

ANNUAL REPORT
ON ACTIVITIES AND RESULTS



National Bank of Serbia

2023

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2023

NATIONAL BANK OF SERBIA

Belgrade, Kralja Petra 12,

Tel: +381 11 3027-100

Belgrade, Nemanjina 17,

Tel: +381 11 333-8000

www.nbs.rs

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Introductory note

The National Bank of Serbia submits its *Annual Report on Activities and Results* to the National Assembly by no later than 30 June of the subsequent year.¹

As stipulated by the Statute of the National Bank of Serbia,² the *Annual Report on Activities and Results* presents data on the achievement of the National Bank of Serbia's objectives and the performance of its tasks relating to monetary and foreign exchange policies, FX reserves management, measures and activities aiming to safeguard and strengthen financial stability, the supervision of banks, insurance undertakings, voluntary pension fund management companies and lessors, as well as the supervision of payment service provision and electronic money issuance, the issuance of banknotes and coins, cash management and the payment system.

The *Report* also includes financial statements about the National Bank of Serbia's operations, disclosing revenues and expenditures by key items, as well as assets, liabilities and capital, data on the Bank's institutional framework, its legislative-legal activity, international cooperation, financial service consumer protection, payment cards, internal audit and information technology, internal organisation and staff policy, human resources, operations of the Bank's branches and the Institute for Manufacturing Banknotes and Coins – Topčider, including data on other activities of the National Bank of Serbia.

The *Annual Report on Activities and Results 2023* was reviewed and adopted by the National Bank of Serbia's Executive Board on 13 June 2024.

Executive Board of the National Bank of Serbia:

Jorgovanka Tabaković, PhD, Governor

Željko Jović, PhD, Vice-Governor

Ana Ivković, PhD, Vice-Governor

Dragana Stanić, MA, Vice-Governor

Nikola Dragašević, Vice-Governor

¹ Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012, 14/2015 – CC decision and 44/2018).

² RS Official Gazette, Nos 12/2013, 18/2015 and 72/2015.

Foreword by the Governor



When I look back at the year behind us, it is with pleasure that I can summarise it as the year marked by the curbing of inflation, favourable growth prospects, increased exports of goods and services despite subdued external demand, record high levels of FDI inflows and the country's FX reserves, as well as preserved and additionally strengthened financial stability. All these results gain in importance if we bear in mind that they were achieved in conditions of pronounced geopolitical challenges and a significant slowdown in the economic growth of the euro area, which is our most important trade partner. Also, the year behind us was marked by continued volatility in world commodity markets, to which Serbia, as a small and open economy, was exposed and whose negative effects could only be minimised with solid macroeconomic fundamentals, responsible economic policy and efficient coordination of central bank and government measures. Achieving a strong downward trajectory of inflation last year enabled us to have much better prospects for inflation and economic growth this year. According to the estimates of relevant international financial institutions, Serbia's growth this year will be one of the highest in Europe.

*Our most important task last year, like that of other central banks, was certainly the fight against **inflation**, and we **fulfilled that task**. **Inflation was halved** and measured 7.6% at end-2023 or half the level recorded a year ago. Inflation declined primarily because of tight monetary conditions, owing to which core inflation (CPI excluding food, energy, alcohol and cigarettes)*

moved all the while below headline inflation and slowed down to 6.5% y-o-y at end-2023. Tight monetary conditions also helped short-term inflation expectations of the financial and corporate sectors decline and keep medium-term inflation expectations anchored. Important drivers of the disinflation process were also the weakening of global cost-push pressures, notably in the production of food, the easing of global supply chain bottlenecks and the slowdown in imported inflation.

