium-term fiscal framework, a balanced fiscal position for local self-governments is projected by the end of 2027. This means that, overall, all cities and municipalities have approximately balanced budgets. This projection is based on trends from the previous period in which municipalities and cities, as a whole, were mostly in surplus. This situation for all local self-governments is due to debt reduction in recent years. However, it does not prevent individual municipalities and cities from recording a deficit (in accordance with fiscal rules), depending on the fiscal position of each individual municipality and city.

The largest impact on budget loan movements came from funds aimed at mitigating the negative consequences of the energy crisis. In the coming period, this category’s share is expected to decrease to 0,2% of GDP.

Repayment of issued guarantees and payment of guarantees for commercial transactions represent obligations under the debt of public enterprises that the national budget has taken on, given that these enterprises could not fulfill them independently. In the previous period, these expenses were significantly reduced, and the repayment plan projects that these expenses will amount to 0,2% of GDP annually by 2027.

Structural Measures to Improve the Stability and Sustainability of Public Finances

After the turbulent year of 2022, marked by the crisis in Ukraine that introduced uncertainty into all economic flows, in 2023, the Republic of Serbia achieved macroeconomic results that proved to be more favorable than initially expected, despite numerous challenges from the 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 with the IMF.

Additionally, it has been agreed that a new arrangement—the Policy Coordination Instrument (PCI)—will be concluded by the end of the year. This non-financial arrangement will last for the next three years. The goals of the new arrangement will be: to preserve macroeconomic and financial stability, maintain credible fiscal policies enabling the continuation of public investments and social policies while keeping the downward trend of public debt as a percentage of GDP, further strengthening the energy sector and new investments in this area, and ensuring inclusive sustainable growth in the medium term based on structural reforms.

At the end of the current arrangement, it has been concluded that favorable macroeconomic trends in the Republic of Serbia are expected to continue, as reflected in the fact that in October of this year, for the first time, the Republic of Serbia was assigned an investment grade rating by S&P Global Ratings. The coming years are expected to see significant economic growth and continued large-scale capital investments in preparation for the specialized EXPO 2027 exhibition. Inflation has been brought back into the National Bank of Serbia's targeted corridor, and the fiscal deficit is projected to rise to 2.7% of GDP in 2024 (compared to the originally planned 2.1% of GDP), in order to finance additional needs in the areas of infrastructure, social policies, and defense. At the same time, public debt as a percentage of GDP will continue its downward trajectory in the medium term. The IMF expects the continuation of strong inflows of Foreign Direct Investment (FDI), which will be more than sufficient to cover the current account deficit, as was the case in the past decade.

Key macroeconomic risks relate to external demand, commodity prices on the global market, the deepening of geo-economic fragmentation, as well as the exposure of agricultural production and economic activity to the effects of climate change and extreme weather conditions. The Republic of Serbia has built sufficient reserves and mechanisms to defend against risks, primarily coming from the external environment. Foreign exchange reserves and government deposits are high, public and external debt are sustainable, and the banking sector is strong and liquid. All of this will be supported by the continuation of structural reforms and the implementation of responsible economic policies.

Fiscal rules were amended by the Law on Amendments and Supplements to the Budget System Law in December 2022. The component limiting the deficit in relation to the level of public debt has been postponed until 2029, and in the meantime, the targets set by the Fiscal Strategy will apply. This is necessary due to the new investment cycle in the medium term (the "Leap into the Future – Serbia 2027" program), which includes significant new investments in transport infrastructure, mining, energy, agriculture, healthcare, education, culture, environmental protection, regional development, security, etc. The program will carry out a comprehensive modernization of the state and increase the standard of living of citizens, while also ensuring higher GDP growth rates. The medium-term plan projects that the deficits of the general government sector will amount to 3% of GDP, which will ensure that public debt remains on a downward path (from 47.9% of GDP, as projected at the end of this year, to 46.5% of GDP at the end of 2027), well below the 60% of GDP threshold (including restitution obligations) as set by the fiscal rule. Special fiscal rules governing the growth of wages in the general government sector and pensions have been in force since 2023, and accordingly, salary and pension increases are planned for the 2025 budget.

Since fiscal rules apply to the general government sector, it was necessary to regulate the process and dynamics of including new entities within the coverage of the general government sector, in line with the specific sector classification methodology established by the Statistical Office of the Republic of Serbia (SORS), in accordance with the agreement between the SORS, the National Bank of Serbia (NBS), and the

Ministry of Finance. Additionally, fiscal rules for local government will continue to be applied in the same way as they were defined in 2010, when fiscal rules were first introduced in the Republic of Serbia.

In the coming period, reforms are expected to continue in the areas of employment, human resources management, and the public sector wage system. The medium-term fiscal policy goal is to maintain employee-related spending at a sustainable level, with an adequate workforce structure, to ensure higher quality public services. The existing employment system, managed by the Government Commission for granting approval for new hires and additional work engagements in public institutions, will continue to function during the transitional period until the new system becomes fully operational. In late 2020, amendments to the Budget System Law were adopted to allow institutions to hire new employees up to 70% of those who leave or retire. Commission approval is required if the number of new hires exceeds this threshold. The purpose of this measure is to provide greater flexibility in recruitment at the institutional level, in line with the needs for new staff. A limit of 1% increase in the total number of permanent employees compared to the end of 2020 has also been set. The central information system for calculating salaries of public sector employees, “Iskra,” currently includes all direct budget users, institutions in culture, judiciary, labor and social protection, and education (except higher education institutions), with healthcare institutions added at the beginning of this year. Local government units and their indirect users (preschools, cultural institutions, sports, 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 salary-related expenses, increased transparency, and better human resource management in the face of growing competition from the private sector, which negatively impacts the recruitment and retention of employees in the public sector, especially considering the attractiveness of salaries in the private sector. If these reforms are not implemented, there could be a significant loss of staff. Employees in the defense, security, and internal affairs sectors, as well as higher education institutions, will remain outside the system at this stage, with plans to include them by 2027. A report based on this system will be published, containing data on the number of employees and salary ranges, which will assist in guiding future public sector employment policies. The report will provide data on both the filling of systematic positions and salary levels by grade, specific job types, functions (government, education, healthcare, etc.), as well as other statistically significant information (median, maximum, minimum salaries, salaries by percentiles, historical data series), all of which will support reforms in this area.

The crisis in Ukraine, with its negative impact on the energy markets, has particularly highlighted the challenges faced by Serbia's energy sector. The identified problems can only be solved by implementing comprehensive reforms, which are a prerequisite for ensuring both energy security and fiscal and external sustainability. A priority is the restructuring of large state-owned energy companies to increase their efficiency and reduce budgetary support and fiscal risks resulting from their operations. Gradual price increases for energy (gas and electricity) were necessary to offset the high procurement costs influenced by external factors. In the case of EPS JSC, these measures, combined with favorable circumstances affecting hydroelectric potential and increased electricity exports, resulted in a significant profit for the company in 2023. Part of these funds was used to repay loans taken to support liquidity and investment. Since May 1 of this year, lower electricity prices for commercial customers (by about 20%) have been implemented, in line with electricity price trends in the region. A new methodology has been introduced to protect customers from sudden price shocks in the electricity market, while balancing price levels for both regulated and unregulated sectors to ensure overall revenue can cover total costs, including funds for new production capacities. At the same time, the policy of protecting energy-vulnerable customers continues, with approximately 170,000 beneficiaries covered in the previous heating season due to changes in criteria to allow more people to qualify for this protection. A similar number is expected this season. The status change of EPS to a joint-stock company in April last year aims to strengthen the company in the long term through professional management. The strategic restructuring plan will address numerous operational issues and define steps in the company's transformation, ensuring its stabilization and specifying reform priorities in management and organizational structure. In accordance with the principle of transparency, financial plans for EPS JSC and "Srbijagas" PE will be published, and the practice of publishing the top 20 debtors to these two companies on a monthly basis will continue. By the end of March 2025, an assessment of the adequacy of electricity distribution prices paid to Elektrodistribucija Srbije d.o.o. and the amounts paid by Elektrodistribucija to EPS JSC for network losses will be carried out. The Integrated National Energy and Climate Plan for Serbia for the period up to 2030, with projections up to 2050, was adopted in July this year, marking the beginning of a new phase in the development of Serbia's energy sector, aimed at enhancing supply security, increasing the share of clean energy sources, and improving environmental protection. The Integrated National Energy and Climate Plan is a key strategic document that defines strategic goals and the timeline for achieving them in the energy transition process. 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 up to 2050. Serbia's energy sector is undergoing 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. Gas price increases during 2022 and 2023 contributed to stabilizing the financial situation at "Srbijagas" PE. A new price system for part of the users with unregulated prices, which will be applied starting from the 2024–2025 heating season, has been completed. A 15% price reduction for the industry has been in effect since May 1 of this year. Among other things, the new methodology introduces new types of contracts and a larger margin to ensure funds for future investments. It is expected that, in the coming period, there will be no need for budgetary support for liquidity for these companies. Next year, the revised and updated plan for priority investments in energy is expected to be adopted, defining the investment needs in this area for all projects valued over 20 million euros, including project evaluations, their contribution to the green transition, financing sources, internal rate of return assessments, etc.

With the support of the European Bank for Reconstruction and Development (EBRD), the Government has adopted the State Ownership and Corporate Governance Strategy for Public Enterprises Owned by the Republic of Serbia for the period 2021–2027 as a unified act providing a strategic vision and guidelines regarding ownership management goals, financial and public policy objectives, and principles of corporate governance and oversight in line with international standards and best practices. In April of this year, the Action Plan for implementing this strategy was adopted. The Law on the Management of Public Enterprises Owned by the Republic of Serbia began to be applied in September 2024 and came into force in September 2023.

The strict limitation on issuing state guarantees for liquidity support continues. In 2024, aside from one new state guarantee for a loan to EPS (Serbian Electric Power Company), no state guarantees were issued for supporting liquidity in public enterprises or any company from the portfolio of the former Privatization Agency. The issuance of guarantees will continue for project loans provided by multilateral financial organizations to support the investment and reform agenda.

For companies that are strategic entities from the portfolio of the former Privatization Agency, the solution will either be through privatization tenders or through bankruptcy. The budget has allocated sufficient funds to support PEU "Resavica" PE in a transparent manner, ensuring that in the future there will be no further accumulation of arrears in payments to EPS. The company faces the challenge of finding a solution for economically unsustainable mines that are nearing the depletion of remaining coal reserves, as well as a plan for rationalizing production and operations in parts of the system that, based on analysis, show potential for economic sustainability, with the possibility of privatizing certain parts of the company. If privatization is not viable, the company will be managed in accordance with the new Law on the Management of Economic Entities Owned by the Republic of Serbia.

Improving public finance management is necessary, not only to support 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 Finance Management Reform Program for the period 2021–2025 was adopted in June 2021. The process of strengthening the significance of the medium-term budgetary framework continues, in line with the Action Plan for Improving the Medium-Term Budgetary Framework, adopted in September 2023. The goal is to make medium-term budgeting more effective, 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, serving as a starting point for discussions with line ministries. These ministries are increasingly familiar with this budgeting approach, which improves the quality of their assessments and projections, thus enhancing the overall budget process. One of the new features is the introduction of so-called "green budgeting." The green budgeting methodology has been introduced for the national budget for the first time in the upcoming budget cycle.

The System for Preparation, Execution, Accounting, and Reporting (SPIRI) is an information system that uniquely supports all activities of the Ministry of Finance and the Treasury Administration regarding the budget of the Republic of Serbia, simplifying the work of users and enabling more efficient management of the public finance system. The system includes all direct budget users as well as indirect users such as the Ministry of Culture, Ministry of Labour, Employment, Veterans and Social Affairs, and the Administration for Enforcement of Criminal Sanctions, as well as the Ministry of Sports, Ministry of Economy, Ministry of Internal Affairs, and Ministry of Education, which were not part of the previous system (ISIB), which SPIRI replaced at the beginning of 2023. Starting next year, the system will include all indirect users: primary schools, universities, local governments, the Autonomous Province of Vojvodina and indirect local government users. This required extensive training for future users, and additional support will be needed during the initial implementation phase in the upcoming year. The system will soon integrate a so-called green annex, as part of green budgeting, which will also apply to green projects of local government units, which will be included in the system starting next year. These improvements will significantly enhance the quality of public finance reporting throughout the year, improve data quality due to expanded coverage, increase budget process transparency, and ensure compliance with the budget calendar.

In order to improve the public investment management system, especially in light of the development plan "Leap into the Future 2027," which includes over 320 projects worth a total of 18 billion euros, the Ministry of Finance initiated a process in 2023 for adopting new legal regulations that comprehensively and uniformly govern the procedures for defining goals, preparing and planning resources, objective evaluation, selection, and implementation of capital projects, as well as their subsequent evaluation and reporting on the performance of completed projects.

The new legal regulations include the Regulation on Capital Projects and four accompanying rules enacted under this regulation, which further detail its application and significantly facilitate the project cycle for all involved actors. This represents another step towards achieving the goal defined as the single project pipeline. The development of the new legal framework followed a thorough analytical process assessing the practical application of the previous legal framework to address identified shortcomings and inconsistencies, while also incorporating normative solutions that had been successfully applied in practice. Based on this analysis, the provisions of the Regulation on Capital Projects were designed to clearly define the rights and obligations of all stakeholders during the project cycle. The new legal framework specifies the competence of the Ministry of European Integration in cases where a capital project is financed or co-financed by the European Union funds. Additionally, for a more detailed analysis of capital projects financed or co-financed by EU funds or by other countries or international institutions, a Subcommittee was established as an auxiliary body of the Commission for Capital Investments. This Subcommittee preliminarily reviews and monitors the implementation of such projects. The Regulation also introduces criteria for the classification and division of capital projects, taking into account the estimated costs, funding sources, and the level of government implementing the project. The aim is to ensure that all capital projects with potential significant implications at the national, provincial, or local levels are uniformly proposed, evaluated, selected, and tracked. The new classification of capital projects will allow for a more detailed and comprehensive analysis of provincial and local capital projects. In order to establish a comprehensive and unified system for managing public investments, the Regulation on Capital Projects also mandates the registration and monitoring of capital projects of particular significance to the Republic of Serbia, as well as projects implemented through public-private partnerships or concessions.

The provisions of the Regulation on Capital Projects also define that the Commission for Capital Investments and the Subcommittee represent working bodies established by the Government. Accordingly, the Government adopted decisions to form the Commission for Capital Investments and the Subcommittee for Capital Investments. Following this, on February 8, 2024, a joint constitutive session of the Commission for Capital Investments and the Subcommittee was held. During the constitutive session, the Rules of Procedure for the Commission for Capital Investments were adopted, which regulate the working and decision-making procedures of the Commission, as well as those of the Subcommittee. This step created the necessary conditions for the smooth functioning of these working bodies.

In addition, at the constitutive session, a unified list of project ideas was adopted, which will be proposed for financing from the Investment Framework for the Western Balkans. The list includes eight projects, primarily in the areas of energy, specifically sustainable energy, environmental protection, and infrastructure projects in the field of railway infrastructure. Among the adopted projects are the construction and equipping of the BIO 4 campus, the Niš-Velika Plana-Batajnica-Horgoš main gas pipeline project with compressor stations, the revitalization and expansion of the fourth unit of the Potpeć Hydroelectric Power Plant, the integration of a solar-thermal plant into the district heating system of Novi Sad, a broadband network project for rural areas, as well as the project to accelerate railways in the Balkans through commercialization. In terms of environmental protection, projects related to the closure and remediation of municipal unsanitary landfills and the construction of recycling yards in the Novi Sad region, as well as the closure and remediation of unsanitary landfills in cities and municipalities in six regional centers for waste management, are of exceptional importance. Based on the analysis of these projects, it can be concluded that they are significant for the continuous and sustainable improvement of the structure of the Serbian economy.

Parallel to the work on improving the legal framework, work was underway on upgrading the Centralized Public Investment Management Information System (PIMIS), which has been adapted to the new legal framework. An information system was created that will enable the comprehensive and transparent implementation of the project cycle defined by the Regulation on Capital Projects, with the goal of effective and efficient public funds management. As of this edition of the Fiscal Strategy, its integral part includes a table showing all public investments for projects exceeding 20 million euros (excluding defense and security). The data includes: the total amount of funds spent to date, the estimated funds spent for the current year, the budgeted amount for the current and next two years, and the total estimated project amount. All of this data will also be available in the SPIRI system. Organizational changes within the Ministry of Finance led to the establishment of a unit that exclusively deals with public investment management. This sector currently monitors around 150 capital projects, of which about 60 are in the preparation phase and around 90 are in the implementation phase.

Reforms in the area of public procurement management are also very important given the significant importance and value of public investments. The current Public Procurement Law, prepared with EU support, is aligned with EU legal standards and aims to improve competitiveness and transparency in procedures. In this regard, it is necessary to ensure regular public reporting through the Public Procurement Administration on all procurements that are exempt from the regular procurement regime under this law, as well as specifying the basis for such exemptions. In the future, continuous alignment of the entire public procurement framework with EU legal standards must be ensured. Additionally, it is necessary to ensure that all procurement transactions in the public sector are conducted through the e-Procurement portal, with efforts to create conditions for increasing the number of offers in each procedure. In this regard, efforts are being made to improve the functionality of the Public Procurement Portal to facilitate the implementation of the provisions of the Public Procurement Law. Training is also being conducted for public procurement officers, as well as for police officers regarding the monitoring of public procurement and the most common irregularities in this area.

The new Action Plan for the Transformation of the Tax Administration for the period 2021–2025, adopted in May 2021, is being successfully implemented. It defines strategic guidelines and timelines for activities aimed at creating a modern tax administration that will provide better and more comprehensive services to taxpayers, improve revenue control and collection, and enhance the fight against the gray economy, alongside reforms and modernization of inspection oversight. In May 2022, a new fiscalization model (e-fiscalization) was introduced, followed by the first round of audits. The new system contributed to reducing discrepancies among taxpayers and a decrease in the number of negative audit opinions. The electronic invoicing system (e-invoicing) was the next step, implemented in early 2023. A tender for the procurement of a new information system, with the support of the World Bank, has been reinitiated. The goal is to improve efficiency, particularly in human resource management and data and documentation processing, immediately after implementation. Continuous monitoring and analysis of VAT gaps and profit tax gaps are being conducted, with an ongoing analysis of data deficiencies and adjustments to analytical tools. Preliminary results suggest that the VAT gap has significantly decreased 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 Establishing the Origin of Property and Special Tax and the formation of a special organizational unit within the Tax Administration, conditions have been created for cross-analysis of individuals' assets and income, and 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 employment procedures remain priorities to ensure an adequate number of employees. The number of employees in the Tax Administration has significantly decreased in recent years. With the upcoming wave of retirements and considering the transformation plan, which implies a shift toward working with higher qualifications, it is imperative to employ an adequate number of highly qualified staff in time, which also requires appropriate salaries. In this regard, a major recruitment campaign in the Tax Administration will be launched in January 2025, supported by significant changes in the job classification system and an easier hiring process.

The improvement of the quality and transparency of government finance statistics is being carried out 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 Agreement on Cooperation in the field of national accounts statistics of the government sector and related statistics. In April 2018, the Statistical Office of the Republic of Serbia published a list of institutions that make up 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, which was developed in cooperation with the National Bank of Serbia and the Ministry of Finance. Since mid-2021, the Debt Management Department has been publishing quarterly Maastricht debt data, prepared by the National Bank of Serbia in accordance with ESA 2010. A project is underway in cooperation with the IMF with the goal of establishing a system within the Treasury Department, as the central information system and comprehensive database, that will allow for 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 in its scope. Since

May 2009, the Republic of Serbia has been a member of the International Monetary Fund's General Data Dissemination System (GDDS), and since 2015, it has been a member of the enhanced General Data Dissemination System (e-GDDS). The e-GDDS replaced and inherited the GDDS, and it represents a structured system aimed at improving the quality and dissemination of data in the economic, financial, and socio-demographic statistics of IMF member states. In cooperation with the Statistical Office of the Republic of Serbia, the National Bank of Serbia, the Ministry of Finance, and the Belgrade Stock Exchange, a National Summary Data Page (NSDP) for the Republic of Serbia was developed within the e-GDDS framework, which has been posted on the Statistical Office's website. The page applies the standardized system for data and metadata exchange (Statistical Data and Metadata Exchange – SDMX) in an effort to serve as a unique publishing tool for the main macroeconomic and financial data of the Republic of Serbia. This year, the Statistical Office of the Republic of Serbia carried out a major benchmark revision of national accounts, during which, among other things, methodological improvements accumulated after 2019 in the area of macroeconomic statistics and national accounts were implemented. Given the progress achieved in national accounts and the quality of fiscal statistics, consideration will be given to applying for the Special Data Dissemination Standard (SDDS).

4. Fiscal Risks

The subject and meaning of the term

Fiscal risks refer to the exposure of public finances to certain circumstances that may cause deviations from the projected fiscal framework. Deviations may occur in revenues, expenditures, fiscal outcomes, as well as in the assets and liabilities of the state, compared to what has been 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 effects (e.g., maintaining stability in good times to ensure fiscal policy has room for an adequate response during periods of recession or crisis, securing insurance against natural disasters, etc.). Internal risks, or their materialization, are a result of public sector activities, and the likelihood of their occurrence can be influenced by Government decisions and policies.

Identifying the major fiscal risks that may affect state finances in the medium term is a starting point for better management of fiscal risks. Detailed data is available for certain fiscal risks, making it easy to identify whether, and with what probability, they will affect fiscal aggregates in the medium term. For others, there is not enough detailed data, but merely identifying them raises awareness of the possibility that they may lead to deviations from the planned fiscal framework in the near future.

The Ministry of Finance plays a leading role in managing fiscal risks. As the key institution for medium-term macroeconomic and fiscal planning, budget formulation, and management, the Ministry of Finance must also take the lead in establishing the institutional and legal framework, as well as in building the capacities necessary for managing fiscal risks. The Fiscal Risk Monitoring Sector, the organizational unit responsible for fiscal risk management within the Ministry of Finance, was established with the aim of strengthening the legal regulations and methodological framework, building capacity, and developing the technical tools and models necessary for monitoring and assessing fiscal risks. The goal of these activities is to identify and assess risks and propose exit strategies, as assistance to the Government in preserving the stability of public finances, which is a key objective of fiscal policy and one of the essential prerequisites for dynamic economic growth.

In order to implement the process of monitoring fiscal risks, 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 the operations of state-owned enterprises;
2) Methodology for monitoring fiscal risks to the Republic of Serbia's budget arising from the responsibilities of local government units;
3) Methodology for monitoring fiscal risks from judicial proceedings;
4) Methodology for monitoring fiscal risks caused by natural disasters.

Main Fiscal Risks for 2023–2024

In the fall of 2021, disruptions occurred on global energy markets. The energy crisis was an additional layer to the already existing crisis triggered by the COVID-19 pandemic. Due to increased demand driven by the post-pandemic economic recovery and supply issues—specifically insufficient supply and inadequate stockpiles—natural gas prices reached historic highs. This spurred demand for other energy sources, whose prices also surged dramatically. High prices for other energy commodities, along with reduced electricity production from wind power plants in Europe and high prices for CO_2 emission permits, led to a rise in electricity prices, also reaching historic peaks.

It has been repeatedly demonstrated that the rise in the price of key energy sources, such as oil and gas, leads to an increase in the prices of other commodities on the market. This has been primarily influenced by the situation and crisis in Ukraine, which brought the issue of energy security and

European dependence on Russian fossil fuels to the forefront as one of the key challenges. This sequence of events caused the prices of electricity and natural gas worldwide to reach levels significantly higher than usual. The energy crisis inevitably spilled over into Serbia, with energy companies, primarily Elektroprivreda Srbije (EPS) and ’’Srbijagas’’ PE, being the most affected.

Due to the high electricity prices in the previous period, which endangered the operations of business entities in the Republic of Serbia, as well as energy companies involved in the transmission and distribution of electricity (particularly in relation to the procurement of electricity to cover losses), it was recommended that Elektroprivreda Srbije supply these entities at prices lower than the market rate. As a result, Elektroprivreda Srbije was exposed to financial risk, as the risk of price increases was fully transferred to the company. In the second half of 2023, energy prices on global markets stabilized, which led to the stabilization of the energy sector in the Republic of Serbia.

The Republic of Serbia continued, in 2023, to implement financial and strategic measures to ensure the supply of key energy resources. In addition to this, extra efforts were made to continue the transformation of companies in the energy sector. On April 6, 2023, the legal status of Elektroprivreda Srbije (EPS) was changed 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 positive hydrological developments contributed to Elektroprivreda Srbije finishing 2023 with a historic net profit of 112,4 billion dinars. This result was partially used to repay liquidity loans and fund investment projects, which will have a positive effect on the company’s future operations. Although positive progress has been made in its operations, the main challenge for the upcoming period is the continuation of ongoing reforms, as well as the energy transition that will enable the gradual shift to an increased share of energy production from renewable sources. This will certainly require financial consolidation and significant investment in infrastructure. Another important entity for energy stability is Elektrodistribucija Srbije LLC (EDS), which has been operating independently since 2021 (prior to 2021, it was part of EPS). In the previous year, 2023, EDS’s basic revenues from grid fees were insufficient for sustainable operations due to high electricity prices used to cover losses. As a result, the Republic of Serbia intervened with short-term, interest-free loans. The high electricity prices and other circumstances in the energy sector affected the operations of this company, causing it to end 2023 with a negative result of 1 billion dinars.

Although EDS faced numerous challenges during the previous period, a positive aspect of its operations is the significant investment in infrastructure. In the first half of 2024, the Reconstruction of the Distribution Network project was completed, replacing over 34.000 wooden utility poles with concrete ones. The Smart Metering project, partly funded by EU grants and loans from the EBRD and EIB, continues to be implemented, as well as the Automation of the Medium-Voltage Distribution Network project, carried out in cooperation with Schneider Electric. These previously mentioned investment projects will address one of EDS's main structural issues, significantly improving distribution networks and helping reduce network losses. The Republic of Serbia has recognized the challenges facing this economic entity and, for 2024, has planned continued support in the form of guarantees amounting to 32,7 billion dinars.

As for ’’Srbijagas’’ PE, unfavorable market trends in 2021 and 2022, along with the financial position of the natural gas distributor, led the Republic of Serbia to participate in financing the procurement of reserve gas quantities and co-financing regular gas purchases during the previous period. Through a proactive approach in 2022 and 2023, additional natural gas storage capacities were secured in Hungary, from where stored gas was intermittently withdrawn during the 2022/2023 and 2023/2024 winter seasons. The remaining quantities will provide additional supply security during the 2024/2025 winter season.

Global energy price trends also affected Srbijagas PE, prompting it to adjust the gas selling prices several times during the 2022/2023 period, which contributed to improving the financial position of the public enterprise. It is also important to note that, at the end of 2023, ’’Srbijagas’’ PE signed a natural gas supply agreement with the Azerbaijani state oil company SOCAR, a significant producer and exporter of fossil fuels, primarily natural gas. This agreement continues the diversification of supply sources, adding extra security in case of disruptions in the global market. For 2024, further investment in gas transportation and distribution activities is planned, including the continued development of the distribution network and strengthening the transport capacity of gas pipelines in the Republic of Serbia. The effects of the global energy crisis also impacted Putevi Srbije PE, which has been identified as carrying high fiscal risk due to rising prices of essential energy sources and raw materials required for its core operations. This could further deteriorate the financial position of the public enterprise, thereby increasing its reliance on the state budget. In order to mitigate the impact on the budget, a series of measures were adopted by the Republic of Serbia during 2023. To avoid negative effects and their impact on the state budget, Putevi Srbije PE increased toll rates by 14% as of April 1, 2023, and by 8% for vehicles equipped with TAG devices. Additionally, a new adjustment of toll rates is planned for mid-2024.

A similar situation has been identified for Koridori Srbije LLC, due to high capital investment expenditures under the responsibility of this company. Consequently, changes in the prices of basic raw materials could significantly increase the costs of implementing projects and heighten reliance on the state budget to continue the execution of these projects.

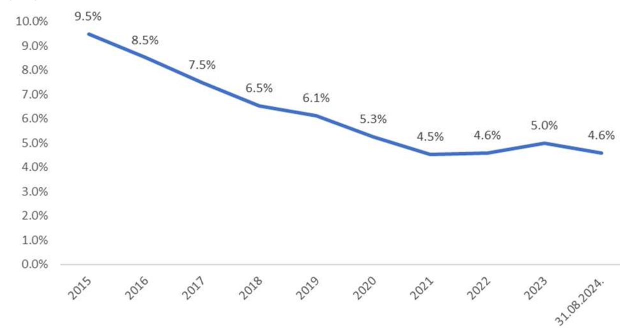
Analysis of fiscal risks

Public guarantees

Guarantees issued by the state affect the level of public debt, as well as the deficit, if the state assumes the repayment of a loan instead of the original debtor. According to the definition established by the Law on Public Debt, issued guarantees are considered part of contingent liabilities and are included in the total public debt. As of August 31, 2024, the total public debt of the government sector amounted to 4.484,7 billion dinars, which represents 46,7% of GDP. Of this amount, direct liabilities amounted to 4.249,0 billion dinars (44,2% of GDP), contingent liabilities were 205,7 billion dinars (2,1% of GDP), and non-guaranteed other debt of the government sector amounted to 30 billion dinars (0,3% of GDP).

The limitations placed on the issuance of new guarantees over the past 10 years have been effective, as the share of contingent liabilities in total public debt has been decreasing year by year. Contingent liabilities (guarantees issued by the Republic of Serbia) accounted for 9,5% of the government sector debt at the end of 2015, while at the end of 2023 they represented 5,0% of the government sector debt. As of August 31, 2024, contingent liabilities accounted for 4,6% of the government sector debt.

Share of indirect debt in the government sector debt (%)



When analyzing the structure of guaranteed debt by users, it is observed that in 2024, the leading position has been taken by " Elektroprivreda Srbije " (EPS) JSC. In the previous two years, the highest guaranteed debt was held by "Srbijagas" PE. The share of " Elektroprivreda Srbije " in total indirect liabilities is 32,7% (67,2 billion dinars), while "Srbijagas" PE accounts for 32,2% (66,2 billion dinars), and "Roads of Serbia" JSC represents 10,0% (20,5 billion dinars).

Table 12. Guaranteed debt status by users, billion dinars

User	2020	2021	2022	2023	31.08.2024
"Elektroprivreda Srbije" JSC	43,0	42,7	40,6	58,5	67,2
"Srbijagas" PE	23,1	27,7	55,1	79,1	66,2
Railway Enterprises (Total)	35,2	31,7	31,2	26,3	23,3
"Putevi Srbije" PE	33,7	30,1	26,5	23,0	20,5
Local Government Units (Cities and Municipalities)	23,0	21,1	19,2	17,3	16,1
Others	9,5	9,3	8,8	8,6	12,4
Total:	**167,3**	**162,5**	**181,4**	**212,8**	**205,7**

Source: Ministry of Finance

The status of guaranteed debt for the Railway Companies ("Serbian Railways" JSC, "Serbian Railways Infrastructure" JSC, "Srbijavoz" JSC, and "Srbija Kargo" JSC) has fluctuated significantly from 2020 to the present. In 2020 and 2021, "Serbian Railways" JSC held the leading position in terms of guaranteed debt, while since 2022, the position has been taken over by the railway company "Srbijavoz" JSC due to an EBRD loan intended for the procurement of rolling stock and the reconstruction and modernization of regional depots.

Looking at the status of debt secured by state guarantees to creditors as of August 31, 2024, the largest exposure is to commercial banks (both domestic and foreign debt) amounting to 74,0 billion dinars, or 36,0% of total indirect liabilities, followed by the European Bank for Reconstruction and Development (EBRD) with 58,6 billion dinars (28,5%), obligations to the European Investment Bank (EIB) amounting to 43,6 billion dinars (21,2%), the German Development Bank with 15,6 billion dinars (7,6%), and the Japan International Cooperation Agency (JICA) with 11,2 billion dinars (5,4%).

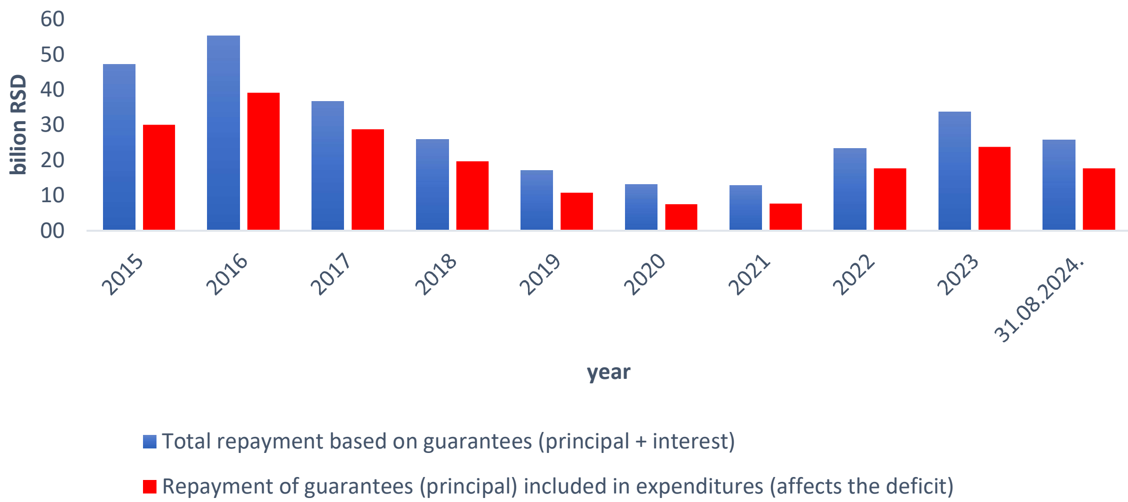
Table 13: Guaranteed debt status by creditors, billion dinars

Creditors	2020	2021	2022	2023	31.08.2024.
Business banks' loans	25,4	30,8	58,2	82,8	74,0
European Bank for Reconstruction and Development (EBRD)	47,3	40,1	39,4	54,6	58,6
European Investment Bank (EIB)	66,1	59,7	53,5	47,9	43,6
German Development Bank	9,5	7,9	9,3	10,5	15,6
Japan International Cooperation Agency (JICA)	10,5	16,0	17,1	13,7	11,2
Others	8,5	8,0	4,0	3,3	2,7
Total	**167,3**	**162,5**	**181,4**	**212,8**	**205,7**

Source: Ministry of Finance

The principal amounts related to guaranteed loans serviced from the budget of the Republic of Serbia in 2023 amounted to 27,2 billion dinars (compared to 21,3 billion dinars in 2022), of which 23,8 billion dinars affects the deficit. Accounting methodology, up until 2014, did not include guarantee repayments as part of expenditures. Since 2014, part of these expenses has been included in the budget expenditures. Regardless of the budgetary and accounting presentation, the debt paid by the state on behalf of the main debtor increases the overall borrowing requirements.

Repayment arising from guarantees settled from the budget of the Republic of Serbia, billion RSD



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

Indirect debt, the inclusion of part of the guarantee repayments in the budgetary expenditures, and the resulting increase in the deficit have raised awareness of the growing fiscal risks arising from the issued guarantees. As a result, actions have been taken to limit the issuance of new guarantees. According to the amendments to the Law on Public Debt, Article 16, Paragraph 3, the Republic of Serbia can issue guarantees only if the loan for which the guarantee is provided is used to finance the debtor's capital investments. The Republic of Serbia cannot issue guarantees if the loan for which the guarantee is provided is used to finance the debtor’s current operations or liquidity needs. Amendments to the Law on the Development Fund of the Republic of Serbia have prevented the further issuance of counter-guarantees for guarantees issued by the Development Fund of the Republic of Serbia.

In addition to the limitations on issuing state guarantees, a key step in reducing and mitigating fiscal risks in this regard is the reform of state-owned enterprises, the beneficiaries of the guarantees, to ensure their ability to repay their loans. A larger number of companies, which are also the biggest users of guarantees, are undergoing restructuring, or implementing restructuring plans developed in cooperation with international financial institutions.

The Law on the Budget of the Republic of Serbia for 2024, Article 3A, plans to issue guarantees up to a maximum of 405 billion dinars. Article 42 of the Law on the Budget of the Republic of Serbia allows for an increase in the volume of issued guarantees to preserve and strengthen financial stability or to prevent or mitigate the consequences of extraordinary circumstances that could endanger human life and health or cause significant damage, up to 20 billion dinars, upon the proposal of the ministry responsible for finance.

Table 14: Guarantee issuance plan for 2024, billion dinars

Users	Number of projects	Domestic and foreign commercial banks	European Investment Bank	Asian Infrastructure Investment Bank	European Bank for Reconstruction and Development	EUROFIMA	KfW	AFD	Total by Enterprises
"Elektroprivreda Srbije"JSC	9	297,1		15,9	7,9		3,5		324,4
"Elektrodistribucija Srbije" LLC	3	11,5	21,2						32,7
"Srbijagas" PE	1	27,1							27,1
"Srbijavoz" JSC	2				3,0	10,6			13,6
"Elektromreža Srbije" JSC	2						4,1	1,4	5,5
"Srbija Kargo" JSC	1	1,8							1,8
Total by Banks	**18**	**337,4**	**21,2**	**15,9**	**10,9**	**10,6**	**7,6**	**1,4**	**405**

Source: Budget law of the Republic of Serbia for 2024.

According to the Law on the Budget of the Republic of Serbia for 2024, of the total planned guarantees, it is foreseen that the "Elektroprivreda Srbije" JSC will be provided guarantees up to 324,4 billion dinars (80% of the total planned guarantees) to support 9 investment projects, the most significant of which include the construction of self-balancing solar power plants with a capacity of 1 GW and battery energy storage systems (224,2 billion dinars), the Upper Drina Hydroelectric Plant – Buk Bijela (29,5 billion dinars), the revitalization of the Đerdap 2 Hydroelectric Plant (25,1 billion dinars), the construction of the Klenovnik solar power plant (15,9 billion dinars), and others.

"Elektrodistribucija Srbije" LLC plans significant investment in 2024. According to the Law, guarantees up to 32,7 billion dinars (8,1% of the total planned guarantees) are foreseen for projects including the Improvement of the Distribution Network (11,8 billion dinars), the Automation of the Medium Voltage Distribution Network (11,5 billion dinars), and the Smart Metering Project (9,4 billion dinars).

"Srbijagas" PE plans to continue investing in the distribution network in 2024. Guarantees are planned for capital investments in the development of the distribution network, including metering stations, as well as the rehabilitation of the gas pipeline system and strengthening the transportation capacities of gas pipelines in Serbia, totaling 27,1 billion dinars (6,7% of the total planned guarantees).

Structural reforms of state-owned enterprises, enhancing their competitiveness and financial sustainability on the one hand, and the limited and targeted issuance of new guarantees on the other hand, will contribute to reducing fiscal risks in this regard and maintaining expenditures within the planned or projected frameworks in the medium-term period ahead.

State-Owned Enterprises (SOEs)

The operations of state-owned enterprises represent a significant source of fiscal risks, both on the revenue side (budget income) and the expenditure side. State-owned enterprises face numerous issues in their operations, ranging from the collection of receivables to regularly meeting obligations to creditors, the state, and employees, among others. As the founder and sole owner, the state is responsible for their operations and is their primary support in cases of illiquidity. There are several channels through which fiscal risks related to the operations of state-owned enterprises may materialize. The largest, but not the only, risk is the state guarantees given for loans to state-owned enterprises. The sustainability, efficiency, and profitability of state-owned enterprises affect budget revenues, particularly the amount of profit they contribute to the budget. The quality of products and services provided by state-owned enterprises influences the efficiency and profitability of the private sector and, ultimately, the tax revenues they generate for the state budget.

The Fiscal Risk Monitoring Department oversees the operations of 36 strategic enterprises, which are majority-owned by the Republic of Serbia and represent a significant segment of the Serbian economy. These enterprises employed around

66,000 people as of the end of the second quarter of 2024. Their operations are governed by the Law on Public Enterprises, adopted in February 2016, the Law on the Management of Business Entities Owned by the Republic of Serbia, adopted in September 2023, and sector-specific laws that define particular areas not covered by the Law on Public Enterprises (such as the Energy Law, the Law on Business Entities, etc.).

Table 15. Overview of the largest enterprises by total revenue at the end of 2023, billion dinars

Public Enterprises	Sector	Number of employees	Total revenue	Total expenses	Net result
"Elektroprivreda Srbije" JSC	Energy	19.595	513,5	385,8	112,4
"Srbijagas" PE	Energy	910	181,9	168,3	12,0
"Elektrodistribucija Srbije" LLC	Energy	8.686	116,9	117,9	-1,1
"Putevi Srbije" PE	Construction	2.190	64,2	71,0	-6,8
"Elektromreža Srbije" JSC	Energy	1.391	43,2	39,5	3,0
"Pošta Srbije" PE	Transport and Storage	14.307	35,3	31,5	3,2
"Serbian Railways Infrastructure" JSC	Transport and Storage	5.716	18,2	25,6	-7,2
"Jugoimport-SDPR" PE	Wholesale and Retail Trade	355	17,6	16,9	0,6
"Srbija Kargo" JSC	Transport and Storage	2.089	12,7	14,4	-1,7
"Srbijasume" PE	Agriculture, Forestry, Fishing	3.168	11,4	10,5	0,7
Other 26 enterprises	Other	8.526	42,4	43,1	-1,2

Source: Financial reports for 2023 (APR)

State-owned enterprises monitored by the Fiscal Risk Monitoring Department operate in various sectors. If we look at the number of enterprises, the largest share of state-owned enterprises operates in the tourism sector (primarily due to national parks) and the transport sector (railway companies). From the perspective of total revenue and the number of employees, it can be concluded that state-owned enterprises in the energy sector play the leading role. In 2023, enterprises from this sector accounted for 81% of the total revenue generated by all 36 state-owned enterprises.

Financial performance of state-owned enterprises

The total assets of state-owned enterprises at the end of 2023 amounted to 3.587 trillion dinars, with the majority being fixed assets, which accounted for 85,7%, as most state-owned enterprises operate in capital-intensive industries. Total liabilities include loans, obligations to suppliers, and other liabilities, and these increased significantly between 2021 and 2022, in line with the energy shocks on the market. As of the end of 2023, loan obligations accounted for 38,7% of total liabilities, or 37,9% at the end of the second quarter of 2024.

Table 16. Main financial indicators of state-owned enterprises, in billion dinars

Description	2021	2022	2023	Q2 2024
Total assets	3.217	3.454	3.587	3.606
Fixed assets	2.872	2.936	3.074	3.137
Current assets	340	513	507	465
Total equity	1.963	1.896	2.048	2.080
Total liabilities	1.254	1.558	1.539	1.526
Loan obligations	500	650	596	578

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

The total net result determined in the second quarter of 2024 is a profit of 36,8 billion dinars. The result for the current year has been overestimated due to the depreciation costs of "Putevi Srbije" JSC, as the company books these expenses at the end of the year for the entire amount for the given year. Operating income and total revenue for state-owned enterprises have been on an upward trend, with the best performance recorded at the end of 2023. However, operating expenses and total expenses saw a slight reduction compared to 2022, in line with the more rational operations of the enterprises.

Table 17. Key Operating Indicators of State-Owned Enterprises as of June 30, 2024, in billion dinars

Description	2021	2022	2023	Q2 2024
Operating income	739,1	905,2	1.018,5	502,6
Operating expenses	741,0	950,9	870,9	446,0
Wages expenses*	115,0	118,5	127,9	68,6
EBIT (Operating Result)	(1,9)	(45,7)	147,6	56,5
Total revenue	775,8	937,7	1.057,5	518,7
Total expenses	787,8	1.006,0	921,8	472,9
Net result	(13,9)	(68,8)	114,3	36,8
Number of profitable SOEs	**26**	**25**	**28**	**22**
Number of loss-making SOEs	**10**	**11**	**8**	**14**

*Wages, wage supplements, and other personnel expenses

Source: Financial Reports (APR) and Quarterly Report for 2024

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 a negative net result.

The largest contribution to the overall result of state-owned enterprises came from "Elektroprivreda Srbije" (EPS). When analyzing quarterly financial performance, it is important to note that some companies have a seasonal component in their operations.

Table 18. Overview of subsidy recipients (36 SOEs) and their share in the total Serbian Government budget expenditures

Year	2020	2021	2022	2023
Number of subsidy recipients (out of 36 SOEs)	23	25	25	27
Subsidies paid (billion RSD)	66,7	67,3	56,0	67,9
Total Serbian government budget expenditures (billion RSD)	1.717	1.751	1.915	2.068
% of subsidies paid / budget expenditures	***3,9%***	***3,8%***	***2,9%***	***3,3%***

Source: Ministry of Finance

Most of the subsidies received by enterprises are used for capital projects, while some enterprises also use them to maintain liquidity.

The share of paid subsidies in total government budget expenditures has ranged from 3% to 4% over the years.

Table 19. Overview of the 5 largest subsidy recipients from the Serbian Government budget, in billion dinars

Enterprise	2020	2021	2022	2023
"Putevi Srbije" PE	26,9	29,2	22,6	25,0
"Serbian Railways Infrastructure" JSC	10,5	13,8	12,8	17,0
„Koridori Srbije” LLC	17,7	8,2	6,9	6,9
PE PEU Resavica	4,6	8,5	4,8	5,5
„Srbijavoz” JSC	3,9	3,8	4,4	5,1
Other PE	3,1	3,8	4,5	8,4
Total subsidies paid:	**66,7**	**67,3**	**56,0**	**67,9**

Source: Ministry of Finance

The largest subsidy recipient during this period was PE "Putevi Srbije" , whose subsidies are capital-oriented and intended for the reconstruction of road infrastructure. In 2023, subsidies paid to state-owned enterprises amounted to 67,9 billion dinars, representing 6,4% of the total revenues of all 36 state-owned enterprises, which was a higher share compared to the previous year. The top 5 subsidy recipients accounted for 87,6% of all subsidies paid.