***We made monetary policy decisions in 2023 with a view to ensuring inflation's sustainable return within the target band in the medium run, while taking care not to jeopardise further economic growth.** We raised the key policy rate by 25 bp each month from January to July 2023, except for May, from 5.0% to 6.5%. The last, July increase was the fifteenth consecutive in the cycle (initiated in April 2022), which left the key policy rate higher by a total of 550 bp. Also, amid high dinar liquidity surplus in the banking sector, in September we raised the required reserve ratios and the percentages of dinar allocations of FX required reserves, tightening monetary conditions additionally. The undertaken monetary policy measures passed through to interest rates in the money, loans and savings markets, contributing to a decline in inflation expectations of the financial and corporate sectors and contained inflationary pressures on the demand side, pointing to the efficiency of the monetary policy transmission mechanism.*

*We are particularly proud of **the most dynamic annual growth of dinar savings so far** (since 2001, since the data have been monitored), underpinned by the preserved relative stability of the exchange rate and greater profitability of dinar than FX savings. In 2023, dinar savings reached an all-time high of almost RSD 138 bn, which is over 40% more than a year earlier.*

***In efficient coordination with the fiscal authorities, we reinvigorated our economy and provided space for its further growth.** Against the backdrop of challenging international circumstances and subdued external demand, GDP growth of 2.5% in 2023, for the second year in a row, can be considered a success. A positive contribution came from all production and most service sectors, and the agricultural season was better than the previous one. The economy grew thanks to increased production capacities of our export sectors, which are the result of a responsible economic policy that has made Serbia a desirable investment destination. Real sector indicators, which point to a significant acceleration of economic activity since the second half of last year, confirm that with an adequate monetary policy, tightened gradually and measuredly, we managed to secure a soft landing. **FDI inflow reached EUR 4.5 bn and was at a record level for the second year in a row.** The continued high FDI inflow contributes to the growth of productivity, employment and competitiveness of our economy. It should also be noted that the number of*

employees in the private sector increased by an average of 50 thousand in 2023 and reached a record level of 1.75 million. In addition, the curbing of inflation and the nominal income growth in the conditions of more favourable expectations of economic growth and record profitability of the domestic corporate sector resulted in a real increase in citizens' income and their living standards.

Responding to the **strongest dinar appreciation pressures** thus far, we maintained the **relative stability of the dinar against the euro**. The nominal strengthening of the domestic currency against the euro in 2023 amounted to 0.1%, and through interventions in the IFEM, the NBS bought a record high volume of foreign exchange – EUR 3.94 bn. The year 2023 thus became the sixth in a row of past seven years (since 2017) which the NBS ended as the net buyer of foreign currency, in the total amount of EUR 9.1 bn. As 2023 turned out to be yet another year in which foreign capital inflow exceeded the current account deficit and the NBS intervened in the IFEM to prevent excessive strengthening of the dinar, **the country's FX reserves increased by EUR 5.5 bn, to the record level of EUR 24.9 bn at end-2023**. Such level of FX reserves by far exceeds all standard measures of their adequacy and serves as an important pillar of defence against a wide range of risks that may stem from the international environment. Consistent with the principles of security and liquidity, we invested FX reserves with top-tier institutions and into highly liquid securities of top-rated issuers. In 2023, we continued to increase **gold in FX reserves**, tapping the domestic market, by more than 1 tonne **to the record level of close to 40 tonnes**. Standing at an all-time high of EUR 2.4 bn, gold holdings accounted for around 10% of FX reserves.

The NBS's measures and activities, implemented in cooperation with the government, contributed to preserving Serbia's credit rating at one step away from investment grade. A positive perception of Serbia as an investment destination is evidenced by the maintenance of Serbia's credit rating, with a stable outlook, by the Standard & Poor's, Fitch and Moody's during the globally challenging 2023, with Standard & Poor's and Fitch assessing our rating at one notch away from investment grade. In their reports about Serbia, the agencies pointed out that, despite the negative workings of the factors from the international environment, the important drivers of the stable outlook were the **credible monetary policy framework, preserved financial stability and record high FX reserves**. No less importantly, excellent results under the economic programme with the IMF allowed for **the stand-by arrangement to be treated as precautionary, one review ahead of the initial plan**.