As of September 30, 2024, a total of 47,1 billion dinars had been paid out in subsidies to 24 state-owned enterprises. As in previous years, the largest recipients of these subsidies are state-owned enterprises such as PE "Putevi Srbije", which primarily uses the funds for routine and emergency road maintenance, as well as "Infrastructure of Serbian Railways" JSC, "Srbijavoz" JSC, and PEU Resavica. In addition to these, in 2024, significant funds were allocated to "Elektrodistribucija Srbije" LLC for projects such as replacing meters, installing smart meters, procuring distribution and energy transformers, which are part of efforts to strengthen energy stability and improve the country's infrastructure capacities.

Table 20. State-owned companies that achieved net profit in the period 01.01–30.06.2024, in million dinars

Companies	Realised in 2022	Realised in 2023	Planned 1 January - 30 June 2024	Realised 1 January - 30 June 2024
"Elektroprivreda Srbije" JSC	(72.634,5)	112.446,8	23.421,1	32.812,3
“Srbijagas”PE	5.488,7	12.029,8	12.369,3	7.575,1
“Elektromreža Srbije” JSC	8.145,6	3.024,9	926,5	3.286,9
"Pošta Srbije" PE	2.967,4	3.174,4	(1.077,5)	1.800,0
„Srbijavoz” JSC	(344,2)	176,0	(64,3)	488,1
PE „Skijališta Srbije”	242,3	59,6	368,6	326,4
„Dipos” LLC	143,2	193,4	75,3	145,8
„Državna lutrija Srbije” LLC	292,5	273,3	14,4	102,0
PE „Nacionalni park Kopaonik”	11,1	10,1	51,7	52,3
PE „Emisiona tehnika i veze”	45,4	48,9	(121,7)	40,8
PE “Srbijasume”	737,9	725,7	18,1	31,6
"Prosvetni pregled" LLC	23,9	27,1	17,5	28,3
PE “Službeni glasnik”	8,4	6,8	20,4	10,5
PE „Nuklearni objekti”	15,0	16,0	0,8	7,6
PE „Nacionalni park Tara”	6,9	15,8	2,4	6,0
“Park Palić” LLC	2,2	0,3	1,9	5,4
“Metohija” LLC	1,5	1,1	1,8	4,9
PE „Nacionalni park Fruška gora”	3,2	2,1	2,5	3,6
“Golubački grad Fortress” LLC	(5,6)	9,0	(2,7)	2,8
“Park prirode Mokra Gora” LLC	0,0	7,7	12,1	2,8
“Rezervat Uvac” LLC	(0,1)	3,3	1,3	2,2
PE „Mreža-most”	3,4	4,3	0,0	0,1
Total:	**(54.845,8)**	**132.256,2**	**36.039,4**	**46.735,5**

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

In the second quarter of 2024, 22 companies achieved a net profit totaling 46,7 billion dinars, which is an increase compared to the planned profit of 36 billion dinars (29,7%). The most significant contributors to the positive net result in the observed period were the "Elektroprivreda Srbije" JSC and “Srbijagas”PE, which achieved net profits of 32,8 billion dinars and 7,5 billion dinars, respectively.

In comparison to the number of profit-making companies at the end of the second quarter, 14 companies recorded a net loss amounting to 9,9 billion dinars, which is higher than the planned loss of 3,5 billion dinars (186%). The main contributors to the negative net result during the observed period were "Putevi Srbije" PE and “Elektrodistibucija Srbije” LLC, which posted net losses of 4,1 billion dinars and 2,6 billion dinars, respectively.

Table 21. State-owned companies that incurred net loss in the period 01.01–30.06.2024, in million dinars

Companies	Realised in 2022	Realised in 2023	Planned 1 January - 30 June 2024	Realised 1 January - 30 June 2024
PE „Putevi Srbije”	(5.121,8)	(6.818,9)	2.356,3	(4.120,8)
“Elektrodistibucija Srbije” LLC	249,8	(1.053,2)	(1.693,5)	(2.634,4)
"Serbian Railways Infrastructure" JSC	(5.283,7)	(7.204,0)	(2.772,4)	(1.101,3)
“Srbija Kargo” JSC	(1.432,1)	(1.671,7)	(409,0)	(892,8)
PE Resavica	(1.621,1)	(2.152,4)	0,0	(519,1)
PE „Jugoimport-SDPR”	392,5	601,7	(788,1)	(301,3)
PE „Zavod za udžbenike”	(213,6)	(96,8)	(46,6)	(154,8)
“Koridori Srbije” LLC	0,0	0,0	0,0	(83,3)
PE “Skloništa”	(112,9)	(106,9)	(63,8)	(41,1)
Public Water Management Enterprise „Srbijavode”	37,8	16,1	(44,3)	(25,8)
“Transnafta” JSC	344,4	279,0	15,1	(24,5)
PE „National Park Đerdap”	13,6	15,6	8,9	(22,6)
“Železnice Srbije” JSC	(1.237,8)	(167,7)	(38,7)	(5,8)
PE “Stara planina”	3,0	2,4	8,8	(1,8)
Total:	**(13.981,9)**	**(17.943,8)**	**(3.467,2)**	**(9.929,1)**

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

The new Law on Managing Economic Entities in the Ownership of the Republic of Serbia, which came into effect in September 2024, is expected to contribute to reducing fiscal risks and improving the operations of state-owned companies. This law will enable better monitoring of state-owned enterprises through centralized management and changing the legal status of public enterprises into joint-stock companies or limited liability companies, which will contribute to the professionalization of corporate governance, thus increasing economic efficiency and competitiveness of the economy. The general aim of this law is to create sustainable and efficient management of enterprises owned by the Republic of Serbia.

The Fiscal Risk Monitoring Sector assesses the fiscal risks of state-owned companies using the Altman Z-score model. In addition to the basic model, an adjusted Altman Z-score model is also used, primarily for emerging markets, i.e., countries with underdeveloped capital markets. The adjusted Altman Z-score model is a linear combination of four financial ratio indicators, each assigned an appropriate coefficient.

Table 22. Adjusted Altman Z-scores by year for 36 state-owned companies

Risk Type	2021	2022	2023
Low	**22**	**23**	**23**
Medium	**4**	**4**	**6**
High	**10**	**9**	**7**

Source: Ministry of Finance

According to the official financial reports submitted as of December 31, 2023, of the 36 state-owned companies, 19,4% were identified as high-risk, 16,7% had moderate risk, and the remaining 63,9% had low risk in their operations. The state-owned companies identified as high-risk are from the energy sector, railway transportation, and the construction and technical industry. Observing the trend over the years, there has been a decline in the number of high-risk companies, from 10 in 2021 to 7 at the end of 2023.

Risk quantification is one of the main challenges in assessing risks and expressing them materially. According to the model used by the Risk Monitoring Sector, risk quantification involves identifying and presenting potential expenditures that may arise for individual companies and represent a potential threat to the Republic of Serbia’s budget, as they could lead to unplanned interventions in the repayment of state-owned company obligations. These expenditures are often referred to as "expected expenditures," which represent a statistical estimate, including a combination of the likelihood of expenditure occurrence and the annual liabilities from loans, which are among the most sensitive and largest expenses that may require budgetary support.

Based on the results of the model, the total fiscal risk, i.e., expected expenditures for 36 state-owned companies for 2024, is estimated at approximately 5,1 billion dinars. These results indicate the need for continuous monitoring and risk management to mitigate potential financial consequences for public finances, while simultaneously developing measures to strengthen the stability of these companies.

Projected expected expenditures for the next three years are slightly lower. Estimates show that in 2025, they will amount to 4,8 billion dinars, 4,8 billion dinars in 2026, and in 2027, it is expected to decrease to 4,6 billion dinars. Given that the amount of expected expenditure is directly influenced by annual loan obligations, any new borrowing by companies would increase expected expenditures, which underscores the importance of debt control and sustainable financial management.

The Ministry of Finance will continue to improve its analyses, information collection, and model improvements in the coming period to make the model more comprehensive and precise, providing a reliable basis for risk management and supporting the sustainability of public finances.

Profit Payments

Profit payments from state-owned enterprises and dividends from capital companies in which the state holds ownership represent a part of non-tax revenues. The amount of revenue generated by the budget from this source depends on the business success of these companies. Regular profit and dividend payments are considered regular budgetary non-tax revenues, while payments from undistributed profits are treated as one-time revenue and do not represent a permanent source of income.

Companies where the Republic of Serbia is the founder or holds an ownership stake are obligated to pay at least 50% of the proportionate share of profits, as per the final financial statement for the previous year, into the budget of the Republic of Serbia no later than November 30 of the current budget year. This share of profit belongs to the Republic of Serbia as a member of the company, in accordance with the law regulating commercial companies.

Exceptionally, with the consent of the Government, a subject may be exempt from the obligation to pay profits if it decides to cover losses, increase capital, or use funds for investment financing.

Table 23: Share of paid profit in the total revenues of the budget of the Republic of Serbia

	2020	2021	2022	2023
Total revenues of the budget of the Republic of Serbia (in billion dinars)	1.257,4	1.465,4	1.680,3	1.889,1
Non-Tax revenues of the budget of the Republic of Serbia (in billion dinars)	149,8	156,6	170,8	193,9
Paid profit of companies (in billion dinars)	3,0	4,6	1,9	4,3
% share of paid profit in total revenues of the budget of the Republic of Serbia	*0,2%*	*0,3%*	*0,1%*	*0,2%*
% share of paid profit in non-tax revenues of the b udget of the Republic of Serbia	*2,0%*	*2,9%*	*1,1%*	*2,2%*

Source: Ministry of Finance

In 2023, 36 state-owned enterprises monitored by the Fiscal Risk Monitoring Sector paid 4,3 billion dinars into the budget of the Republic of Serbia. The total paid profit of enterprises in the budget of the Republic of Serbia in 2023 accounted for 0,23% of total budget revenues (2022: 0,12%), and 2,22% of non-tax budget revenues (2022: 1,13%). The largest contributions to these payments came from ’’Srbijagas’’ PE with 2.2 billion dinars and Pošta Srbije PE with 1,2 billion dinars.

Mitigating potential risks arising from the operations of state-owned enterprises involves a range of measures related to responsibility, profitability, and transparency in their operations. Restructuring processes have been initiated in “Elektroprivreda Srbije” JSC, “Srbijagas“ PE, and “Železnice Srbije” JSC, and the effectiveness and speed of implementing the adopted measures will determine the future operational efficiency of these companies.

Table 24: Profit payments to the budget of the Republic of Serbia by companies, in billion dinars

Payers of profit	2022	2023
“Srbijagas” PE	0,0	2,2
“Pošta Srbije” PE	1,1	1,2
“Srbijašume” PE	0,4	0,4
Jugoimport	0,0	0,2
State Lottery of Serbia	0,1	0,1
Other companies	0,3	0,2
Total	**1,9**	**4,3**

Source: Ministry of Finance

State financial institutions, banking system and deposit insurance

Before the fiscal consolidation period, the Republic of Serbia incurred significant fiscal costs to rescue state-owned banks. The total costs of state interventions in the banking sector between 2012–2015 amounted to approximately 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 payment of insured and uninsured deposits (using funds from the Deposit Insurance Fund).

Today, the Republic of Serbia holds a direct stake in the capital of the following banks:

“Poštanska Štedionica” Bank JSC Belgrade (78.54%), “Srpska Banka” Bank JSC Belgrade (76.69%)

In order to consistently implement an exit strategy and reduce fiscal risks in this area, reform activities in state financial institutions, which began in 2012 and 2015, continue.

“Poštanska Štedionica” Bank

The business strategy for the period 2024-2026 was adopted by the General Assembly of Poštanska Štedionica (BPS) in December 2023. According to the business strategy, BPS will continue to implement activities with a focus on further improvement and development in the following areas: operations with individuals, entrepreneurs, micro, small, and medium-sized legal entities, units of local government, public enterprises founded by the Republic of Serbia or an autonomous province, and companies in which the Republic of Serbia or an autonomous province or local government unit holds ownership; improvement of the internal organization of the bank, corporate governance, and risk management; strengthening IT infrastructure.

To mitigate the economic and financial consequences resulting from the COVID-19 pandemic, the bank is acting in accordance with the Law on the Establishment of a Guarantee Scheme as a measure of support to the economy to mitigate the consequences of the COVID-19 disease caused by the SARS-CoV-2 virus ("Official Gazette of RS", No. 153/20 and 40/21) and the Law on the Establishment of a Second Guarantee Scheme as a measure of additional support to the economy due to the prolonged negative impact of the COVID-19 pandemic ("Official Gazette of RS", No. 40/21 and 129/21).

“Srpska Banka” Bank

In accordance with the Government's strategy for state banks, an Expert Working Group for the transformation of Srpska Bank into a specialized financial institution for providing all types of financial services and supporting the targeted industries of the Republic of Serbia was established on January 21, 2019, and formally began its work in March 2019 with a constitutive session. 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 the activities aimed at transforming Srpska Bank will continue in the coming period.

A reform of the regulations governing the Serbian financial system was carried out in February 2015. One of the characteristics of this reform is the transfer of the responsibility for monitoring the performance and operation of the governing bodies in banks, insurance companies, and other financial institutions whose shareholder is the Republic of Serbia, as well as organizing and conducting the procedure for selling shares in them, from the Deposit Insurance Agency (DIA) to the Ministry of Finance, starting from April 1, 2015. The reform transposed the EU's Bank Recovery and Resolution Directive (BRRD) into domestic regulations, and the function of bank restructuring was entrusted to the National Bank of Serbia (NBS). In December 2016, a set of regulations was adopted that implemented the Basel III standards into the domestic regulatory framework, achieving a significant degree of alignment with relevant EU regulations in this area. During 2017, further efforts were made to improve domestic regulations governing banking operations, aiming at further alignment with EU regulations. The main objectives of adopting these regulations were to increase the resilience of the banking sector by improving capital quality and introducing protective capital buffers, better monitoring and control of the bank's liquidity risk exposure, further strengthening market discipline, and enhancing the transparency of banking operations in the Republic of Serbia by publishing all relevant information about the bank's operations, as well as adapting the reporting system to new regulatory solutions.

The NBS continuously enhances the regulatory framework for banks in accordance with the needs of the domestic market, best comparative practices, and prudential regulations of the European Union. In addition to a range of regulatory measures adopted in the past to preserve and further strengthen financial stability, the NBS, in line with its strategic commitment to implement EU legal acquis in the area of financial services (as the leading institution in this area), adopted a Decision on Liquidity Risk Management in Banks in November 2023 ("Official Gazette of RS", No. 100/2023), introducing a so-called Net Stable Funding Ratio (NSFR). This ratio was developed in international banking supervision frameworks as a response to identified issues related to bank liquidity during periods of crisis and the need to monitor the stability of banks' financing sources for regular activities.

One of the limiting factors for credit activity growth was the relatively high level of non-performing loans (NPLs). 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 prepared by the NBS, aimed at reducing the level of non-performing loans. The key areas of implementation included strengthening the capacity of banks to address non-performing loans, improving regulations for the valuation of collateral assets, and developing the market for non-performing loans, among other measures.

At the initiative of the National Bank of Serbia, the new Insurance Law was adopted in 2014, which led to a regulatory reform in the insurance sector during 2014-2015, representing the second most important segment of the domestic financial market. The regulatory reform created the conditions for the further development of the insurance market by implementing modern standards tailored to the needs of the domestic market. The new regulatory framework enabled, among other things, positive results reflected in the growth of the total insurance premium in the Serbian market and the further development of the financial market. The reform also allowed the introduction of higher-quality services by insurance companies and better protection for citizens and business entities using these services. In 2021, amendments to the Insurance Law were adopted, regulating changes in ownership rights to the social capital of insurance companies. The existing regulations governing the insurance activity in the Republic of Serbia have created conditions for further convergence of the insurance sector in Serbia to the level of development of this sector in the EU. Significant changes to the regulatory framework for the supervision of the insurance sector are expected with the full alignment of regulations with the EU Insurance Distribution Directive (Directive (EU) 2016/97 — IDD) and the application of Solvency II (Directive 2009/138/EC of the European Parliament and of the Council on taking up and pursuit of the business of Insurance and Reinsurance).

Since the adoption of the aforementioned strategy, a significant number of laws and by-laws have been enacted and amended, institutional capacity has been improved, and numerous measures have been implemented to facilitate the write-off and transfer of non-collectible receivables, including: the adoption of the Law on Amendments and Supplements to the Mortgage Law (2015), the provisions of which allowed for the reaffirmation of out-of-court settlement procedures using the proceeds from the sale of mortgaged property, as well as increasing the legal and economic security of participants in transactions involving the establishment of mortgages as collateral for claims; the adoption of the Law on Property Appraisers (effective June 2017), which, among other things, introduced a new profession – licensed property appraisers, and prescribed mandatory appraisals in cases related to the Mortgage Law and the Bankruptcy Law, as well as for appraisals needed for credit transactions secured by mortgages; the establishment of the Expert Committee (a professional body meant to contribute to the regulation and improvement of the property appraisers' profession) and the adoption of National Standards, the Code of Ethics, and rules of professional conduct for licensed appraisers (initially in July 2017 and updated in April 2023), which, among other things, define the principles of property valuation, the appraisal process, assumptions and facts of significance to be considered when preparing valuation reports, the minimum content of the valuation report, and the rules of professional conduct for licensed appraisers; the adoption of amendments to the Corporate Income Tax Law and the Personal Income Tax Law, which allowed for a more relaxed tax policy for the approval and write-off of banking claims (end of 2017); the adoption of amendments to the Bankruptcy Law, which shortened bankruptcy procedures and improved the position of secured creditors (December 2017); the preparation of a study on the possibilities for introducing bankruptcy for private individuals and entrepreneurs in Serbia, and the adoption of amendments to the Civil Procedure Law, among others.

Based on the Law on Property Appraisers and the Decision on the Content, Deadlines, and Method of Submission of Property Appraisal Reports for Mortgaged Properties and Credit Transactions Secured by Mortgages, the National Bank of Serbia (NBS) has been maintaining a database of property valuations for mortgaged properties since 2015. In accordance with the aforementioned law and decision, banks and licensed appraisers can access certain data about property valuations for mortgaged properties. At the end of 2018, the NBS adopted a set of by-laws in response to the increasing incidence of non-targeted lending to the population with unjustifiably long terms. These regulations aim to prevent the emergence of non-performing loans in the banking sector and encourage cautious risk-taking by banks, focusing on sustainable lending and avoiding excessive exposure to certain types of credit products, without disrupting the growth trend of credit activity and while safeguarding the rights and interests of service users provided by banks, all for the purpose of preserving and strengthening financial stability in Serbia.

To further enhance and develop the capital market, new laws were adopted between 2019 and 2021 at the proposal of the Ministry of Finance, including: the Law on Alternative Investment Funds ("Official Gazette of RS", No. 73/19) – adopted by the National Assembly on October 10, 2019, and came into effect in April 2020; the Law on Open Investment Funds with Public Offering ("Official Gazette of RS", No. 73/19) – adopted by the National Assembly on October 10, 2019, and came into effect in April 2020; and the Law on the Capital Market ("Official Gazette of RS", No. 129/21) – adopted by the National Assembly on December 23, 2021, and came into effect on January 5, 2023.

On December 27, 2018, the Government adopted the Program for Resolving Problematic Loans for the period 2018-2020 (hereinafter: the Program) along with the Action Plan for its implementation, successfully fulfilling the reform goal within the IMF cooperation program and setting a clear path for further progress in addressing problematic receivables. The main focus of this public policy document is to resolve issues related to problematic placements in banks in bankruptcy and placements on behalf of the Republic of Serbia, managed by the Deposit Insurance Agency (DIA). Accordingly, strategic and annual operational plans were adopted for the DIA, a Portfolio Resolution for Problematic Placements was prepared, and internal capacities were developed for their resolution. In June 2019, the DIA successfully completed the sale of the first "pilot portfolio," with a nominal value of approximately 242 million euros, and on September 30, 2019, it published a notice for the transfer of the second "large portfolio," with a nominal value of 1,82 billion euros.

In accordance with Government Conclusion No. 05 Number: 401-1646/2021 of February 25, 2021, Provincial Government Conclusion No. 127 Number 422-6/2021 of March 3, 2021, and decisions by the creditors' committees of all financial institutions in bankruptcy whose claims are subject to transfer, the best offer in the receivables transfer process was selected through a public tender, and the process for transferring the "large" portfolio was successfully completed on April 19, 2021, with the signing of Framework Agreements on the transfer of receivables and the payment for the transfer.

After the successful completion of two receivables transfer procedures, activities were initiated to resolve the remaining portfolio in accordance with point 2.3.3 of the Program and the Action Plan, which defines that after the sale of the pilot and large portfolios, a series of activities must be undertaken regarding the realization of the remaining receivables of state creditors.

In accordance with the decisions of the DIA's Board of Directors and Supervisory Board, the conclusions of the Government and Provincial Government, as well as the decisions of the creditors' committees of all financial institutions whose claims are subject to transfer, on December 20, 2022, the DIA published a notice for the transfer of the receivables portfolio for compensation, through a public invitation (Public Tender Code: JPP-1/22). The portfolio subject to transfer, as of April 30, 2022, totals 317,805,038.18 euros and consists of claims held by the DIA on behalf of the state and seven financial institutions from a total of 497 debtors (653 parties). The transfer procedure is carried out through a two-phase process – an initial analysis of the portfolio and the submission of binding offers. The opening of binding offers took place on April 27, 2023. Four binding offers were received, after which negotiations began with the top-ranked bidder. During negotiations, the top-ranked bidder withdrew from the process due to a shift towards other projects, and the second-ranked bidder was invited to start negotiations. After all consultations were held, the second-ranked bidder also withdrew from the process. On October 3, 2023, the DIA's Board of Directors decided to declare the transfer process unsuccessful. The DIA continued the collection of claims from the respective banks through individual portfolios in accordance with the law.

The implementation of other measures for addressing non-performing loans, both from the Non-Performing Loan Resolution Strategy and the aforementioned Program, continues to yield positive results. Thanks to the application of the Non-Performing Loan Resolution Strategy, as well as other regulatory activities by the National Bank of Serbia (NBS), the share of non-performing loans (NPLs) in total loans of the banking sector has been significantly reduced, despite the multidimensional crisis that the Republic of Serbia has been facing over the past four years. In August 2024, this share was 2,7%, representing a new historic low. This is 19,5 percentage points lower than in August 2015, when the aforementioned strategy was adopted. This clearly demonstrates that the measures were well-defined and have had excellent results.

The NBS also acted outside the framework of the Strategy, such as by adopting the Decision on the Accounting Write-Off of Bank's Balance Sheet Assets, which complemented regulatory activities. Coverage of non-performing loans remains at a high level—provisions for total loans in August 2024 amounted to 106,5% of gross non-performing loans, while provisions for non-performing loans were at the level of 62,1% of gross non-performing loans. This, without a doubt, along with other indicators of financial system health, confirms the stability of our banking sector.

By creating stable operating conditions, our economy entered an investment cycle in 2015, and since then, investments have made up a significant portion of economic growth. The profitability of the economy has increased in conditions of a relatively stable exchange rate. All of these were key factors for the sustainable resolution of non-performing loan issues. This is also evident from the fact that the largest reduction in non-performing loans has been recorded in sectors that are key to our growth, such as the manufacturing industry and construction.