I particularly wish to point out that we **have bolstered financial stability and facilitated loan repayment**. High capital adequacy and liquidity,

considerably above the regulatory minimums in 2023 as well, attest to the financial soundness of banks, while an NPL share at around 3% of total loans indicates a relatively low credit risk in the banking sector. That our banking sector remained stable and resilient to shocks from the domestic and international environment was also confirmed by macroprudential stress tests, conducted on a regular basis.

To maintain financial system stability and protect financial service consumers, we have adopted measures to **temporarily cap the interest rates on housing loans**. These measures included reducing the agreed variable interest rate, capping the interest rates on housing loans approved during the period to which measures apply and the early repayment option without the penalty fee. Almost 3,000 natural person borrowers used the facility of rescheduling cash, consumer and similar loans to repayment terms three years longer than what was initially agreed (RSD 2.7 bn in total), which eased the strain on their budgets. Forbearance measures covered more than 6,000 credit accounts (RSD 24.2 bn) of agricultural loans, including those extended to entities engaged in the purchase and cold storage of fruits. The temporary measure relating to the approval of consumer loans of up to two years and up to RSD 90,000 was extended for another year, thus continuing a quick, efficient and simple credit procedure.

In 2023 as well, we helped **financial service consumers** in the exercise and protection of their rights by carrying out the procedures protecting the individuals, which had a considerable financial impact. Based on conducted bank supervision procedures, consumers enjoyed a direct financial effect of RSD 2.6 bn. In addition, thanks to the NBS's activities taken in the past years, a large number of loan consumers who opted for early repayment benefited from a certain reduction in the outstanding debt balance, estimated to around EUR 5 mn a year (or possibly an even higher amount, due to the higher early repayment amount). Complaint and mediation procedures resulted in direct financial effect for consumers in the amount of around RSD 44.9 mn.

Despite challenging circumstances, we continued to improve and advance our remaining functions. **Payment systems operated efficiently, with no downtime, ensuring orderly execution of all transactions**. Thanks to the promotion and continuous development of instant payment-based services, our citizens had access to **cutting-edge forms of cashless payment**, whereby we contributed to the process of digitalisation. By intensifying regional cooperation with other central banks, we continued to develop cross-border payments in the region – in 2023 we established **direct payment operations** between Serbia and Montenegro and new participants joined the NBS's **international clearing of FX payments** – a bank operating in Bosnia and Herzegovina (Banka Poštanska štedionica AD Banja Luka) and a first bank

from Montenegro (Universal Capital Bank AD Podgorica). In 2023, actions were taken to enable contactless technology in the **DinaCard** system, and intensive testing on the issuance and acceptance side are underway. We continued to issue DinaCard–UnionPay cards, which are, apart from the domestic acceptance network, also used in the international acceptance network UnionPay. The year 2023 witnessed further **development of the market of payment services** that are provided in our country by 20 banks and, also, by nine payment institutions and six electronic money institutions.

In 2023, the project of introducing an **electronic bill of exchange** gathered pace, so it is certain that the e-bill of exchange will be fully integrated in everyday business activities in 2024, which will significantly reduce the costs for households and corporates. We were also actively engaged regarding **digital assets markets**. After the issuance of the first licences for the provision of virtual currency services in December 2022, in the course of 2023 we continued off-site supervision of providers of those services, while also initiating on-site supervision. The NBS continued examinations of certain legal persons, entrepreneurs and natural persons suspected of unauthorised provision of virtual currency services, taking appropriate measures according to the Law on Digital Assets. Let me also draw your attention to the **supervision of exchange operations**, which the NBS carried out meticulously, delicensing temporarily 26 exchange dealers in 2023, since it was established that they had failed to meet the regulatory requirements for carrying out exchange operations, and/or acted contrary to the provisions of the law and/or regulations.

As for the remaining functions of the NBS, I would like to underscore activities aimed at timely **provision of relevant statistical data and macroeconomic analyses and projections**, which facilitate planning and decision-making processes on a macro and micro level, including **big data collection and processing techniques** and the development of inflation and economic growth nowcasting models using AI-based techniques. The results of some of our analyses were presented in the Inflation Reports and the Working Papers Bulletin. **We remained true to our practice of transparent informing of the public** on all aspects of our operations via different communication channels and numerous educational activities. I am proud that even in such turbulent times we continued our **socially responsible activities**, supporting the most vulnerable population categories.

Even amid elevated costs of monetary policy implementation, **the NBS posted a positive business result in 2023, amounting to RSD 26 bn**, reflecting responsible and efficient cost management. The operating profit (which does not stem from exchange rate gains/losses and revaluation reserves) totalling RSD 17.6 bn was distributed, so that 70% or RSD 12.3 bn was transferred to

the budget of the Republic of Serbia. The rest was distributed so that 10% was included in core capital and 20% in special reserves of the National Bank of Serbia.

I believe that all the above results confirm that it is general interest that lies at the heart of every measure and activity of the NBS in the past 12 years and that price, financial and relative exchange rate stability have no alternative, because they are the best way to contribute to macroeconomic stability, faster and stronger economic growth, employment gains and higher living standards. I believe that we have thus proved to be an institution fully deserving of the trust of our citizens and all market players. We will remain forward-looking and committed to implementing a responsible monetary and macroprudential policy, taking well-timed and appropriate measures to strengthen the resilience and maintain the stability of our economy.

A handwritten signature in black ink, appearing to read 'J. Tabaković', with a stylized flourish at the end.

Dr Jorgovanka Tabaković, Governor

ABBREVIATIONS

GDP – gross domestic product
BIS – Bank for International Settlements
bp – basis point
DKRT – consolidated FX treasury account
EBRD – European Bank for Reconstruction and Development
EIB – European Investment Bank
ESCB – European System of Central Banks
EU – European Union
ECB – European Central Bank
CPI – Consumer Price Index
y-o-y – year-on-year
IFEM – interbank FX market
mn – million
bn – billion
IMF – International Monetary Fund
IFRS – International Financial Reporting Standards
NPL – non-performing loan
OPEC – Organization of the Petroleum Exporting Countries
H – half-year
pp – percentage point
RTGS – Real Time Gross Settlement
SDR – Special Drawing Rights
Q – quarter
FED – Federal Reserve System
HHI – Herfindahl-Hirschman Index

Other generally accepted abbreviations are not cited.

Contents

Foreword by the Governor.....	1
I KEY RESULTS IN 2023	11
II INSTITUTIONAL FRAMEWORK AND ORGANISATION	15
II.1 CONSTITUTIONAL POSITION AND LAW ON THE NATIONAL BANK OF SERBIA.....	15
II.2 GOVERNING BODIES OF THE NATIONAL BANK OF SERBIA	18
II.3 ORGANISATION	22
III INTERNATIONAL AND DOMESTIC ECONOMIC ENVIRONMENT	25
IV PRICE AND FINANCIAL SYSTEM STABILITY	31
IV.1 MONETARY POLICY.....	31
IV.1.1 Monetary policy in 2023	31
IV.1.2 Monetary policy instruments	35
IV.1.3 Achievement of inflation target in 2023	39
IV.2 REGULATION AND SUPERVISION OF FINANCIAL INSTITUTIONS.....	41
IV.2.1 Banks	41
IV.2.2 Insurance sector	55
IV.2.3 Voluntary pension funds	61
IV.2.4 Financial leasing	64
IV.2.5 Supervision of financial institutions' information systems	67
IV.2.6 Protection of financial services consumers	68
IV.2.7 Anti-money laundering/countering the financing of terrorism	71
IV.3 BANK RESOLUTION FUNCTION.....	74
IV.4 FINANCIAL SYSTEM STABILITY.....	75
IV.4.1 Financial stability function	75
IV.4.2 Financial stability assessment	77
V OTHER FUNCTIONS AND ACTIVITIES OF THE NATIONAL BANK OF SERBIA	83
V.1 FOREIGN EXCHANGE RESERVES MANAGEMENT	83
V.2 ISSUE OF MONEY AND CASH MANAGEMENT	88
V.2.1 Issue of banknotes and coins	88