Deposit insurance is a mechanism that contributes to preserving financial stability and ensures protection for depositors. The deposit insurance system guarantees the payout of the full amount of deposits to insured depositors in each bank up to the insured amount of €50,000 in case of the bank's bankruptcy or liquidation. Deposit insurance is regulated by the Deposit Insurance Law.

In October 2019, the Law on Amendments to the Deposit Insurance Law was adopted, aiming to align the deposit insurance system more closely with the best international practices and standards, as well as the legal acquis of the EU, in terms of: the method of calculating premiums (introducing the possibility of calculating premiums based on the risk level in the operation of banks), the premium base, extraordinary premium amounts, protection of depositors in merged or acquired banks, target amount for the deposit insurance fund, and others—all with the aim of contributing to financial stability through encouraging the reduction of risks in banking operations, strengthening public confidence in the financial system, and increasing the efficiency of the deposit insurance system.

In accordance with the provisions of the Law on Amendments to the Deposit Insurance Law, as of the first quarter of 2020, the deposit insurance premium has been calculated based on the modified base, i.e., on the average level of total insured deposits up to €50,000 in the bank in the previous quarter, instead of based on the average level of total insured deposits. With this change, banks' obligations for paying deposit insurance premiums have been reduced on average by about 30%, indirectly enabling greater investment activity by banks.

As the law introduced the possibility of calculating premiums based on the risk level in bank operations, the Agency was required to adopt a Methodology for calculating deposit insurance premiums based on risk levels within a year of the law's enactment. The Agency's Board adopted the text of the Methodology on October 15, 2020, with the prior consent of the NBS, fulfilling the legal obligation within the prescribed time frame. The application of the Methodology will be determined by a special decision of the Agency's Board.

In the deposit insurance system, the Republic of Serbia is the ultimate guarantor of insured deposits. To secure funds for deposit insurance, the Deposit Insurance Agency collects premiums from banks for the Deposit Insurance Fund, manages the fund's assets, and pays out deposits up to the insured amount in case of bank bankruptcy or liquidation. Additionally, the fund's resources can be used for financing bank restructuring processes, to the extent and under the conditions prescribed by the law governing banks. In the event of a shortfall in the Deposit Insurance Fund, the Republic of Serbia ensures payment, either through budgetary funds or by providing guarantees for the Agency's borrowing.

On March 24, 2020, the government adopted a Decree on Investing Foreign Currency Reserves Managed by the Deposit Insurance Agency during a State of Emergency, which stipulated that during the state of emergency caused by the COVID-19 pandemic, the Agency could invest more than a quarter of the Fund's foreign currency reserves in foreign debt securities issued by the Republic of Serbia. In accordance with the Decree, the Agency adjusted the amount of foreign currency reserves invested in debt securities issued by the Republic of Serbia to the legal limit of one-quarter of the total foreign currency reserves within one year of the state of emergency ending (by May 6, 2021).

The guarantee of insured deposits by the state, whether directly from the budget or indirectly through issuing guarantees for the Agency's borrowing, represents 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 resources of the Deposit Insurance Fund or state funds for the payout of insured deposits.

The reduction of fiscal risks in this area depends on the stability and sustainability of the banking system. Oversight of the banking system, prudence in the allocation of funds, and improvement of asset quality are the key pillars of a stable banking system.

The results achieved by the banking sector of the Republic of Serbia in 2021 show a growing profitability of banks. The banking sector of the Republic of Serbia operated profitably in 2021, with a net pre-tax profit of 53,9 billion dinars, which is 17% higher than the positive result achieved in 2020, when the net pre-tax profit was 46,1 billion dinars. The banking sector of Serbia achieved a positive financial result in 2022 as well. The net pre-tax profit for the banking sector in 2022 amounted to 99,6 billion dinars, which is 45,8 billion dinars (or 84,9%)

more than the previous year. The net pre-tax profit for the banking sector in 2023 was 138,2 billion dinars.

The banking sector of the Republic of Serbia is adequately capitalized, both in terms of the achieved level of capital adequacy ratios and the structure of regulatory capital. At the end of 2020 and 2021, the average capital adequacy ratio for the banking sector of the Republic of Serbia was 22,42% and 20,8%, respectively. Throughout 2022 and 2023, the capital adequacy of the banking sector remained high (the capital adequacy ratio was 20,2% at the end of 2022 and 21,4% at the end of 2023).

The capital adequacy ratio for the banking sector at the end of the second quarter of 2024 was 21,8% (up from 21,2% at the end of the first quarter of 2024), which is significantly above the regulatory minimum of 8%, indicating high capitalization and resilience of the banking sector to both external and domestic risks.

In light of the state of emergency declared in the Republic of Serbia, and in order to mitigate the economic and financial consequences of the COVID-19 pandemic, measures of support to the economy were undertaken to increase the liquidity of business entities. One of these measures was the adoption of a Decree establishing a guarantee scheme as a support measure to mitigate the effects of the COVID-19 pandemic caused by the SARS-CoV-2 virus. This Decree established a national guarantee scheme.

The increase in liquidity of business entities through a guarantee mechanism provided by the Republic of Serbia for loans granted by banks to business entities for financing liquidity and working capital, enabled by the conclusion of the Republic of Serbia Guarantee Agreement for financing businesses to mitigate the negative effects of the COVID-19 pandemic, is a measure that consolidates an extremely important and necessary mechanism with effects for all entities based in the Republic of Serbia, including agricultural households registered with the Serbian Business Registers Agency (APR) and classified as entrepreneurs or micro, small, and medium-sized enterprises in accordance with the law governing accounting, whose liquidity is a prerequisite for the functioning of the economy in Serbia.

Banks can allocate up to 2 billion euros for loans under this scheme, with the amount of 1 billion euros, or the initial maximum insured portfolio per bank, determined according to the market share of the bank based on the NBS report as of February 29, 2020.

Given the fact that, through commercial banks, by the end of November 2020, approximately 1,5 billion euros had been allocated to the economy out of the total available 2 billion euros, and that the Decree stipulated that the loan agreement must be concluded by December 31, 2020, and the loan agreement must be disbursed by January 31, 2021, there was a need to extend the deadline by which the loan agreement must be concluded and by which the loan must be disbursed.

In this regard, the National Assembly was proposed to adopt the Law on Establishing a Guarantee Scheme as a Support Measure to the Economy to Mitigate the Effects of the COVID-19 Pandemic caused by the SARS-CoV-2 virus, which was adopted at a session held on December 17, 2020, and published in the Official Gazette of the Republic of Serbia No. 153/20 on December 21, 2020. The Republic of Serbia recognized the need for an additional 500 million euros in support to maintain liquidity, bringing the total amount of funds allocated through the First Guarantee Scheme to 2,5 billion euros.

In this context, the Law on Amendments to the Law on Establishing a Guarantee Scheme as a Support Measure to the Economy to Mitigate the Effects of the COVID-19 Pandemic caused by the SARS-CoV-2 virus (Official Gazette of RS, No. 40/21) was adopted, which, among other things, extended the deadline for disbursing loans until July 31, 2022.

The Republic of Serbia and the National Bank of Serbia (NBS) have signed Guarantee Agreements for financing businesses to mitigate the negative effects of the COVID-19 pandemic caused by the SARS-CoV-2 virus with 24 banks. The Republic of Serbia allocated the planned 2,5 billion euros to the banks, and by July 31, 2022, the banks had disbursed approximately 2,49 billion euros to clients. At the same time, the Republic of Serbia recognized the need for additional support for the most affected businesses, specifically those with a decline in business revenue greater than 20% in 2020 compared to the same period in 2019. As a result, on April 22, 2021, the Law on the Establishment of the Second Guarantee Scheme as an Additional Support Measure to the Economy Due to the Prolonged Negative Impact of the COVID-19 Pandemic caused by the SARS-CoV-2 Virus was adopted (Official Gazette of RS, No. 40/21), which approved an additional 500 million euros in aid. In December 2021, the Law on Amendments and Supplements to the Law on the Establishment of the Second Guarantee Scheme was adopted (Official Gazette of RS, No. 129/21), which introduced an exception allowing businesses in the sectors of passenger transport, hospitality, travel agencies, and hotel services in cities to be granted loans secured by guarantees, even if the total amount of the loan granted under the First Guarantee Scheme and the loan granted under this law exceeds the prescribed thresholds, provided that the borrower has repaid the loan secured by the guarantee under the First Guarantee Scheme in full and on time, and that the maximum amount of the loan secured by the guarantee does not exceed two times the amount defined by the law.

Due to the reduced issuance of loans under the Second Guarantee Scheme, as well as the evident prolonged negative impact of the COVID-19 pandemic, and given the unforeseen changes resulting from the war in Ukraine, which have negatively affected economic activity, the possibility of refinancing loans from the First Guarantee Scheme with loans from the Second Guarantee Scheme was provided for business entities whose activities related to exports and imports of goods and services to Ukraine, Russia, or Belarus were reduced or suspended. The deadline for disbursing funds under the Second Guarantee Scheme expired on July 31, 2022, and any extension of the prescribed legal deadlines is contingent upon initiating the process of amending the Law on the Establishment of the Second Guarantee Scheme as an Additional Support Measure to the Economy Due to the Prolonged Negative Impact of the COVID-19 Pandemic. By the end of July 2022, banks had disbursed 52,4 million euros to clients under the Second Guarantee Scheme.

According to projections based on a model developed in cooperation with the IMF, the fiscal gross outflows from the budget of the Republic of Serbia for the national Guarantee Scheme are expected to be 14 million euros for 2024 and 3 million euros for 2025. The fiscal gross outflows for the Republic of Serbia's budget under the Second Guarantee Scheme are projected to be 1,8 million euros for 2024, 1,4 million euros for 2025, and 1 million euros for 2026. A total of 2,54 billion euros in loans have been realized under both Guarantee Schemes, and as of September 30, 2024, 66,92 million euros have been paid out in activated guarantees. On the same date, 5,96 million euros were collected from protested guarantees under both Guarantee Schemes.

Regarding other financial institutions, the Republic of Serbia holds a direct equity stake in Dunav Osiguranje AD Beograd (hereinafter: Dunav Osiguranje) and Dunav Re AD Beograd (hereinafter: Dunav Re), as well as in the National Corporation for Housing Loan Insurance (hereinafter: the Corporation).

Through the successful and efficient implementation of the provisions of the law adopted in late April 2021 – the Law on Amendments to the Law on Insurance (Official Gazette of RS, No. 44/21), which formed the basis for the change in ownership rights in insurance companies, the Republic of Serbia's direct stake in Dunav Osiguranje increased to 76,70%. Similarly, since there was a smaller participation of social capital in the total capital of Dunav Re, following the change in ownership rights under this law, the Republic of Serbia acquired a direct stake of approximately 4,76% in Dunav Re.

Until the end of 2014, the participation of social capital in the total capital of Dunav Osiguranje was 94,61%, which had a negative impact on the operations of Dunav Osiguranje (primarily due to the complicated management structure), as pointed out in the auditors’ reports for 2012 and 2013, which expressed a qualified opinion. Given the significance of Dunav Osiguranje in the insurance market (as the largest insurance company), the Republic of Serbia conducted a recapitalization of Dunav Osiguranje in December 2014 with 4,8 billion dinars, reducing the participation of social capital to 51,86%. In recent years, Dunav Osiguranje’s operations have been stable, with constant improvement in most indicators. There has been a noticeable trend of profit growth year by year, and regular dividend payments. Dunav Osiguranje has not experienced any negative consequences in its operations (looking at the most significant indicators) due to the COVID-19 pandemic.

The biggest challenge in the coming period is expected to be aligning (organizationally, managerially, capital-wise, etc.) with the new regulatory standard, Solvency II, which is expected of all market participants in the insurance industry in the Republic of Serbia.

The Law on the National Corporation for Housing Loan Insurance (Official Gazette of RS, No. 55/04) established the Corporation as a legal entity specializing in insuring claims related to housing loans granted by banks and other financial institutions, secured by mortgages, as well as performing other tasks related to such insurance. The founder of the Corporation is the Republic of Serbia, which holds a 100% direct stake in the Corporation's capital (the law allows the Corporation to be organized as a joint-stock company, but the value of the state capital in the total capital of the Corporation cannot be less than 51%). The law also stipulates that the total nominal amount of the Corporation's liabilities arising from its activities can be up to 16 times the amount of its capital, but it also allows the Government to, upon a justified request from the Corporation, consent to an increase in the Corporation's liabilities beyond 16 times its capital for a specific period.

Since its inception, the Corporation has had a significant impact on shaping market conditions and credit standards, which were necessary for the development of the mortgage market. This has led to a reduction in risk and the protection of both creditors' and borrowers' interests by lowering interest rates, thereby increasing demand for residential properties (with a positive effect on the construction industry) and contributing to the rise in the number of homes purchased on credit.

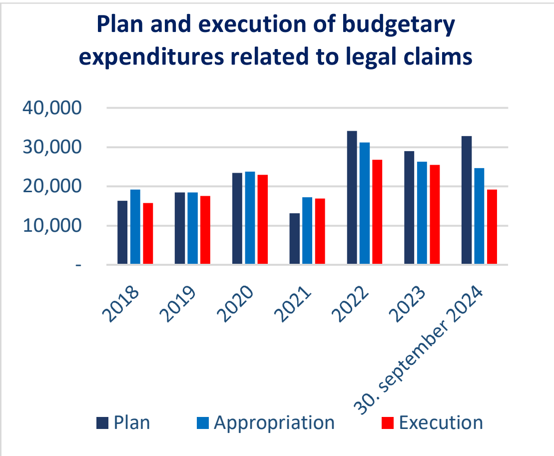
In the past period, the Corporation has not been recapitalized with funds from the Republic of Serbia's budget; instead, its capital has been increased from the Corporation's retained earnings. However, as the capital increase did not keep pace with the growth of insured loans, the Government, in accordance with the law, has given consent each year for the Corporation to increase its liabilities beyond the 16 times its capital. This increase has been gradually reduced (for example, in 2015, the Corporation's liabilities could be up to 30 times its capital, while for 2023, the limit was 18 times its capital), and in 2024, the total nominal amount of the Corporation's liabilities is expected to remain within legal limits (up to 16 times its capital), meaning there will be no need for the Government's consent.

A potential risk arises from the large number of lawsuits filed by clients against banks regarding the payment of premiums to the Corporation. Although the Corporation is not the party being sued, and the Republic of Serbia does not guarantee the Corporation's obligations (the Corporation guarantees its obligations only up to the amount of its capital), a potentially negative outcome of these disputes could lead to the need for certain budgetary expenditures. Additionally, due to changing market conditions, there have been disputes with a number of banks (resulting in contract terminations with the Corporation), leading to a significant reduction in insured loans, and thus a decrease in the Corporation's income. Given the long-term nature of the Corporation's obligations (insuring claims on housing loans that can be granted for periods of up to 30 years), the continuation of the trend of a significant reduction in insured loans may also affect potential future budgetary expenditures.

Legal proceedings

Due to numerous legal proceedings before domestic and international courts, where the Republic of Serbia is the defendant, various fiscal risks have been identified arising from the uncertainty regarding the outcomes of these processes.

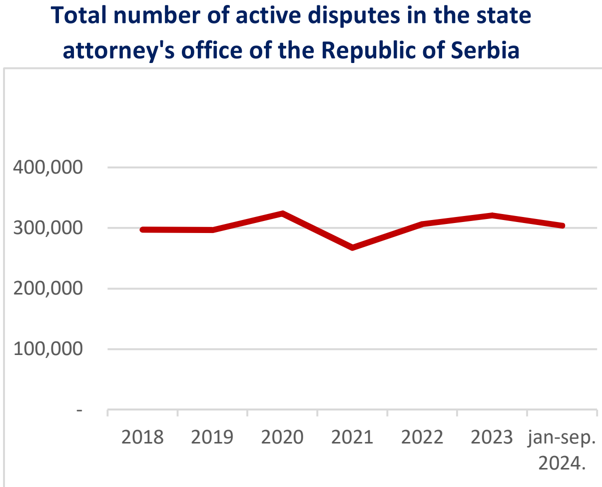
The Republic of Serbia has paid, based on monetary fines and penalties as per court rulings (economic classification 483), as well as compensation for damages caused by state authorities (economic classification 485), in 2021, a total of 16.9 billion dinars was paid from the state budget for these purposes, in 2022, 26.8 billion dinars, while in 2023, the amount paid was 25.4 billion dinars.



Source: Ministry of Finance

For the year 2024, initial budget allocations for this purpose are set at 32,8 billion dinars.

According to data from the State Attorney's Office, on December 31, 2020, there were a total of 324.253 active legal disputes. On the same date in 2021, there were 267.502 active cases, and by December 31, 2022, the number of cases being handled had risen to 306.727. On December 31, 2023, the number of legal proceedings led by the State Attorney's Office stood at 320.860, and by September 30, 2024, this number had decreased to 304.221. The trend of the number of active legal proceedings – ongoing cases from 2018 to September 30, 2024, can be presented in a graphical representation.



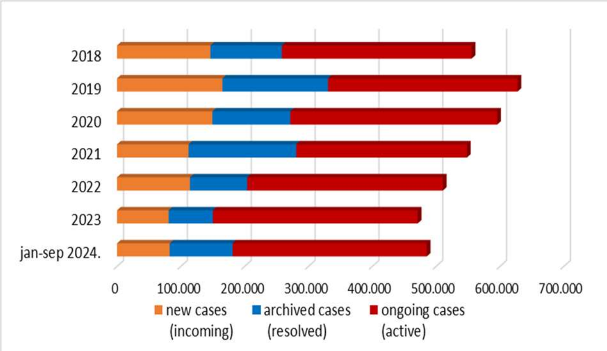
Source: State attorney's office of the Republic of Serbia

The number of incoming cases in 2019 was 165.061, while in 2023, this number dropped to 80.712, and in the period from January to September 2024, 82.493 new cases were received. On the other hand, the number of archived cases in 2019 was 165.440, while in 2023, 69.487 cases were archived. From January to September 2024, 98.524 cases were resolved.

The share of new cases in the total number of cases from 2018 to September 30, 2024, has been declining. From 35,8% in 2018, the share of new cases in the total number of cases on September 30, 2024, has decreased to 20,5%. Regarding archived or resolved cases, their share in the total number of cases has varied over the mentioned period, with an average annual participation of 27,7%. In the period from January 1 to September 30, 2024, the share of resolved cases in the total number of cases was 24,5%.

The aforementioned trends can be presented in the following graphical representation:

Dynamics of court disputes in the State Attorney's Office of the Republic of Serbia in the period 2018 – September 30th 2024



Source: Republic of Serbia State Attorney's Office

In order to reduce costs in so-called "budgetary" proceedings, amendments were made to the Enforcement and Securing of Claims Law ("Official Gazette of the RS", No. 106/15, 106/15 – authentic interpretation, 113/17 – authentic interpretation, and 54/19), which came into force on January 1, 2020. Article 300 of this law stipulates, among other things, that an enforcement creditor is required to notify the Ministry of Finance in writing, at least 30 days before filing the enforcement request, if the Republic of Serbia, an autonomous province, a local government unit, or a direct or indirect budget user is the debtor.

The purpose of this measure was to encourage voluntary payment of obligations by the competent authority, in order to avoid the costs of enforced collection. In 2020, the Ministry of Finance – Treasury Administration received 51.757 notifications of intent to file an enforcement request. In 2021, this number was 54.270, in 2022 it was 49.080, and in 2023, it amounted to 48.327 notifications. By the end of the third quarter of 2024, a total of 31.369 notifications of intent to file an enforcement request had been submitted.

Based on the current trend of budgetary executions from 2018 to 2023, it is expected that in the next three years, the costs to the Republic of Serbia's budget for legal proceedings, based on projections of the constant growth rate observed in the period, will range between 28,0 and 33,9 billion dinars, or approximately 30,0 billion dinars annually, with a slight upward trend possible.

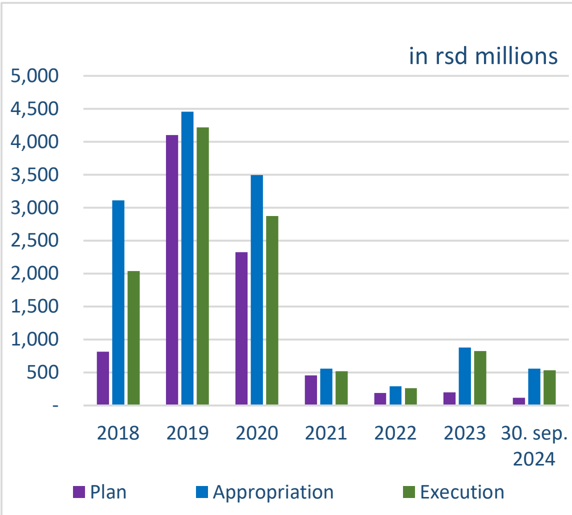
In 2024, efforts are still ongoing to improve the system for monitoring fiscal risks arising from legal proceedings, with the aim of identifying and assessing these risks. Special attention is being paid to available databases and improving the quality and accessibility of the data they contain, in order to conduct fiscal risk analyses and quantify these expenses in the coming period.

Natural disasters

The constant risk of natural disasters necessitates investments in prevention programs to reduce potential fiscal costs for damage recovery. Prevention includes the use of a broader range of financial instruments, such as reserve funds, potential credit lines, and property insurance. In 2014, Serbia faced catastrophic consequences from floods, with the total damage (including losses) estimated at over 1,7 billion euros. In December 2014, the government adopted the National Program for Disaster Risk Management, implemented in cooperation with the World Bank, the United Nations, and the European Union. In line with this program, in November 2018, the Law on Disaster Risk Reduction and Emergency Management ("Official Gazette of the RS", No. 87/18) was passed. In 2022, a special working group began revising the Strategy for Disaster Risk Reduction and Emergency Management in Serbia (2023–2030), with the goal of developing a new Action Plan for the period 2023–2030.

In 2018, Serbia allocated 2,0 billion dinars from the budget, and in 2019, 4,2 billion dinars, for compensation for damage caused by natural disasters and other natural causes. In 2020, 2,9 billion dinars was allocated for this purpose under economic classification 484 (excluding intervention funds for mitigating the effects of the COVID-19 pandemic), while in 2021, the amount allocated for these purposes decreased to 520,3 million dinars. In 2022, the funds allocated for this purpose amounted to 263,9 million dinars. During 2023, there was an increase in the budgetary expenditure for this purpose to 824,8 million dinars, due to extreme weather events and floods in May and June 2023, as well as storm winds, hail, and rain that caused unexpected damage in July 2023. In 2024, the initially planned allocation for this purpose was 117,3 million dinars, which was increased through appropriations to 560,4 million dinars, and by September 30, 2024, the budget execution reached 537,4 million dinars.

Budgetary expenditures of the Republic of Serbia related to natural disasters and other natural causes



Source: Ministry of Finance, Treasury Administration

The growing frequency and intensity of natural and other disasters, along with the rising costs of mitigating their consequences, highlight the need for constant vigilance when it comes to this type of fiscal risk.

By the Government's Conclusion No. 40-9575/2021, dated October 21, 2021, a Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia was adopted, which includes, among other things, a Methodology for Monitoring Fiscal Risks Arising from Natural Disasters.