V.2.2 Activities of NBS Branches	91
V.3 PAYMENT SYSTEM OPERATOR, OVERSIGHT OF PAYMENT SERVICE PROVIDERS, E-MONEY ISSUANCE AND PROVISION OF VIRTUAL CURRENCY SERVICES.....	96
V.4 OTHER ACTIVITIES.....	106
V.4.1 Economic analysis and statistics	106
V.4.2 International cooperation	111
V.4.3 Foreign exchange operations and foreign credit relations	120
V.4.4 Legislative activities	127
V.4.5 Enforced collection	130
V.4.6 Public debt administration	131
V.4.7 Communication with the public	132
V.4.8 Social responsibility	133
V.5 MANAGEMENT.....	136
V.5.1 Human resource management	136
V.5.2 Internal audit and risk management	138
V.5.3. Information and communications technologies	139
VI FINANCIAL STATEMENTS	141
VI.1 FINANCIAL POSITION AND RESULT OF THE NATIONAL BANK OF SERBIA.....	141
VI.2 ACCOUNTING PRINCIPLES AND STANDARDS.....	144
VI.3 RISK EXPOSURE AND MANAGEMENT	147
VI.4 INDEPENDENT AUDITOR'S REPORT	153
VI.5 ANNUAL FINANCIAL STATEMENTS.....	155
VI.6 INSTITUTE FOR MANUFACTURING BANKNOTES AND COINS – TOPČIDER.....	160
VII MAIN PLANS FOR THE FUTURE PERIOD	163
LIST OF CHARTS AND TABLES.....	172

I KEY RESULTS IN 2023



In 2023, the NBS proceeded with monetary tightening by raising the key policy rate (by 1.5 pp), but at a more moderate pace than in 2022 (by 4.0 pp), as a result of the established downward trajectory of inflation and the proven efficiency of the monetary policy transmission mechanism. For this reason, after the July hike to 6.5%, the key policy rate was kept unchanged in the remainder of the year. The sustainable inflation slowdown, positive economic growth rates in all quarters of 2023, and the NPL ratio maintained at the lowest level on record indicate that the monetary policy has secured a soft landing and minimised the negative effects on financial stability and economic growth.



Inflation in Serbia has been on a firm downward path since April 2023, the pace of its slowdown being even faster than expected. **At end-2023, headline inflation came at 7.6% y-o-y, almost half the level recorded a year ago.** The disinflation process reflects primarily the effects of past monetary tightening, the fall in global energy and food prices and the consequent drop in imported inflation, the decline in inflation expectations and a good agricultural season. At the same time, core inflation, which is most affected by monetary policy measures, moved below headline inflation throughout the year and amounted to 6.5% y-o-y at its end.



Rather than waiting for the risks of rising interest rates in the euro area to materialise and dent the housing loan repayment capacity at home, and hence, financial stability, **we made a decision in September to cap the interest rate on variable-rate housing loans worth up to EUR 200,000 for first time home buyers at 4.08% until the end of 2024.** The measure was designed so as to help citizens without jeopardising bank performance or price stability, given that the estimated effect

of lowered interest rates accounts for less than 0.3% of annual private consumption. At end-2023, interest rates on dinar loans equalled 12.5% for households and 8.3% for corporates. Their growth momentum abated during the year, with the interest on some types of loans even recording a decline by the year end.