The model for monitoring fiscal risks from natural disasters provides a quantified assessment of the negative impact of natural disasters on the country's Gross Domestic Product (GDP), fiscal deficit, and, consequently, public debt.

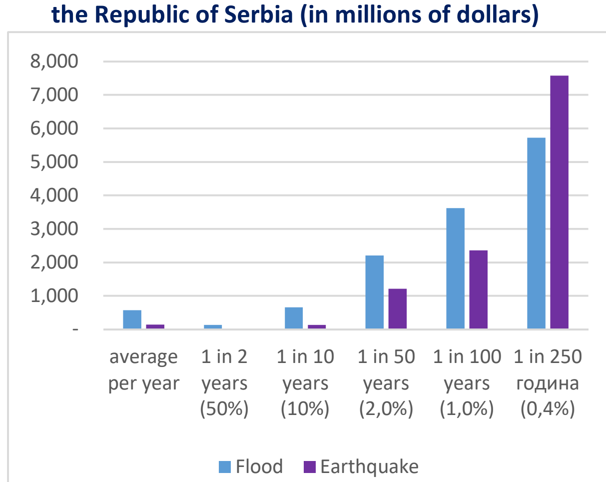
Natural disasters cause damage to productive capital and critical infrastructure, which, in turn, leads to a contraction in the social gross product and slower GDP growth than would otherwise have been achieved. This effect is characteristic of the year in which the natural disaster occurred. Furthermore, due to reduced public revenues and increased public expenditures, the shock caused by the natural disaster also affects the fiscal deficit, which ultimately results in the need for additional financing, leading to an increase in public debt.

By the end of 2022, in collaboration with the World Bank, a model for assessing fiscal risks from natural disasters was developed. In 2023, training sessions and necessary updates to the model were carried out, enabling the Group for Other Fiscal Risks within the Fiscal Risk Monitoring Sector to begin full implementation of the model.

Original data for risk modeling from the "Applied Research Institute Worldwide Corporation" (AIR) model for the Republic of Serbia were obtained empirically during 2019. This is particularly significant given the widespread practice of many countries, which, in the absence of domestic data, often use data from similar countries for analogical comparison. By indexing these values for annual inflation and the growth of private and public fixed assets between 2019 and 2024, updated values were obtained and are now used to assess potential damage caused by floods and earthquakes of varying intensity.

According to the estimates derived from the AIR model, flood-related damage, depending on the intensity and probability of occurrence, could range from 135 million USD to 5,7 billion USD. Although earthquake risks are considered moderate, the same estimates show that earthquake-related damage could range from 132 million USD to as much as 7,6 billion USD.

Graphic representation of the assessment of potential damages from floods and earthquakes in the Republic of Serbia (in millions of dollars)



Source: Model for assessing fiscal risks from natural disasters for the Republic of Serbia

Depending on the type and intensity of the natural disaster, the expected contraction of GDP also differs. This refers to the lower GDP growth achieved in the year when a natural disaster occurs, compared to the GDP growth that would have been realized had the disaster not happened. For earthquakes, the GDP growth rate could decrease by -0,02% for low-intensity earthquakes to as much as -1,39% for rare, large-scale earthquakes. In the case of floods, the contraction in GDP growth could range from -0,02% for low-intensity floods to -1,05% for rare, large-scale floods.

When considering future expected costs, the fiscal effects of natural disasters, in terms of their impact on the fiscal deficit and, subsequently, on public debt, are even more pronounced. These effects reflect the scale of the expected negative impact that such shocks could have on the macroeconomic stability of the country if these natural disasters were to occur.

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 could increase by 0,04% to 2,5% of GDP annually. This could further affect the growth of public debt, which might increase by 0,05% to over 6,4% of GDP in the years following a large-scale earthquake. For floods, the situation is similar: the fiscal deficit could increase by 0,04% to 1,9% of GDP annually, which could further affect the growth of public debt by 0,06% to over 4,8% of GDP in the years following major floods.

The budgetary system of the Republic of Serbia provides two instruments for financing disaster risks: a permanent budget reserve – the reserve for unforeseen cases (SBR) and compensation for damage caused by natural disasters or other natural causes (account 484).

Compensation for damage caused by natural disasters or other natural causes can also be used to provide initial financial support for disaster relief efforts. While the maximum amount of the permanent budget reserve is limited to 0,5% of budget revenues, there is no minimum or maximum legal limit for planning the annual amount for this compensation.

Table: Changes in fiscal variables expressed as a percentage of GDP, depending on the type of natural disasters

SCENARIO		Event probability	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%

Functioning of local governments

In addition to the aforementioned fiscal risks, there are other circumstances that, if realized, could lead to fiscal costs. Identifying these risks helps in assessing the potential impact on the country's fiscal position over a specific period.

The operations of local government units can have fiscal implications for the state sector's budget. Special fiscal rules for local governments set the so-called "golden rule," which allows a deficit only for the purpose of capital investments. There are also rules regarding the level of indebtedness of local government units, the consistent application of which helps maintain the stability of public finances at the local level. In practice, unrealistic planning of both revenues and expenditures has sometimes led to the accumulation of overdue, unsettled obligations that threaten the functioning of certain cities and municipalities.

To avoid the realization of fiscal risks in this regard, the Ministry of Finance is improving the public finance control system for local governments to ensure compliance with established rules—from planning to budget execution at the local level.

Based on the Methodology for Monitoring Fiscal Risks to the Republic of Serbia’s Budget arising from the exercise of the powers of local government units, the Fiscal Risk Monitoring Sector of the Ministry of Finance has developed a working model for the analysis, assessment, and monitoring of fiscal risks, which is expected to be implemented in the upcoming period.

5. 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[5]:

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 25. 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

[5]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

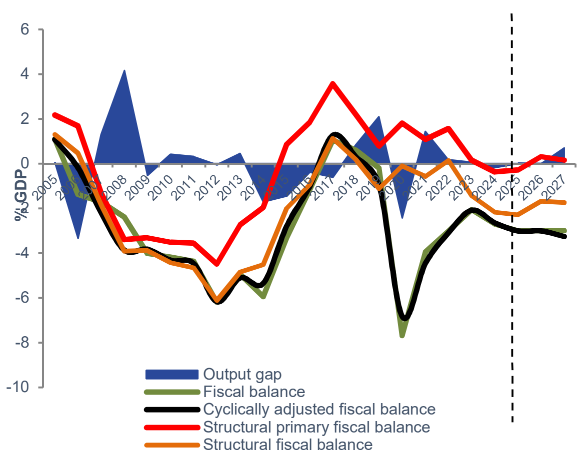
	Output gap	Fiscal balance	Primary fiscal balance	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural fiscal balance	Structural primary fiscal balance	Fiscal impulse
2016	-0,4	-1,1	1,6	-1,0	1,8	-0,9	1,8	-1,7
2017	-0,6	1,1	3,5	1,3	3,7	1,1	3,6	-1,9
2018	0,8	0,6	2,6	0,3	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.

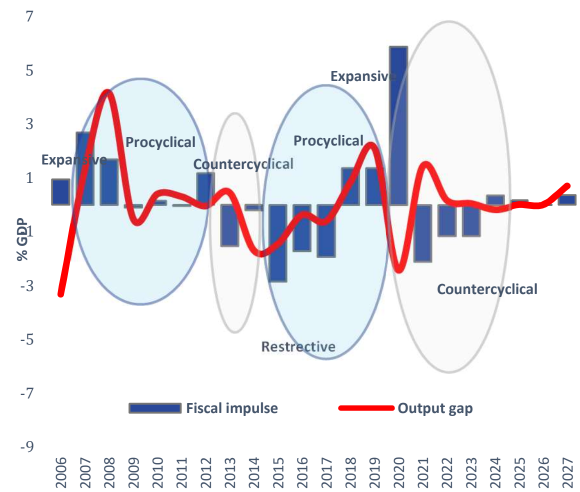
** The structural balances were obtained by excluding estimated one-time revenues and expenses. For the period from 2024 to 2027, one-time expenses include part of the capital expenditures for the EXPO 2027 exhibition, as well as part of the expenses for military equipment.

Source: Ministry of Finance

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



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



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

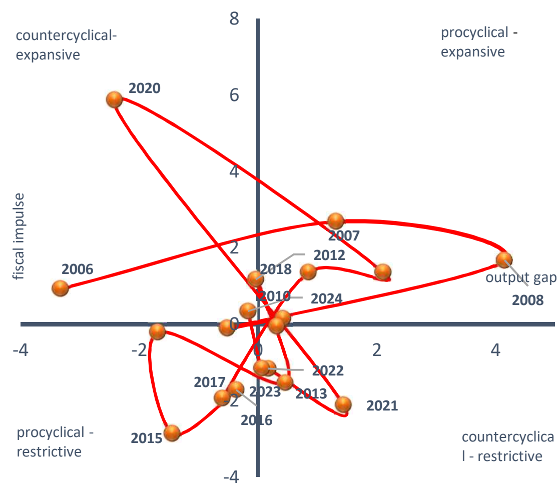
The structural fiscal position of the country was not compromised between 2020 and 2022, because the measures of support to the economy and population within the fiscal policy domain were of a temporary nature. Furthermore, the energy crisis led to significant state interventions in ensuring energy stability 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.

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

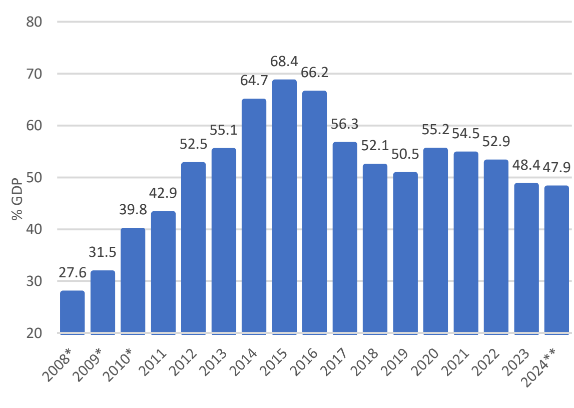


6. Simulation of the Public Debt Trajectory

In this section, we will present a brief retrospective of public debt trends from 2008 to 2024, as well as projections for the next three-year period, from 2025 to 2027, in line with the anticipated fiscal framework. Following that, a simulation of different debt scenarios for the period from 2028 to 2030 is also presented.

From 2008 to 2014, the general government deficit significantly increased, alongside an explosive trajectory of public debt growth, with the debt-to-GDP ratio more than doubling. Fiscal consolidation measures adopted at the end of 2012 and during 2013 somewhat mitigated this trend, but the level of public debt continued to grow substantially. The reduction of the primary deficit in the 2012–2014 period was insufficient to stabilize the public debt-to-GDP ratio. The effects of the first wave of fiscal consolidation, which mainly targeted the revenue side, were not realized due to the increased volume of the shadow economy, which is characteristic of the period following tax rate hikes. On the expenditure side, high interest rates and certain one-off expenses further worsened the fiscal position.

The public debt of the general government sector in the period from 2008 to 2024, % of GDP



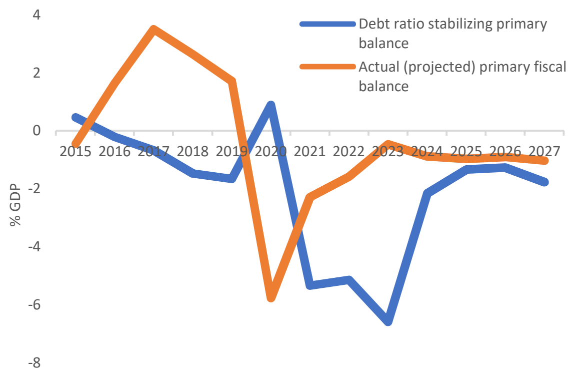
* Approximation of the local debt
** Estimate for the year 2024

The fiscal consolidation measures adopted at the end of 2014 reduced the primary deficit and slowed the growth of public debt already in 2015, and the reduction of public debt as a percentage of GDP occurred in 2016, one year earlier than initially projected under the IMF arrangement. In 2016, a primary surplus of 1,6% of GDP was achieved, creating the conditions for a decrease in the public debt-to-GDP ratio. Subsequently, in 2017, with a primary fiscal surplus of 3,5% of GDP, there was a more significant reduction in the debt ratio, by around 10 percentage points, to 56,3% of GDP. In 2018, the downward trend in the public debt-to-GDP ratio continued, reaching 52,1% of GDP. Fiscal relaxation in 2019 did not jeopardize the declining trajectory of public debt. A positive primary fiscal result of 1,7% of GDP in 2019 further contributed to the reduction of public debt by another 1,6 percentage points of GDP.

The period since 2020 has been marked by one of the largest health and, consequently, economic crises in recent decades, caused by the COVID-19 pandemic. The most important factors that influenced the movements of public debt during this period were the level of the overall and primary fiscal deficit, additional financing needs, and the repayment of maturing debt. The realized fiscal deficit of 7,7% of GDP (primary deficit of 5,8% of GDP) in 2020 and a deficit of 3,9% of GDP in 2021 led to a temporary reversal of the previously declining trend of public debt as a share of GDP. Despite this, the share of public debt in GDP in 2021 slightly decreased to 54,5% of GDP. The success of the previous structural fiscal adjustment program enabled the Republic of Serbia to secure necessary financing for the fiscal deficit during the COVID-19 pandemic without difficulties, as well as to ensure the smooth repayment of maturing debt.

After the health crisis, an energy crisis followed during 2022 and 2023, a period marked by significant inflationary pressures. The uncertainty regarding the course and duration of the crisis during this time required cautious fiscal management, despite significant government spending to ensure uninterrupted energy supply. In 2022 and 2023, the achieved levels of primary fiscal results (primary deficits of 1,6% and 0,5% of GDP, respectively) enabled further reduction in the public debt ratio. By the end of 2024, the projected primary fiscal deficit of 0,9% will reduce the public debt ratio to 47,9% of GDP.

The primary result that stabilizes the participation of debt in GDP and the achieved/projected result*, % of GDP.



* The projected values for the period from 2024 to 2027 are provided.
Source: Ministry of Finance

The analysis of the primary stabilization gap, defined as the difference between the achieved primary balance and the primary balance necessary to stabilize the public debt-to-GDP ratio in the current year, allows for the assessment of the established quantitative fiscal limits. Since 2016, there has been a positive primary stabilization gap, and the debt trajectory has been reversed. During 2017 and 2018, the positive gap increased, and in that period, the largest reduction in the debt-to-GDP ratio was achieved. A contrasting trend was observed in 2020, when the largest negative value of this indicator was recorded. After that, between 2021 and 2024, the primary stabilization gap turned positive, enabling a gradual reduction in the level of public debt. In the period from 2025 to 2027, in line with the fiscal framework outlined in this document, mild positive values of this parameter are projected.

The baseline scenario in this document envisages an increase in the deficit from 2,7% in 2024 to 3% of GDP in the period from 2025 to 2027. With this deficit trajectory, the public debt-to-GDP ratio is reduced to 46,5% by the end of 2027. For the period from 2028 to 2030, three scenarios for the movement of public debt are simulated, each assuming an appropriate government response regarding the fiscal deficit level. Two alternative scenarios simulate the effects of external fiscal and/or macroeconomic shocks and the necessary adjustments to fiscal policy.

The assumptions in the baseline scenario are as follows:

- From 2025 to 2027, the fiscal deficit is planned to remain within the limits set by the fiscal framework. After that, until 2028, the fiscal deficit is projected to be at a maximum level of 2,5%, with a reduction to 1,5% by 2030. In this way, along with other assumptions, there will be a constant decrease in the share of public debt in GDP to 44,8% of GDP by 2030.
- The assumed average real GDP growth rate is 4% in the long term. Such macroeconomic performance enables desirable debt dynamics even in the case of a relatively relaxed fiscal policy.
- Inflation is expected to slow down and then stabilize at an average level of 3% in the long term.
- Fiscal revenue growth will be slower than nominal GDP growth due to structural changes in the economy, strengthened investment activity, and export growth. No significant changes in tax policy are foreseen, with a relatively high level of capital expenditures being maintained.
- There will be no net increase in issued guarantees after 2027.
- No significant inflows from privatization are expected during the observed period. Any larger privatization revenues would reduce the need for financing and further decrease the share of public debt.

The management and sustainability of public debt will be further ensured:

- By restricting the approval of new project loans in cases where previously approved loans have not been used effectively;
- By repurchasing a portion of expensive debt using funds from more favorable loans or privatization revenues, if such opportunities exist;
- By identifying and better managing fiscal risks.

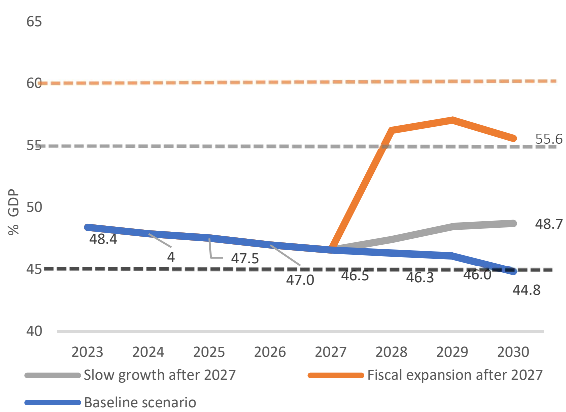
Table 26. The simulation of the total debt level in the baseline scenario until 2030, as a percentage of GDP

Baseline scenario	2023	2024	2025	2026	2027	2028	2029	2030
Revenues	39,4	40,8	41,3	40,9	40,5	40,3	40,1	39,9
Expenditures	41,4	43,6	44,3	43,9	43,5	42,8	42,6	41,4
Decline in expenditure share		2,1	0,7	-0,4	-0,4	-0,7	-0,2	-1,2
Fiscal balance	-2,1	-2,7	-3,0	-3,0	-3,0	-2,5	-2,5	-1,5
Primary fiscal balance	-0,5	-0,9	-1,0	-1,0	-1,1	-0,5	0,5	0,5
Public debt as a percentage of GDP	48,4	47,9	47,5	47,0	46,5	46,3	46,0	44,8
Real GDP growth, %	3,8	3,8	4,2	4,0	5,0	4,0	4,0	4,0

Source: Ministry of Finance

The following chart shows simulations of two alternative scenarios for public debt dynamics, depending on changes in certain assumptions of the baseline scenario. In both cases, an appropriate fiscal policy response is foreseen to keep the level of public debt under control.

Comparison of different scenarios and their impact on the level of public debt, % of GDP



The "slower growth after 2027" scenario assumes an average real GDP growth of about 1% over the observed period, with the same level of fiscal deficit as in the baseline scenario. Under this scenario, public debt experiences continuous moderate growth and reaches 48,7% of GDP by the end of 2030. The projected fiscal deficit trajectory ensures that, despite a prolonged period of low real growth rates, there is no excessive accumulation of public debt. However, this does not automatically imply the same level of fiscal adjustment as in the baseline scenario, as greater accommodation on the expenditure side is required in situations of lower economic growth. Although it does not imply a strong one-off shock, this scenario highlights the long-term unsustainability of low real growth rates for the country's economic development, despite the public debt level being kept under control.

The scenario of a "fiscal shock after 2027" implies the occurrence of an extraordinary event (such as a natural disaster, health crisis, economic shock, or other exceptional circumstances) with dual effects on both the fiscal and real sectors. In order to mitigate the consequences of such a crisis (shock), the government is forced to react by increasing spending or temporarily reducing taxes, which unilaterally worsens fiscal performance. The impact of the crisis on the real sector, depending on the type of shock, can vary greatly in terms of intensity, manner, and duration, but it certainly leads to a decline or slower growth in GDP, as well as negative effects on the revenue side of the budget. These multiple negative factors result in a strong deterioration of the country's fiscal position, manifesting as an increase in the fiscal deficit, both in absolute terms and as a share of GDP.

The presented scenario, due to the exceptional circumstances, implies a sharp increase in the fiscal deficit to 9% of GDP, accompanied by a real GDP decline of 3,5%. As a result, the public debt-to-GDP ratio rapidly rises to 56,2%. Although it would be possible to implement measures that would drastically eliminate the excessive fiscal deficit, such an extreme fiscal adjustment within one year would lead to additional negative effects on the population, as well as further deterioration of the weakened economic performance. In this case, it would be both prudent and expected for the government to foresee a gradual fiscal adjustment over the next two years. Thus, by 2029, under this scenario, a fiscal deficit of 2% is planned, which, with simulated absence of real

GDP growth in that year, would result in only a minimal increase in the public debt ratio. After that, in 2030, a balanced fiscal result is planned, leading to a reversal in the debt trajectory. At the end of this crisis period, with the expected recovery of economic growth at 3% after 2030, the public debt ratio falls below 55%, allowing for the gradual relaxation of fiscal policy.

These simulations, among other things, show the possible directions of fiscal policy actions in different scenarios. At the same time, they also provide confirmation that the baseline scenario provided by this fiscal framework is operational and feasible, and that it serves its purpose, which is the long-term sustainability of the country's fiscal position.

III PUBLIC DEBT MANAGEMENT STRATEGY 2025-2027

According to the Public Debt Law, which serves as the legal basis for the borrowing of the Republic of Serbia, public debt consists of all direct obligations of the Republic arising from borrowing, as well as guarantees issued by the Republic for the borrowing of public enterprises, local government units, and other legal entities. The Republic may borrow in both domestic and foreign currencies for the purpose of financing the budget deficit, addressing current liquidity shortfalls, refinancing outstanding debt, financing investment projects, as well as for meeting obligations arising from issued guarantees. The provisions of the Public Debt Law specify that public debt represents an unconditional and irrevocable obligation of the Republic of Serbia with respect to the repayment of principal, interest, and other associated costs.

The formulation of the Public Debt Management Strategy used a quantitative approach, identifying possible constraints through macroeconomic indicators, cost and risk analysis, and market conditions that affect public debt management. For the analysis, financing instruments available in the domestic and international financial markets were used. 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.

The situation on the international and domestic financial markets, along with the successful implementation of fiscal consolidation measures and good coordination of fiscal and monetary policies, led to a significant reduction in borrowing costs on dinar and euro-denominated securities from 2012 to 2021, as well as a decrease in the risk premium for Serbian government bonds. However, at the beginning of 2022, there was a significant increase in interest rates caused by external factors, which continued into 2023, before stagnating and slightly declining in 2024.

The fiscal strategy foresees reducing the public debt of the government sector to 46,5% of GDP by the end of 2027. In line with the public debt management guidelines defined by the World Bank and the IMF, a stress scenario analysis is conducted within the Public Debt Management Strategy, assessing the impact of changes in the exchange rate of the domestic currency relative to the currencies in which the public debt of the Republic of Serbia is denominated.

In the last ten years, significant progress has been made in terms of increasing the average maturity of dinar government securities and reducing financing costs associated with this form of borrowing, thus lowering exposure to refinancing risk. It is important to note that, during this period, the average weighted coupon rate on dinar government securities was reduced from 13,68%, the rate at the end of 2012, to 5,10% at the end of August 2024.

The Public Debt Management Strategy defines the key measures for further development of the dinar government securities market. The development of this market is expected to lead to continued growth of domestic debt and an increase in its share of total debt, as well as a reduction in public debt exposure to foreign exchange risk, which will positively impact the credit rating of the Republic of Serbia.

After the successful implementation of fiscal consolidation measures in 2016, the upward trajectory of public debt and its share of GDP was reversed. As a result, the share of public debt at the central government level decreased from 67,2% of GDP at the end of 2015 to 65,2% at the end of 2016. In 2017, there was a significant drop to 55,5% of GDP. This trend continued in 2018, when the share of public debt in GDP fell to 51,4%, and again in 2019, when it decreased to 49,7% of GDP.

To mitigate the impact of the COVID-19 pandemic crisis, there was a need to finance measures to support the economy and citizens, which resulted in an increase in the share of debt in GDP to 54,4% at the end of 2020. In 2021, there was a slight decrease in this indicator, with the share of public debt in GDP standing at 53,9% at the end of 2021. The positive trend continued in the following years, with the share falling to 52,4% at the end of 2022, and 48,0% at the end of 2023. By the end of August 2024, the share of public debt in GDP was 46,4%.

Due to increased control over the issuance of guarantees in the past decade, the guaranteed public debt has been significantly reduced, decreasing from 2,8 billion EUR at the end of 2013 to 1,8 billion EUR at the end of August 2024. Its share in GDP has also dropped from 7,6% to just 2,1% during the same period.

The positive fiscal results achieved by the Republic of Serbia have also been confirmed through the movement of Serbia's credit rating over the past few years. Thanks to the responsible macroeconomic policy that the Republic of Serbia has consistently pursued over the years, it has obtained an investment-grade rating for the first time. On October 4, 2024, the credit rating agency Standard & Poor's upgraded Serbia's credit rating to investment grade, at the level of BBB-, with stable outlook for further improvement. The other two rating agencies are also expected to assign investment-grade ratings soon, as indicated by their latest reports. In its most recent report of August 9, 2024, Fitch Ratings confirmed Serbia's credit rating at the level of BB+ and upgraded the outlook from stable to positive. In its latest report of August 30, 2024, Moody's confirmed Serbia's credit rating at Ba2 and upgraded the outlook from stable to positive. Obtaining an investment-grade rating will significantly affect the further reduction of Serbia's financing costs. It is expected to expand the investor base, as certain investors have not previously invested in Serbia's government bonds due to their business policy of not investing in countries without an investment-grade rating or due to the limits they have for investing in bonds from such countries. This will lead to lower borrowing costs both on the domestic and international markets, due to the lower risk associated with the instruments that the Republic of Serbia will issue. Lower borrowing costs will result in savings in the budget, while also reducing the risk profile of the public debt portfolio.

In 2020, the Republic of Serbia issued euro-denominated bonds twice to finance a package of measures to support the economy and citizens in minimizing the impact of the COVID-19 pandemic crisis and to prematurely repay previously issued expensive euro-denominated bonds. The first bond issuance took place on May 15, 2020, in euros, at the most critical moment of the first wave of the pandemic, in the total amount of 2,0 billion EUR. The coupon rate was 3,125%, maturing in 2027. The second bond issuance took place on December 1, 2020, in the total amount of 1,2 billion USD, maturing in 2030. The coupon rate was 2,125%, and the final interest rate in euros, after the realization of the hedging transaction, was 1,066%. The return to the dollar bond market and the new issuance denominated in dollars allowed Serbia to remain present in the Emerging Market Bond Index (EMBI), ensuring its visibility in the U.S. capital market as well as on the broader international investment map. The proceeds from the December 2020 bond issuance were used to prematurely repay 900 million USD of euro-denominated bonds issued in 2011, out of a total of 1,6 billion USD maturing in September 2021. These bonds, issued with a coupon rate of 7,25%, were repurchased early.

To reduce financing costs and extend the maturity of its debt, the Republic of Serbia successfully took advantage of favorable conditions on the international financial market on March 3, 2021, and issued twelve-year euro-denominated bonds in the amount of one billion euros, with a coupon rate of 1,65%. On September 23, 2021, the Republic of Serbia once again pushed the boundaries of financing its investments by entering the international green bond market. The green euro bond was issued in the amount of 1,0 billion EUR, with a maturity of seven years and a coupon rate of 1,00%, the lowest ever achieved on the international market. With this issuance, the Republic of Serbia joined the ranks of rare European countries that have issued green euro bonds on the international financial market, dedicated exclusively to financing environmentally sustainable projects. At the same time, with the green euro bond issuance, a fifteen-year euro-denominated bond—the longest maturity ever issued—was also launched, in the amount of 750 million EUR, with an annual coupon rate of 2,05%, further extending the maturity of the public debt.

In January 2023, Eurobonds with maturities of five and ten years were issued for a total amount of 1,75 billion dollars (750 million dollars for five years and 1 billion dollars for ten years). The five-year Eurobond was issued with a coupon rate of 6,25%, while the ten-year Eurobond was issued with a coupon rate of 6,50%. On June 12, 2024, the Republic of Serbia successfully completed the issuance of sustainable (ESG - Environmental, Social, and Governance) Eurobonds denominated in US dollars on the international financial market with a ten-year maturity, totaling 1,5 billion dollars, with a coupon rate of 6,00%.

Guided by the best international practices in active public debt management, the Republic of Serbia, in December 2020, for the first time implemented a hedging transaction, i.e., the use of financial derivatives to protect against foreign exchange and interest rate risks, in accordance with international ISDA standards (International Swaps and Derivatives Association). Specifically, a cross-currency swap transaction was conducted, converting obligations arising from an issued bond from US dollars to euros at a significantly lower final interest rate. The Republic of Serbia will service its obligations from the dollar-denominated issuance, amounting to USD 1,2 billion, in euros at a coupon rate of 1,066% on the nominal value of the issuance after conversion to EUR 1,016 billion. The favorable exchange rate between the euro and the US dollar at that time, as well as the divergence between dollar and euro interest rates on the international capital market, were utilized, achieving the most favorable borrowing cost while optimizing the currency structure of public debt, all aimed at protecting against foreign exchange rate risk.In January 2021, a second swap transaction was executed, converting obligations under the Debt Rescheduling Agreement between the Republic of Serbia and the Kuwait Investment Authority from US dollars to euros at a significantly lower interest rate. The debt obligations, initially contracted in US dollars at an interest rate of 1,5%, will now be serviced by the Republic of Serbia in euros at an interest rate of 0,393%. In March 2021, a new swap transaction was concluded in relation to a loan from the Export-Import Bank of China for the construction of a bypass around Belgrade on the E70/E75 highway, initially contracted in Chinese yuan in 2018. This loan was converted into euros with a negative interest rate. The loan, which had an annual fixed interest rate of 2,50% in Chinese yuan, was converted to euros with a fixed negative interest rate of -0,07%. Since a negative interest rate was agreed upon, the Republic of Serbia will not incur any interest costs during the first five years of the swap arrangement, which is valid until 2030, and will instead receive additional income from the banks with which the transaction was concluded. On November 24, 2021, a fourth swap transaction was executed, converting obligations arising from a loan obtained from the Abu Dhabi Development Fund in 2016, initially contracted in dirhams with payments in US dollars, into euros. The debt and obligations from the said loan, which had a fixed interest rate of 2,25% per annum, were replaced with euro-denominated obligations at an annual interest rate of 0,96%. In 2023, immediately after the issuance of euro-denominated bonds, hedging transactions were concluded, converting obligations from the issuance of dollar-denominated eurobonds into euro-denominated obligations. Following the execution of a cross-currency swap, the variable interest rate for the five-year bond is set at six-month EURIBOR + 2,908%, while the ten-year bond has a variable interest rate of six-month EURIBOR + 3,073%. In June 2024, simultaneously with the issuance of a ten-year dollar-denominated sustainable eurobond with a coupon rate of 6% (ESG - Environmental, Social, and Governance), a swap transaction was concluded, converting dollar-denominated obligations into euro-denominated obligations at a fixed interest rate of 4,754%.

In 2020, the issuance of benchmark bonds on the domestic market continued. Bonds with maturities of 5,5 and 12,5 years were issued in RSD with a nominal value of 100 billion dinars each, and their volumes were increased to 150 billion dinars each in 2021. On June 30, 2021, the dinar-denominated benchmark bonds of the Republic of Serbia with maturities of 7, 10, and 12,5 years were included in the J.P. Morgan GBI-EM Index. The inclusion in this index represented a significant step forward in strengthening the liquidity of the secondary market for government bonds and ensured the entry of new international investment funds, which will result in greater competition and further reduction of borrowing costs. In March 2024, the Republic of Serbia's 8-year benchmark bond, with a nominal value of 150 billion dinars and issued in 2023, was also included in the J.P. Morgan GBI-EM Index. In October 2021, Clearstream, an international central securities depository (ICSD) providing clearing and settlement services, opened a securities account in the domestic registry and, through an intermediary – a licensed participant in the local market – enabled foreign investors to settle Serbian bonds in dinars.

The currency risk has been reduced over the past years, although there has been some deterioration in this indicator over the last three years due to specific market conditions and the necessity to intensively use the international financial market in order to minimize borrowing costs. The share of public debt in the domestic currency within the total public debt at the central government level was only 2,6% at the end of 2008, and by the end of 2020, it had increased to 30,5%. However, after that, due to borrowing on the foreign market under more favorable conditions, the share decreased to 21,7% at the end of 2023, and saw a slight improvement during 2024, reaching 21,8% at the end of August. The growth of dinar-denominated debt in previous years was primarily driven by the issuance of dinar-denominated government securities on the domestic securities market. In 2019 and 2020, early redemption of expensive euro-denominated bonds issued in 2011 and 2013 in US dollars was carried out, and in February 2020, regular repayment of the dollar-denominated bond issued in 2013 took place. In December 2020, the first hedging transaction was completed, during which a euro-denominated bond was issued in US dollars and immediately converted to euros. In January 2021, another hedging transaction was concluded, converting obligations in US dollars to euros. In January 2023 and June 2024, new hedging transactions were concluded, issuing euro-denominated bonds in US dollars and immediately converting them to euros. Thanks to all these transactions, the share of public debt in total public debt decreased from 33,9% at the end of 2016 to 12,9% at the end of August 2024.

The costs of borrowing have also been significantly reduced in recent years. The share of interest costs in GDP has decreased from 2,8% (central government level) in 2015 to 1,7% in 2023.

By the end of August 2024, the total public debt of the general government sector amounted to 4.484,6 billion dinars, or 46,7% of GDP. Of this, 4.249,0 billion dinars were direct obligations, 205,7 billion dinars were indirect obligations, while 29,7 billion dinars were related to the non-guaranteed debt of local government units, and 253,1 million dinars were related to the non-guaranteed debt of the PE “Roads of Serbia” and the company “Corridors of Serbia” LLC.

The participation of public debt in the general government in GDP, %

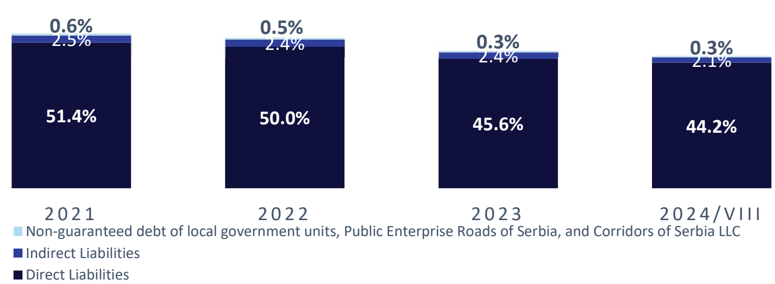


Table 27. The public debt of central government of the Republic of Serbia in the period from the end of 2021 to August 31, 2024

	2021	2022	2023	2024/VIII
Public debt of the central government (in billion dinars)	3.581,8	3.945,8	4.266,6	4.484,6
Public debt of the central government (in million euros)	30.461,8	33.632,2	36.412,3	38.323,0
Public debt of the central government (in million dollars)	34.464,5	35.821,6	40.301,1	42.450,4

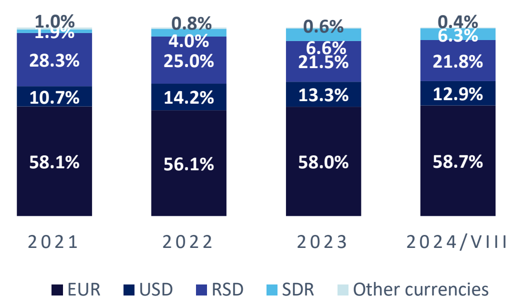
In the last four years, there has been a noticeable and intense increase in the public debt at the central government level, denominated in euros. Due to more favorable conditions for borrowing on the international market, euro bonds have been issued multiple times in both euros and US dollars, which were immediately converted into euros after the transactions. Additionally, part of the debt in US dollars, Chinese yuan, and UAE dirhams was converted into euros, due to the much lower exchange rate fluctuations of the euro against the dinar compared to those currencies, in order to reduce currency risk. During 2022 and 2023, there was an increase in debt in Special Drawing Rights (SDRs) due to borrowing from the IMF on favorable terms. In the same period, there was a noticeable decline in debt denominated in dinars, due to the regular repayment of maturing government bonds, while in the first eight months of 2024, this debt started to grow. Frequent fluctuations in the exchange rate of the US dollar against the dinar fully justify the decision to significantly reduce dollar-denominated debt and thus minimize currency risk, as well as to choose the right moment for concluding swap transactions. As a result of concluded swap transactions, and with the aim of further minimizing currency risk, debt in other currencies has been significantly reduced.

Table 28. The state of public debt at the central government in original currencies during the period from the end of 2021 to August 31, 2024, in millions.

	2021	2022	2023	2024/VIII
EUR	17.386,4	18.585,2	20.857,5	22.268,7
USD	3.694,6	5.076,7	5.364,6	5.455,2
RSD	1.010.176,5	983.500,7	917.800,7	972.064,4
CHF	73,7	27,2	9,7	0,0
SDRs	475,0	1.064,9	1.988,6	1.974,5
Other currencies(in RSD)	27.304,8	27.375,6	22.793,5	19.221,7

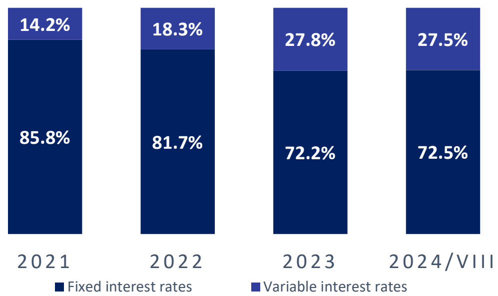
As of August 31, 2024, the majority of the public debt of the Republic of Serbia's government is denominated in euros, amounting to 58,7%. The next most represented currencies are the dinar, with 21,8%, and the US dollar, with 12,9%. The remaining debt is denominated in Special Drawing Rights (SDRs) at 6,3%, and other currencies account for 0,4%. Thanks to the continuous development of the domestic securities market and the gradual increase in the volume of domestic currency issuances, the share of debt in domestic currency has grown in recent years, from 16,4% at the end of 2011 to 30,4% in 2020. However, it has since decreased due to slightly higher financing needs and changed market conditions.

The currency structure of the central government debt from 2021 to August 31, 2024.



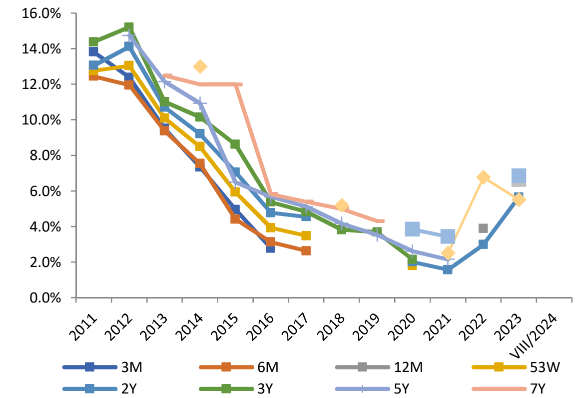
As of August 31, 2024, the majority of the public debt of the Republic of Serbia's central governemnt has a fixed interest rate—72,5%, while 27,5% of the public debt is subject to variable interest rates. Among the variable interest rates, EURIBOR is the most prevalent, with a share of 70,0%, followed by the variable interest rate for special drawing rights at 22,7%, and Belibor at 7,1%. The remaining obligations with other interest rates account for 0,2%.

The structure of interest rates on central government debt from 2021 to August 31, 2024, %

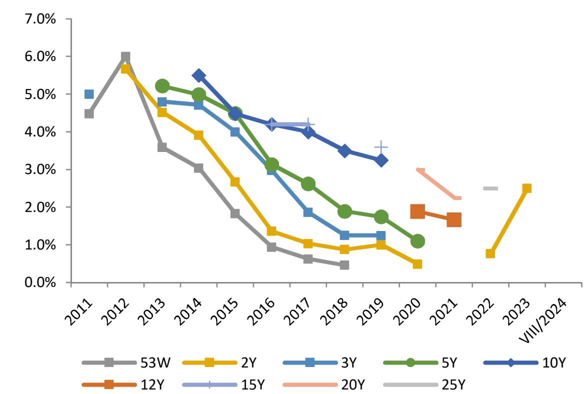


Between 2014 and 2021, there was a significant decline in borrowing costs, most notably for government securities issued on the domestic market. This decrease was driven by the development of the government bond market, an improvement in the country's credit rating, a reduction in the risk premium, low inflation, and a decrease in the National Bank of Serbia's reference interest rate. The average weighted interest rate on public debt fell from 5,70% at the end of 2014 to 2,53% at the end of 2021. A more pronounced decline was observed in dinar-denominated government securities, where the average weighted coupon rate decreased from 10,68% at the end of 2014 to 5,10% at the end of August 2024. Over the past three years, due to high inflation, the most intense increase in interest rates on the international financial market in this century occurred. This also partly affected the rise in borrowing costs for the Republic of Serbia. As of the end of August 2024, the average weighted rate on total public debt was 3,81%.

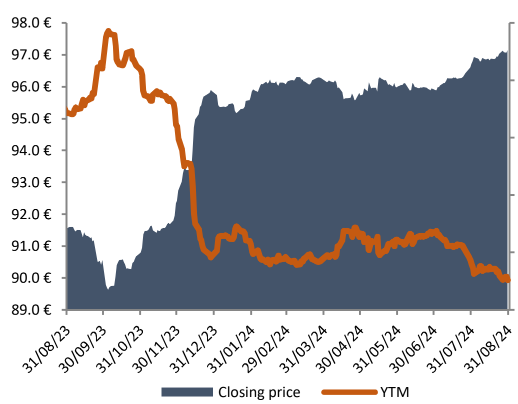
Overview of the movement of average effective interest rates on dinar-denominated government securities in the period from 2011 to August 31, 2024



Overview of the trends in average effective interest rates on euro-denominated government securities from 2011 to August 31, 2024.

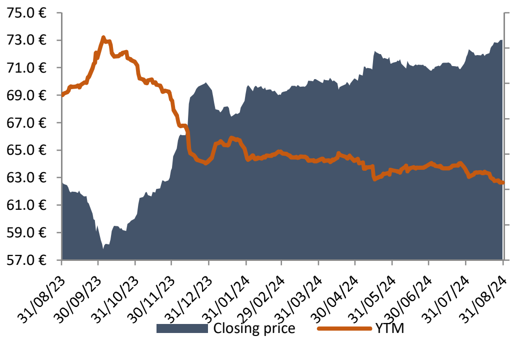


Overview of Price and Yield Movements for Serbia Eurobond (EB 2027 / 3,125%)

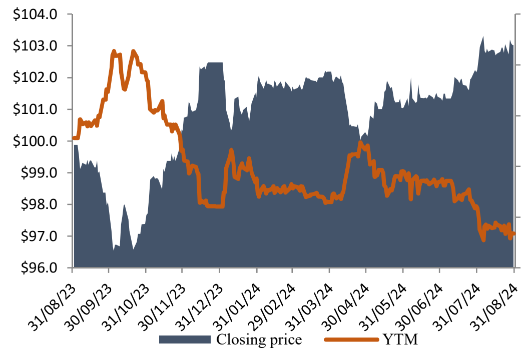


Overview of Price and Yield Trends for the Eurobond Serbia (EB 2029 / 1,500%)

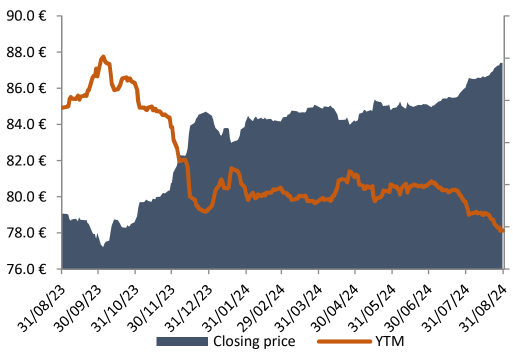
Overview of Price and Yield Trends for Serbia Eurobond (EB 2036 / 2,050%)



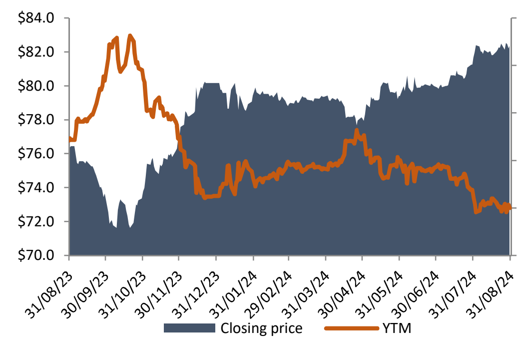
Overview of Price and Yield Movements on Serbia Eurobond (EB 2028 / 6,250%)



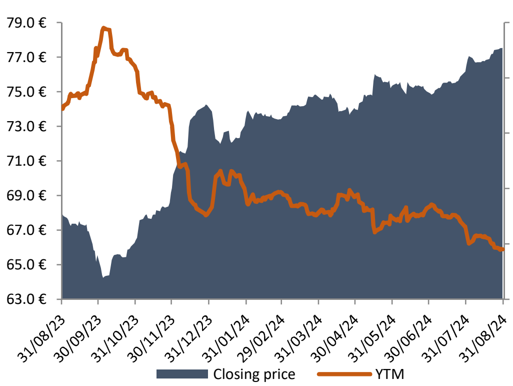
Overview of Price and Yield Movements for Serbia Eurobond (EB 2028 / 1,000%)



Overview of Price and Yield Movements for Serbia Eurobond (EB 2030 / 2,125%)



Overview of Price Movements and Yields on Serbia's Eurobond (EB 2033 / 1,650%)



Overview of Price and Yield Movements for Serbia Eurobond (EB 2033 / 6,500%)

Overview of the price and yield movement on the Serbian Eurobond (EB 2034 / 6,000%)

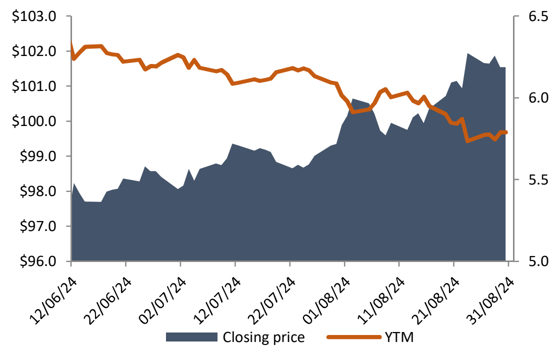


Table 29. Projections of interest and principal repayments until 2027 (billion dinars)

	2024 p	2025 p	2026 p	2027 p
Principal Amount*	717,5	480,1	785,2	725,3
Interest	185,1	220,2	233,2	234,1
Total	902,6	700,3	1.018,4	959,4
As of the Public Debt on August 31, 2024	20,3%	15,7%	22,9%	21,5%

* including funds for buy-back operations

Table 30. Projections of interest and principal repayments until 2027 (% of GDP)

	2024 p	2025 p	2026 p	2027 p
Principal Amount	7,5%	4,6%	7,1%	6,0%
Interest	1,9%	2,1%	2,1%	2,0%
Total	9,4%	6,8%	9,2%	8,0%

Planned amounts for interest and principal repayments at the central government level also include funds for buy-back operations, i.e., early debt repayments to replace more expensive debt with cheaper options, as well as insurance premiums on export credits.

Projection of the Public Debt of the Central government for the Period 2024–2027

Considering the projected primary budget outcome of the Republic of Serbia for the period 2024–2027, including the volume of loan withdrawals for project financing by budget users, the effects of the dinar exchange rate changes against the euro and the US dollar, under the baseline macroeconomic scenario, the central government debt level is expected to be at 46,0% of GDP by the end of 2027.

Table 31. Basic Projection of Public Debt of the Central government Until 2027

	2024 p	2025 p	2026 p	2027 p
Public debt (Central government), billion RSD	4.558,3	4.854,3	5.151,3	5.521,5
Debt of Central governemnt, in % GDP	47,5%	47,0%	46,5%	46,0%
Non-guaranteed debt of local government units, as a percentage of GDP	0,4%	0,5%	0,5%	0,5%
Debt of General goverment, in % GDP	47,9%	47,5%	47,0%	46,5%

By the end of 2024, public debt participation of the General government in GDP is expected to reach 47,9%. In the following years, a decline in the ratio is expected, which, in the baseline scenario, should be 47,5% by the end of 2025, 47,0% by the end of 2026, and 46,5% by the end of 2027. During this period, the realization of large infrastructure projects is expected, which will primarily be financed through project loans, with their more intensive implementation compared to the previous period. This is precisely one of the points where clear coordination between fiscal and development goals can be seen. Care is taken to ensure the sustainability of public debt and the gradual reduction of its share in GDP, while simultaneously using new borrowing to improve infrastructure conditions that lead to GDP growth, living standards, and new investments. It is predicted that the non-guaranteed debt of local government units and other sectors of the state will remain at a relatively stable level of 0,4% to 0,5% of GDP in the upcoming period.

Principles of Public Debt Management

According to the Public Debt Law, the primary goal of borrowing by the Republic of Serbia and managing public debt is to secure funds for the regular servicing of budgetary needs under the most favorable terms and financing costs, with an acceptable level of risk. Based on this, the Public Debt Management Strategy of the Republic of Serbia defines the following general objectives and principles:

1) Ensure financing of the fiscal deficit and regular servicing of the Republic of Serbia's public debt obligations;

2) Define an acceptable level of risk, which should be determined within the framework of a targeted debt portfolio structure, considering the currency structure of debt, interest rate structure, maturity structure, and debt structure according to financial instruments;

3) Continue the development of the domestic and international government securities market, which would help reduce borrowing costs in the medium and long term;

4) Ensure transparency and predictability of the borrowing process.

The Public Debt Management Strategy is consistent with the overall medium-term macroeconomic and fiscal framework.

The Public Debt Management Strategy for the upcoming medium-term period is based on financing the deficit and debt principal of the Republic of Serbia's budget through the issuance of government securities on the domestic and international capital markets, ensuring the regular servicing of obligations. Flexibility will be reflected in the choice of market for borrowing, the currency of borrowing, and financing instruments. The financing structure choice will take into account the current state and trends of domestic and international financial markets (interest rates, risk premiums, yield curves, exchange rates of reference currencies) and an acceptable level of exposure to financial risks.

The goal is that in the upcoming long-term period, financing will primarily be conducted through the issuance of dinar-denominated securities on the domestic market. Part of the financing may also come from the international financial market in the medium-term period. The establishment of the GMTN program in 2020 enabled flexibility in financing choices and quicker access to international market financing.

Borrowing in foreign currency, such as in US dollars, carries foreign exchange risk due to the euro-US dollar exchange rate fluctuations, so the possibility of hedging will be used.

The public debt management policy must consider the long-term perspective, but decisions regarding financing budget expenditures must be made annually. The decision on annual borrowing is made within the Budget Law for the respective fiscal year. Depending on changes in key fiscal aggregates, adjustments to the borrowing plan may occur during the fiscal year.

Financial Risks and Measures for Managing Financial Risks

The impact of financial and fiscal risks can lead to a higher growth in public debt than what is forecasted in the baseline scenario. The risks present and which can lead to an increase in debt and the costs of servicing public debt include: refinancing risk, exchange rate 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).

In order to reduce exposure to financial risks, the following measures need to be implemented:

1. refinancing risk

- Increase in the participation of medium- and long-term financial instruments denominated in dinars on the domestic financial market;
- Even distribution of liabilities from public debt on an annual basis over the next long-term period;
- Extension of the average maturity of debt issued in securities;

2. currency risk

- The effort to reduce the share of foreign currency-denominated debt while considering the costs of new debt (costs of debt de-dollarization);
- The use of financial derivatives to limit the effects of changes in the exchange rates of reference currencies;
- The effort to ensure that external debt is mainly in euros, with dollar-denominated debt used only when financing on the international market in dollars is cheaper, utilizing financial derivatives to limit risk;

3. Market risk (interest rate risk, inflation risk)

- Efforts to extend the average maturity of domestic debt in dinars;
- Efforts to ensure that interest rate risk on external debt does not jeopardize the long-term goal of minimizing public debt costs;

4. Liquidity risk

- Permanent maintenance of the cash balance in the accounts of the Republic of Serbia at a level that ensures smooth financing of obligations for a minimum of four months and at a level that allows absorption of any lower-than-expected inflows from borrowing compared to the plan;
- Adequate management of free cash resources in the accounts of the Republic of Serbia in accordance with asset-liability management principles and within available possibilities;

5. credit and operational risks

- Conducting transactions with financial derivatives only with financial institutions that have a high credit rating;
- Using financial instruments that limit credit risk;
- Issuing guarantees and approving new debt for local government units only if there is an adequate analysis of the relatively low probability of the guarantee being realized or the local government unit becoming insolvent in the medium term;
- Implementing adequate controls in all business activities within the Public Debt Administration and improving the knowledge of employees;

6. Risks related to the distribution of servicing costs

- Adequate planning of borrowing on an annual basis and even distribution in the following years and throughout the fiscal year to avoid the risk of a large concentration of obligations for refinancing;
- Avoidance of the concentration of public debt obligations on a monthly basis, which could not be amortized with available cash on the accounts of the Republic of Serbia.

The analysis used in the development of the Public Debt Management Strategy

The formulation of the Debt Management Strategy was based on a quantitative approach in analyzing the costs and risks that affect public debt management.

Taking into account the macroeconomic environment and market conditions, alternative financing sources are considered in parallel.

For the analysis, instruments available in the domestic and international financial markets were used.

Financing sources denominated in foreign currency:

- Loans from foreign governments, international financial institutions, commercial banks, and other creditors – presented as concessional instruments denominated in euros or US dollars, with a fixed or variable interest rate;
- Government notes and government bonds issued on the domestic or foreign financial market, denominated in euros;
- Eurobonds – issued in euros or US dollars on the international financial market.

Sources of financing in domestic currency:

- Government securities and government bonds issued in the domestic financial market, denominated in dinars;
- Credit arrangements denominated in dinars, from domestic creditors for financing significant projects in the country.

Future market interest rates and scenario analysis

After selecting the appropriate composition of funding sources (chosen and comparative financing strategies), the analysis of costs and risks is conducted based on the baseline (most likely) scenario. This is followed by stress testing for additional types of scenarios or shocks, in order to obtain an overview of the cost effects of the considered strategies

he baseline scenario is based on the most likely market conditions for three groups of market variables: exchange rates, interest rates on the international market, and interest rates on the domestic market. The approach for dinar and euro interest rates is based on the rates achieved during the previous and current year.

After defining the baseline scenario, in order to conduct stress testing, additional types of scenarios or shocks have been selected:

- Depreciation of the dinar against all currencies by 15% in 2026. In this scenario, the exchange rate between the euro and the US dollar would remain stable, while only the dinar would depreciate against both currencies;
- Increase in interest rates on the domestic and international markets by 2 percentage points;
- Increase in interest rates on the international market by up to 3 percentage points, and on the domestic market by up to 4 percentage points;
- A combined shock related to the depreciation of the dinar against the dollar by 15% in 2026 and an interest rate increase by 2 percentage points

Alternative Debt Strategies for the Period 2025–2027

Based on the World Bank's Medium Term Debt Strategy Model – MTDS, the analyzed alternative debt strategies are as follows:

Basic Strategy (S1): This strategy covers the total budget financing needs through a combination of financing sources in foreign and domestic currencies. Foreign currency budget financing sources mainly consist of proceeds from the sale of euro-denominated bonds on the foreign financial market (with a dominant maturity of fifteen years, but with plans for maturities of seven, ten, and twenty years), as well as program loans from various creditors. Domestic currency budget financing sources come from the issuance of government bonds on the domestic financial market (with a dominant maturity of twelve years, followed by seven years, and a minimal share in maturities of three and five years). Project financing, as in previous years, is mainly provided through foreign currency-denominated loans from international creditors, but there is also an increasing share of credit arrangements in domestic currency from domestic creditors.

Strategy (S2): In comparison to strategy S1, this strategy fully satisfies financing needs through the issuance of euro-denominated bonds in US dollars, with maturities of ten and fifteen years.

Strategy (S3): In comparison to strategy S1, this strategy bases the entire financing on the issuance of euro-denominated bonds in euros, mainly with maturities of fifteen and seven years, with a smaller portion in twenty-year maturities.

Additional Dinaraization Strategy (S4): This strategy fully relies on the issuance of dinar-denominated securities, mainly with maturities of twelve years, but also with shorter maturities of seven and five years.

Comparison of Alternative Strategies

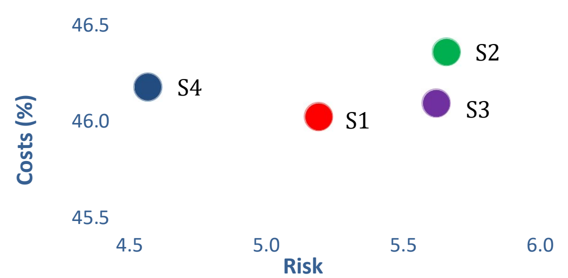
To compare alternative debt strategies, two cost measures were applied: the ratio of public debt to GDP and the nominal interest rate as a percentage of GDP. The first ratio is an indicator of the state, while the second is an indicator of the flow. For the purpose of comparison, the focus is on the results of the considered strategies at the end of 2027.

The chart clearly shows the costs associated with each of the strategies under consideration. The cost of alternative strategies under the baseline macroeconomic scenario is displayed on the vertical axis of the cost chart, while the horizontal axis shows the potential cost of a given debt strategy (stress test result).

Under the baseline macroeconomic scenario at the end of 2027, measured by the debt-to-GDP ratio, the highest costs are associated with strategies S2 and S4, followed by strategy S3, while strategy S1 is at the lowest cost level. On the other hand, the greatest risk to the debt-to-GDP ratio, should there be deviations from the baseline macroeconomic scenario, comes from exchange rate changes. Viewed from the perspective of the impact of exchange rate shocks on the debt-to-GDP ratio, the best position is held by strategy S4, as its entire financing is in dinars. In contrast, strategies S2 and S3 have greater exposure to exchange rate risk, as their financing is entirely based on foreign currency sources. Strategy S1, in terms of exchange rate risk, is in a slightly more favorable position compared to strategies S2 and S3 because it combines domestic and foreign currency financing.

From the perspective of interest participation in GDP, the dollar-denominated strategy S2 is the most expensive, as it has the highest interest rates. This is followed by strategy S4, which is based on dinar-denominated bonds, also with high interest rates, but at a lower level due to the shorter maturity of the instruments in this strategy. Then comes strategy S3 (euro-denominated bonds), and finally S1, the most favorable (market and concessional instruments). The results of the stress analysis showed that the biggest risk to changes in the interest-to-GDP ratio, if the baseline scenario changes, comes from interest rate shocks, which are greater on the domestic market than on the international market. This makes strategy S4 the most at risk in terms of changes to the interest-to-GDP ratio. Following this are strategies S2 and S3, consisting of market instruments that are also susceptible to interest rate shocks on the international market, while in strategy S1, this risk is mitigated due to the presence of concessional instruments with fixed rates.

The ratio of debt to GDP at the end of 2027



The ratio of interest rates to GDP at the end of 2027.

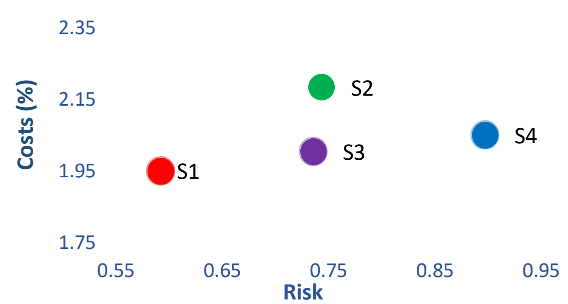


Table 32. The ratio of public debt to GDP at the end of 2027

Scenarios	S1	S2	S3	S4
Baseline scenario	**46,0**	**46,4**	**46,1**	**46,2**
Exchange rate shock (15% for all currencies)	**51,2**	**52,0**	**51,7**	**50,7**
Interest rate shock (scenario 1)	**46,7**	**47,2**	**46,9**	**47,0**
Interest rate shock (scenario 2)	**47,1**	**47,6**	**47,3**	**47,6**
Combined shock (15% USD and interest rate shock 1)	**47,9**	**49,5**	**48,1**	**48,2**
Maximum risk	**5,2**	**5,66**	**5,62**	**4,6**

Table 33. The ratio of interest payments to GDP at the end of 2027

Scenarios	S1	S2	S3	S4
Baseline scenario	**2,0**	**2,2**	**2,0**	**2,1**
Exchange rate shock (15% for all currencies)	**2,2**	**2,4**	**2,2**	**2,2**
Interest rate shock (scenario 1)	**2,3**	**2,7**	**2,5**	**2,5**
Interest rate shock (scenario 2)	**2,5**	**2,9**	**2,7**	**2,9**
Combined shock (15% USD and interest rate shock 1)	**2,4**	**2,8**	**2,6**	**2,6**
Maximum risk	**0,59**	**0,74**	**0,74**	**0,90**

The following table shows the movements of the key parameters of public debt based on all four considered strategies, reflecting the above-mentioned characteristics of each strategy

Table 34. The risk indicators for alternative strategies at the end of 2027

		S1	S2	S3	S4
Nominal debt (% of GDP)		**46,0**	**46,4**	**46,1**	**46,2**
Applied interest rate (%)		**4,5**	**5,1**	**4,7**	**4,8**
Refinancing risk	ATM[6] external portfolio (in years)	**8,7**	**10,2**	**9,5**	**7,3**
	ATM domestic portfolio (in years)	**6,3**	**3,2**	**3,2**	**8,4**
	ATM total portfolio (in years)	**8,0**	**9,6**	**9,0**	**7,9**
Interest rate risk	ATR[7] (in years)	**6,1**	**8,1**	**7,5**	**6,4**
	Refinancing (% of total debt)	**26,1**	**21,9**	**22,0**	**22,0**
	Debt with fixed interest rates (% of total debt)	**81,0**	**85,2**	**85,2**	**85,2**
Exchange rate risk	Foreign currency debt (% of total debt)	**74,9**	**91,1**	**91,0**	**41,3**

Stress-test analysis

Based on the planned macroeconomic framework, and in the absence of the impact of potential risks, the central government public debt should reach 46,0% of GDP by the end of 2027.

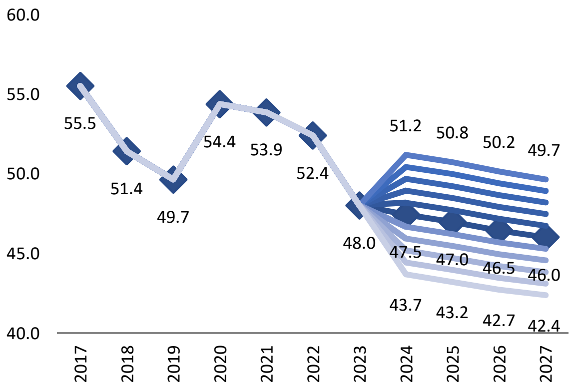
The main factors influencing the stabilization of the public debt/GDP ratio are GDP growth, a positive primary balance, and the exchange rate of the dinar against foreign currencies.

Tabele 35. The contribution of key macroeconomic variables to the change in the ratio of public debt (central government level) to GDP, in %

	2022	2023	2024 p	2025 p	2026 p	2027 p
Long-term central government debt/GDP	52,4	48,0	47,5	47,0	46,5	46,0
Change compared to the previous year in % of GDP	-1,5	-4,4	-0,5	-0,5	-0,5	-0,5
Contribution of the primary fiscal balance	1,7	0,3	0,8	0,9	0,9	1,0
Contribution of interest	1,4	1,7	1,9	2,1	2,1	2,0
Contribution of nominal GDP growth	-6,4	-8,1	-3,9	-3,3	-3,2	-3,5
Contribution of other factors	1,7	1,7	0,7	-0,2	-0,3	0,0

[6] ATM (*Average Time to Maturity*)
[7] ATR (*Average Time to Refixing*)

The impact of the change in the dinar exchange rate against the currency basket from the central government public debt portfolio on the change in the public debt-to-GDP ratio



The chart shows the movement of the public debt-to-GDP ratio at the central government level, depending on the exchange rate change of the dinar against a specified currency basket. The basic projection is presented with alternative scenarios depending on the appreciation or depreciation of the dinar's exchange rate, ranging from 10% appreciation to 10% depreciation of the dinar relative to the currency basket. 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 main risks to the implementation of the Strategy, in addition to the above-mentioned quantified factors, include the stability of the macroeconomic situation in the Republic of Serbia, the need for additional borrowing to manage debts at other levels of government, the public sector, and the financial sector of the Republic of Serbia, as well as the activation of existing guarantees.

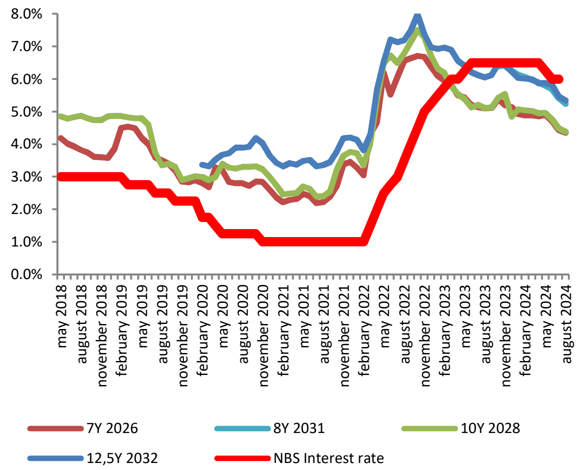
It is important to note that the reduction of public debt relative to GDP is also contributed by adequate control over the issuance of guarantees and the improvement of the process for prioritizing investment projects financed from credit lines of multilateral and bilateral creditors.

The long-term strategic framework for public debt management

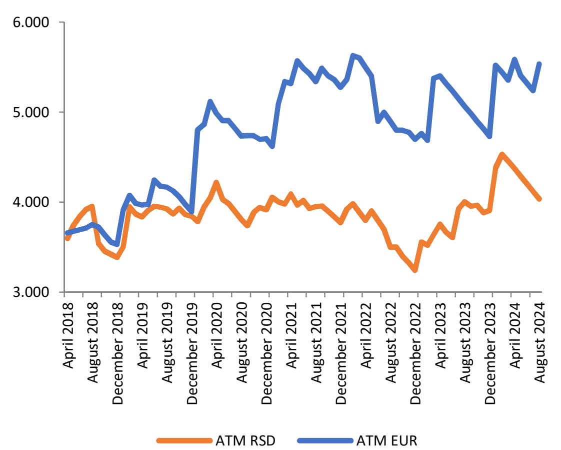
The main strategic goals that need to be pursued in the upcoming long-term period, in order to minimize the risks of increasing indebtedness and the costs of servicing public debt, are:

- The share of debt denominated in dinars must be at least 30% of the total public debt in the medium term;
- The share of debt denominated in euros in public debt must be at least 65% of the foreign-currency debt, including future borrowings and transactions;
- The share of debt with a variable interest rate must be below 20% in the medium-term period;
- The average time to interest rate change (ATR) must be maintained at a minimum level of 5,0 years, in accordance with the aforementioned measure for gradually reducing the share of debt with variable interest rates;
- The average weighted interest rate (WAIR) on domestic currency public debt must not exceed 6,00%;
- The share of short-term debt (with a maturity of up to one year) must be up to 20% of the total public debt;
- The average time to maturity (ATM) of domestic debt must be at least five years in the medium term;
- The average time to maturity (ATM) of external debt must be maintained at a level of 8,0 ± 0,5 years in the same time horizon.

The movement of yields to maturity of domestic "benchmark" issues included in the GBI-EM Global Diversified Index on the secondary market.



The average time to maturity (ATM) of government securities issued on the domestic financial market in the period from March 31, 2018, to August 31, 2024.



Measures for Enhancing the Market of Denominated Securities in the Period 2024–2027

The market for government securities from 2012 to August 2024 has been characterized by the fulfillment of set strategic goals, primarily in terms of financing instruments, as well as in the development and maintenance of the stability of a diversified investor base. The transition from short-term financing sources, which were tied to the period before 2010, to medium- and long-term financing instruments, alongside a constant reduction in borrowing costs, has contributed to the reduction of refinancing risk, one of the primary risks in public debt management. At the end of 2013, the share of long-term dinar instruments with an original maturity of three years or more accounted for 38,3% of the total dinar securities, while by the end of August 2024, this share had increased to 88,6%.

Transparency in operations and reporting, as well as presence in the international capital market, have influenced the level of information available and, consequently, the interest of non-residents in investing in debt instruments, primarily in long-term government dinar bonds, thereby fostering the growth of a stable investor base. Following the successful implementation of "benchmark" issuances during 2014 and 2015, this practice continued in 2016. In February and July 2016, "benchmark" three-year and seven-year bonds were issued, with issuance volumes of 110,0 billion dinars each. In April 2017, a three-year "benchmark" bond was issued with an issuance volume of 110,0 billion dinars. In January and February 2018, "benchmark" five-year and ten-year bonds were issued, each with an issuance volume of 110,0 billion dinars. In January 2019, "benchmark" three-year and seven-year bonds were issued with issuance volumes of 100,0 and 150,0 billion dinars, respectively. In January and February 2020, five-and-a-half-year and twelve-and-a-half-year bonds with semi-annual coupons were issued for the first time. Amendments to the Regulation on General Conditions for the Issuance and Sale of Government Securities on the Primary Market ("Official Gazette of the RS", Nos. 100/14, 78/17, 66/18, 78/18, and 140/20) allowed for an increase in the volume of previously issued bonds. As a result, the issuance volume of the five-and-a-half-year bonds (originally issued on January 28, 2020) and twelve-and-a-half-year bonds (originally issued on February 18, 2020) was increased by 50 billion dinars each in 2021, while the issuance of the ten-year bonds (originally issued on February 6, 2018) was increased by 10 billion dinars. In 2022, the issuance volume of the ten-year bonds (originally issued on February 6, 2018) was increased by 25 billion dinars.

These issues have significantly increased the volume of secondary trading in these instruments, which has contributed to the decrease in yield execution rates during the reopening of the mentioned issues. The participation of foreign investors in dinar-denominated securities at the end of August 2024 was 17,2%.

On June 30, 2021, three dinar benchmark bonds were included in the J.P. Morgan Emerging Market Government Bond Index (GBI-EM Global Diversified Index), with maturities on January 11, 2026 (RSMFRSD89592), February 8, 2028 (RSMFRSD55940), and August 20, 2032 (RSMFRSD86176). On March 5, 2024, a new dinar benchmark bond with a maturity date of October 26, 2031 (RSMFRSD58761) was included in the J.P. Morgan Emerging Market Government Bond Index.

In 2023, two-year dinar bonds were issued. The issuance volume of ten-year dinar bonds increased by 18,4 billion dinars, and twelve-and-a-half-year bonds were increased by 50 billion dinars. In October 2023, a new eight-year dinar bond was issued with a total issuance volume of 110 billion dinars. Two-year euro-denominated bonds were also issued.

In 2024, the issuance volume of the 8-year bond was increased by 40 billion dinars (initially issued on October 24, 2023). Three-year euro-denominated bonds were also issued.

During the period covered by this Strategy, an improvement in primary market efficiency is expected through access to the Euroclear platform and through the concept of primary dealers, as a mechanism for selling government securities, which directly and in the long term contributes to reducing borrowing costs, as well as refinancing risks. The introduction of a government securities sales system on the domestic financial market through primary dealers will provide a solid foundation for improving market efficiency in the secondary government securities market. Over time, the development of the secondary market will establish the concept of market efficiency in the valuation process of government securities. The introduction of "benchmark" bond issues has had a positive effect on the volume and continuity of secondary trading, as well as on improving market efficiency in the sale of government securities in the primary market.

The key factors affecting the yield curve of government securities include the fiscal result, expected inflation rate, and exchange rate. A special group of factors to consider includes macroeconomic developments and expectations, as well as changes in the international financial market, which are reflected in the country's risk premium.

At the end of 2012, the average maturity of dinar government securities was 394 days (1,1 years), at the end of 2013 it was 469 days (1,3 years), at the end of 2014 it was 645 days (1,8 years), at the end of 2015 it was 749 days (2,1 years), at the end of 2016 it was 789 days (2,2 years), at the end of 2017 it was 864 days (2,4 years), at the end of 2018 it was 1.188 days (3,3 years), at the end of 2019 it was 1,403 days (3,8 years), at the end of 2020 it was 1,429 days (3,9 years), at the end of 2021 it was 1,377 days (3,8 years), at the end of 2022 it was 1,220 days (3,3 years), at the end of 2023 it was 1,427 days (3,9 years), and at the end of August 2024 it was 1.474 days (4 years).

The development of the domestic government securities market by the Republic of Serbia has been supported by the following measures:

The Republic of Serbia's bonds have been included in the JP Morgan Global Government Bond Index in Local Currency for Emerging Markets (GBI-EM Global Diversified Index), which is expected to significantly increase the investor base and further boost secondary trading, thereby contributing to the reduction of borrowing costs through the issuance of dinar-denominated government securities.

In order to create a larger investor base and develop the secondary market for securities issued on the domestic market, an equal tax treatment for domestic and foreign investors was established at the end of 2011. In the following period, efforts will focus on removing any potential barriers to the free flow of capital.

Activities have been undertaken to enable the settlement of government securities on foreign markets. With amendments to the Public Debt Law in December 2019, it became possible for clearing and settlement of government securities issued on the domestic market to be carried out not only by the Central Securities Depository but also by other foreign legal entities engaged in clearing and settlement operations.

In 2022 and 2023, active work was conducted to align legal regulations and IT infrastructure for the establishment of an international link (i-Link) between the Central Securities Depository, the securities depository, and Euroclear bank. This continued in 2024, with the aim of starting the settlement of government benchmark bonds through the Euroclear post-trade transaction provider. The main advantages of joining the Euroclear system include expanding the investor base by providing easier access to domestic securities for foreign investors, which further reduces costs in a streamlined securities purchase chain, thus lowering bond yields and the issuer's borrowing costs. Additionally, liquidity in the secondary market increases as the investor base expands.

IV FINAL PROVISIONS

An integral part of this revised Fiscal Strategy is Addendum 1 – Projection of basic macroeconomic indicators, Addendum 2 – Fiscal framework of the general government in 2025 and Addendum 3 – Overview of Investment Projects in the Republic Budget – Expenditures for Non-financial Assets (over 20 million euros), which were printed with this Fiscal Strategy.

This revised Fiscal Strategy shall be submitted to the National Assembly Committee in charge of the finances, the budget of the Republic of Serbia and the control of public fund spending, and the Ministry of Finance.

This revised Fiscal Strategy shall be published in the *Official Gazette of the Republic of Serbia* and on the website of the Government and the Ministry of Finance.

In Belgrade, October 2024

G O V E R N M E N T

PRIME MINISTER

Miloš Vučević

Addendum 1 – Projection of basic macroeconomic indicators

	2024	2025	2026	2027
Real growth rate of the GDP, %	3,8	4,2	4,0	5,0
GDP at current market prices (in billion dinars)	9.604,8	10.328,9	11.087,6	11.993,1
Growth sources: percentage change at constant prices				
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
Export of goods and services	4,4	5,9	6,9	9,9
Import of goods and services	8,0	6,5	6,8	7,4
Contribution to the GDP growth, percentage points				
Domestic demand	6,3	5,0	4,5	4,0
Private consumption	2,8	2,6	2,0	1,8
Government consumption	0,5	0,4	0,4	0,3
Gross fixed capital formation	2,2	2,0	2,0	1,9
Change in inventories	0,7	0,0	0,0	0,0
Net export of goods and services	-2,5	-0,9	-0,5	1,0
Growth of the GVA by sectors and net taxes, %				
Agriculture	-4,2	4,2	0,0	0,0
Industry	2,8	4,0	4,3	4,8
Construction	9,1	8,4	7,3	7,2
Services	4,3	4,0	4,1	5,4
Net taxes	3,6	3,9	3,7	4,4
Contribution to the GDP growth, percentage points				
Agriculture	-0,2	0,2	0,0	0,0
Industry	0,6	0,8	0,9	1,0
Construction	0,5	0,4	0,4	0,4
Services	2,4	2,2	2,3	3,0
Net taxes	0,7	0,6	0,5	0,6
Prices trends, %				
GDP deflator	5,0	3,2	3,2	3,0
Consumer prices (annual average)	4,7	3,5	3,5	3,3
Developments in the external sector,% of GDP				
Current account balance	-4,4	-5,2	-5,4	-4,2
Fiscal indicators, % of GDP				
General government fiscal result	-2,7	-3,0	-3,0	-3,0
Consolidated revenue	40,8	41,3	40,9	40,5
Consolidated expenditure	43,6	44,3	43,9	43,5
Gross debt of the general government	47,9	47,5	47,0	46,5

Addendum 2 – Fiscal framework of the general government in 2025, in billion dinars

	General government	Budget of the Republic of Serbia	Local self-government units	Towns and municipalities	Autonomous Province of Vojvodina	PE Roads of Serbia and Corridors of Serbia LLC	Mandatory social security insurance	Pension and Disability Insurance Fund	Health Insurance Fund	National Employment Service	Social Insurance Fund for Military Personell
	1=2+3+6+7	2	3=4+5	4	5	6	7=8+9+10+11	8	9	10	11
Public revenues	**4.264,9**	**2.293,0**	**507,2**	**459,1**	**48,1**	**80,5**	**1.384,3**	**931,9**	**418,6**	**29,0**	**4,8**
Current revenues	4.226,6	2.257,5	504,7	456,6	48,1	80,5	1.383,9	931,9	418,5	28,8	4,8
Tax revenues	3.750,5	1.985,2	420,4	378,0	42,4		1.345,0	931,9	380,7	27,9	4,5
Personal income tax	427,0	138,4	288,7	275,0	13,7						
Contributions	1.345,0						1.345,0	931,9	380,7	27,9	4,5
Corporate income tax	287,4	258,8	28,7		28,7						
VAT	1.056,0	1.056,0									
Excise duties	420,0	420,0									
Customs duties	95,4	95,4									
Other tax revenues	119,7	16,6	103,0	103,0							
Non-tax revenues	476,1	272,4	84,3	78,6	5,7	80,5	39,0		37,8	1,0	0,2
Grants	38,3	35,4	2,5	2,5			0,4		0,2	0,2	
Public expenditures	**4.578,9**	**2.181,8**	**525,4**	**478,9**	**46,5**	**123,7**	**1.748,0**	**1.100,6**	**613,2**	**25,0**	**9,1**
Current expenditures	3.771,2	1.524,7	415,5	374,8	40,7	103,8	1.727,4	1.099,1	594,6	24,6	9,0
Expenditures for employees	884,5	508,5	100,4	95,5	4,9	19,7	255,8	4,8	248,5	2,4	
Contributions borne by the employer	132,7	80,6	12,8	12,2	0,7	3,4	35,8	0,8	34,5	0,5	
Purchase of goods and services	820,4	255,3	198,2	194,5	3,7	75,4	291,5	5,7	277,2	2,4	6,3
Payment of interest	222,7	220,3	2,3	2,0	0,3	0,1					
Subsidies	246,5	197,6	48,9	33,7	15,2						
Social assistance and transfers	1.344,1	197,3	6,6	6,3	0,3		1.140,3	1.086,3	32,4	19,1	2,5
of which pensions	1.042,0						1.042,0	1.042,0			
Other current expenditures	120,3	65,2	46,2	30,7	15,6	5,1	3,9	1,5	2,0	0,3	0,1
Capital expenditures	762,9	614,7	107,7	101,9	5,8	19,9	20,6	1,5	18,6	0,4	0,1
Net lending	22,6	20,5	2,2	2,2							
Activated guarantees	22,1	22,1	0,0								
Fiscal result excl. transfers	**-314,0**	**111,1**	**-18,2**	**-19,8**	**1,5**	**-43,2**	**-363,7**	**-168,8**	**-194,6**	**4,0**	**-4,3**
Transfers from other levels of government	670,2	53,4	88,9	76,5	12,4	43,2	484,8	277,1	202,6	0,8	4,3
Budget of the Republic of Serbia	478,5		80,5	68,1	12,4	43,2	354,8	265,8	88,0	0,8	0,3
Towns and municipalities	56,8	53,4					3,4		3,4		
Autonomous Province of Vojvodina	13,9		8,4	8,4			5,5		5,5		
Pension and Disability Insurance Fund	108,4						108,4		104,3		4,0
Health Insurance Fund	8,0						8,0	8,0			
National Employment Service	4,7						4,7	3,4	1,4		
Social Insurance Fund for Military Personnel											
Other levels											
Transfers to other levels of government	670,2	478,5	70,7	56,8	13,9	0,0	121,1	108,4	8,0	4,7	0,0
Budget of the Republic of Serbia	53,4		53,4	53,4							
Towns and municipalities	76,5	68,1	8,4		8,4						
Autonomous Province of Vojvodina	12,4	12,4									
Pension and Disability Insurance Fund	277,1	265,8					11,3		8,0	3,4	
Health Insurance Fund	202,6	88,0	8,9	3,4	5,5		105,7	104,3		1,4	
National Employment Service	0,8	0,8									
Social Insurance Fund for Military Personnel	4,3	0,3					4,0	4,0			
Other levels	43,2	43,2									
Net transfers to other levels of government	0,0	-425,1	18,2	19,8	-1,5	43,2	363,7	168,8	194,6	-4,0	4,3
Fiscal result	**-314,0**	**-314,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**

The table shows framework amount of revenue and expenditure in 2025, which is based more on the statistical methodology of public finance accounts than on accounting. In view of the fact that there could be changes to the amount and structure of certain categories, these amounts are not legally binding.

Addendum 3 – Overview of investment projects in the Republic Budget – expenditures for nonfinancial assets (over 20 million euros), in dinars

No	Project Code	Project Name	Capital Project Cost up to 2024	Estimated cost in 2024	Budgeted Amount in 2025	Projected Cost in 2026	Projected Cost in 2027	Estimated Total Project Value
1	5001	Procurement of equipment, construction of a hangar and ancillary facilities	893.935.544	980.171.000	5.486.437.000	992.089.271	0	8.352.632.815
2	5073	Construction of the National Football Stadium	7.600.000.000	20.100.000.000	18.600.000.000	21.200.000.000	0	67.500.000.000
3	5088	Linear infrastructure	10.100.000.000	6.200.000.000	12.400.000.000	11.800.000.000	0	40.500.000.000
4	5081	Linear infrastructure EXPO Belgrade 2027 - Belgrade Fair, Zone B (forum, exhibition spaces, parking, landscaping), Business Zone E, thermal power source	3.092.787.755	43.000.000.000	46.000.000.000	47.500.000.000	0	139.592.787.755
5	5086	Tunnel from Karađorđeva Street to Dunavska Padina	0	0	6.000.000.000	5.000.000.000	5.000.000.000	26.000.000.000
6	5008	Expressway of the I-b class Novi Sad–Ruma	29.263.012.962	13.691.831.000	15.800.000.000	15.600.000.000	0	74.354.843.962
7	5015	Project of the Hungarian–Serbian railway	93.055.560.075	39.429.433.000	17.989.622.000	5.000.000.000	0	155.474.615.075
8	5019	Construction of the Belgrade bypass on the E-70/E-75 highway, section: Bridge over the Sava River near Ostružnica–Bubanj Potok (sectors 4, 5, and 6)	40.909.834.220	3.401.117.000	60.000.000	355.474.241	0	44.726.425.460
9	5027	Reconstruction of the railway line Niš–Dimitrovgrad	2.002.238.045	7.180.839.000	13.000.000.000	12.002.014.000	11.998.293.000	46.737.645.320
10	5034	Construction of the E-763 highway, section: Preljina–Požega	47.255.537.751	8.339.825.000	11.201.000.000	6.001.000.000	1.630.367.769	74.427.730.519
11	5035	Construction of the E-761 highway, section: Pojate–Preljina	138.233.130.443	38.683.562.000	30.000.000.000	29.000.000.000	16.123.666.218	252.040.358.660
12	5042	Salvage of the sunken German fleet from World War II	870.214.507	117.643.000	527.400.000	551.038.000	705.640.000	4.106.955.999
13	5043	Construction of the E-761 highway Belgrade–Sarajevo	31.635.841.581	2.350.000.000	7.800.000.000	3.700.000.000	2.514.158.419	48.000.000.000
14	5045	Construction of the road Ruma–Šabac–Loznica	56.738.079.260	24.428.313.000	15.900.000.000	4.200.000.000	5.303.607.740	106.570.000.000
15	5046		9.030.364.008	502.000.000	1.300.000.000	2.969.823.000	2.000.000.000	19.514.186.411

No	Project Code	Project Name	Capital Project Cost up to 2024	Estimated cost in 2024	Budgeted Amount in 2025	Projected Cost in 2026	Projected Cost in 2027	Estimated Total Project Value
		Implementation of railway infrastructure projects						
16	5050	Construction of the Niš-Merdare motorway, section: Niš-Pločnik	2.478.646.426	1.374.121.000	1.000.000	2.000.000.000	2.700.000.000	37.310.000.000
17	5054	Improvement of conditions for ship passage at the Tisa dam near Novi Bečej	55.614.176	32.752.000	21.000.000	1.039.400.000	3.045.155.000	9.599.325.000
18	5055	Construction of a new port in Belgrade	5.576.981	0	400.000.000	2.499.335.000	2.773.600.000	11.376.111.981
19	5056	Expansion of the capacity of the Sremska Mitrovica Port	27.137.507	120.263.000	400.000.000	500.000.000	1.200.000.000	6.626.400.000
20	5057	Expansion of the capacity of the Bogojevo Port	229.191.220	5.000.000	400.000.000	500.000.000	1.200.000.000	7.896.476.900
21	5058	Expansion of the capacity of the Prahovo Port	40.944.823	863.018.000	1.200.000.000	1.001.037.177	2.300.000.000	5.405.000.000
22	5059	Adaptation of the ship lock at the HEPS "Đerdap 2"	1.925.197.708	2.261.727.386	765.960.000	0	0	4.952.885.094
23	5061	Reconstruction and expansion of the Horgoš border crossing	2.170.890.644	400.000.000	380.000.000	94.909.356	0	3.045.800.000
24	5062	Construction of the motorway, section: Belgrade – Zrenjanin	0	0	12.013.000.000	12.000.000.000	12.045.000.000	187.600.000.000
25	5064	Construction of a new bridge over the Sava River in Belgrade	595.744.848	3.366.923.000	2.160.000.000	2.800.000.000	1.040.000.000	12.000.000.000
26	5066	Construction of a fast traffic road, section: Iverak-Lajkovac	16.313.468.451	8.300.488.000	5.700.000.000	2.348.990.545	0	32.662.946.996
27	5067	Construction of a bridge - bypass around Novi Sad with access roads	29.760.000	3.811.000.000	3.000.000.000	8.024.836.000	5.215.000.000	24.745.000.000
28	5069	Project for the construction of bypasses and tunnels	3.430.718.083	2.610.000.000	3.700.000.000	2.600.000.000	2.500.000.000	16.000.000.000
29	5070	Project for the construction of utility (sewage) infrastructure and infrastructure for municipal solid waste disposal in the Republic of Serbia	27.191.110.142	8.278.162.000	10.000.000.000	10.027.149.000	10.054.575.000	367.895.069.040
30	5071	Project for the collection and treatment of wastewater for the	846.095.280	1.000.000.000	5.000.000.000	6.700.000.000	6.700.000.000	32.604.000.000

No	Project Code	Project Name	Capital Project Cost up to 2024	Estimated cost in 2024	Budgeted Amount in 2025	Projected Cost in 2026	Projected Cost in 2027	Estimated Total Project Value
		Central Sewerage System of the City of Belgrade						
31	5072	Construction of the Belgrade Metro (Line 1 - Phases 1 and 2)	2.048.253.100	7.407.705.000	6.452.356.000	6.500.000.000	6.474.770.000	72.850.000.000
32	5074	Construction of the northern bypass around Kragujevac	1.156.082.990	5.131.881.000	10.000.000.000	10.000.000.000	10.000.000.000	40.200.000.000
33	5076	E-75 Expressway, Požarevac – Golubac Interchange	24.048.102.950	11.349.422.000	11.000.000.000	11.000.000.000	1.450.000.000	61.500.000.000
34	5077	Construction of a crew training center for ship crews	32.368.664	27.197.000	2.233.144.000	2.130.000.000	463.996.000	5.195.350.000
35	5078	Modernization of the railway sector in Serbia	200.389.573	1.034.066.000	2.390.031.000	2.085.769.000	2.200.000.000	12.036.000.000
36	5038	Adaptation of the ship lift in the "Đerdap 1" Hydroelectric Power Plant (HPP)	3.511.665.290	12.000.000	0	0	0	3.523.665.290
37	5048	Construction of the E-763 highway, section: New Belgrade – Surčin	9.898.167.048	600.000.000	600.000.000	800.000.000	11.000.000	11.913.416.608
38	5082	Construction of the railway line between Zemun Polje and the National Stadium	0	8.778.270.000	18.000.000.000	15.500.000.000	4.876.717.664	47.154.987.664
39	5084	Reconstruction and modernization of the railway section Belgrade – Niš	0	0	0	10.000.000.000	30.000.000.000	208.618.748.882
40	5085	Construction of a pedestrian and bicycle bridge on the piers of the old bridge in Novi Sad	0	0	500.000.000	500.000.000	5.000.000.000	6.000.000.000
41	5001	Construction of an irrigation system – Phase 1	8.123.955.962	1.233.232.000	417.466.000	361.346.038	0	10.136.000.000
42	5003	Dam with accumulation lake "ARILJE" "SVRAČKOVO" profile, Arilje	4.804.290.501	1.701.209.000	701.209.000	701.209.000	1.523.330.000	19.111.000.000
43	5003	Procurement of equipment for waste collection and recycling	1.288.232.768	561.000.000	561.000.000	561.000.000	561.000.000	3.532.232.768
44	5002	Construction of educational-scientific centers	0	135.360.000	455.360.000	1.955.360.000	1.955.360.000	4.751.304.000
45	5001	Reconstruction of the University Clinical Center of Serbia, Belgrade	14.149.448.096	175.000.000	500.000.000	855.000.000	0	15.679.448.096
46	5003		0	3.900.800.000	1.699.200.000	0	0	5.600.000.000

No	Project Code	Project Name	Capital Project Cost up to 2024	Estimated cost in 2024	Budgeted Amount in 2025	Projected Cost in 2026	Projected Cost in 2027	Estimated Total Project Value
		Procurement of equipment for the University Clinical Center of Vojvodina, Novi Sad						
47	5001	Construction of a reservoir in the oil product storage in Smederevo	2.588.359.615	350.070.000	16.420.000	0	0	2.954.849.615
48	5008	Construction of the new building of the Natural History Museum	0	0	500.000.000	9.809.000.000	510.000.000	10.819.000.000
49	5004	Construction and development of tourist infrastructure and substructure in the Danube region	706.204.869	1.579.000.000	1.300.000.000	599.714.524	191.853.000	4.376.772.393
50	5006	Acquisition of properties for the ownership of the Republic of Serbia	723.696.319	2.504.000.000	1.654.000.000	338.303.681	0	5.220.000.000
51	5007	Construction of the border crossing Sremska Rača	0	800.000.000	2.500.000.000	3.200.000.000	0	6.500.000.000
52	5004	Establishment of a Data Center for registers, "Backup" center, and "Disaster Recovery"	1.297.674.705	550.000.000	260.000.000	530.000.000	500.000.000	3.483.742.560
53	5006	Construction of a Data Center in Kragujevac	10.029.835.800	500.000.000	1.362.000.000	2.215.000.000	2.728.107.046	16.834.942.846
54	5014	Unified Information Communication Network of the e-Government	1.743.195.335	450.000.000	700.000.000	750.000.000	1.129.376.952	4.472.572.288
55	5018	Creative, innovative/multifunctional center "Ložionica"	3.096.124.015	1.200.000.000	1.600.000.000	900.000.000	0	6.796.124.015
56	5019	Innovation District Kragujevac	0	528.670.000	1.000.000.000	2.532.000.000	2.750.000.000	7.830.141.725
TOTAL:			**615.466.680.041**	**291.337.070.386**	**313.607.605.000**	**301.830.797.833**	**168.374.573.808**	**2.464.707.495.739**