Both dinar and FX savings increased in 2023, the former at a more vibrant pace though. Namely, **dinar savings went up by 43%, to RSD 138 bn, pushing the dinarisation of corporate and household deposits up to 44.4%**, the highest level thus far. Higher dinarisation is also a strategic objective of the NBS, as it contributes to greater efficiency of the transmission mechanism via the interest rate channel.



The share of NPLs in total loans at end-2023 was maintained close to the minimum level of around 3%, testifying to the preserved asset quality of the banking sector. The capital adequacy ratio of 21.4% in 2023 points to the high banking sector capitalisation (8.0% regulatory minimum), while the results of macroprudential stress tests indicate high solvency. These financial soundness indicators confirm the resilience of the Serbian financial sector to the negative effects of the multidimensional crisis faced in the prior period.



The NBS maintained the relative stability of the exchange rate in 2023, thus significantly contributing to the certainty of doing business and to the preservation of investment and consumer confidence. **The dinar appreciated against the euro in nominal terms** by 0.1%. Amid prevailing appreciation pressures spurred by continued robust FDIs, exports, tourism and remittances, the NBS bought EUR 3,940 mn net in the IFEM, a record high annual amount of purchase. This contributed to the growth in the **NBS's gross FX reserves to EUR 24.9 bn at end-2023, their highest end-of-month and end-of-year level since data are monitored** (since 2000) and EUR 5.5 bn higher than at end-2022. That level of FX reserves covered 167% of M1 and 6.7 months' worth of the country's imports of goods and services, which is double the adequacy standard. **The NBS continued investing into highly liquid bonds carrying low market and credit risk**, maintaining its portfolio risk at a rather low level and upholding the high degree of investment security and liquidity in 2023.



FDI inflow touched a new all-time high in 2023 – EUR 4.5 bn gross (EUR 4.2 bn net), staying widely dispersed by geography and project and channelled mostly into export-oriented sectors, notably manufacturing. Serbian commodity exports therefore increased by 3.7% in 2023, while commodity imports contracted by 4.8%, chiefly on account of lower

energy imports. At the same time, FDI inflow fully covered the current account deficit for the ninth year in a row, the coverage reaching as much as 233% in 2023. Capital flowed in also on account of the two eurobond issues successfully implemented in the international market early in the year.



Robust FDI inflow and the preserved labour market, as evidenced by the further rise in employment and a decline in unemployment, as well as real wage growth of 2.4% in 2023, provided a positive contribution to the overall economic activity in the country. **Real GDP growth amounted to 2.5% in 2023 and was fully in line with the NBS's projection.** Growth was led by net exports, owing to the rise in exports and a fall in imports of goods and services, and by fixed investments.



Despite rampant uncertainty in the international commodity markets and geopolitical fragmentation in the prior period, **leading rating agencies – Fitch and Standard & Poor's kept Serbia's rating in 2023 at a step away from investment grade,** as well as a stable outlook. The agencies agree that Serbia has a coherent economic policy framework, a credible monetary policy, moderate public debt levels, adequate FX reserves, and a stable banking sector.



The number and value of transactions in the DinaCard national payment card system in 2023 increased on the year before by 11% and 16%, respectively. Cooperation with the Chinese UnionPay International continued, and so did activities on the issue of co-branded DinaCard–UnionPay contactless payment card, accepted at all terminals in the country and in the global UnionPay acquiring network. The NBS IPS system executed 67 mn payments in 2023, with the average transaction execution time of 1.1 seconds.



Two reviews of Serbia's performance under the SBA with the IMF were successfully completed in 2023. A positive assessment of the IMF's Executive Board enabled Serbia to draw down the second SBA tranche worth SDR 163.7 mn. The Board's decision to conclude the second review on 21 December was made without convening a formal meeting, which only confirms that Serbia is pursuing good economic policies and achieving solid macroeconomic results.



The Committee of Experts of the Council of Europe for the Evaluation of Measures to Prevent Money Laundering and Terrorist Financing – Moneyval assessed that the Republic of Serbia is fully or largely compliant with all 40 recommendations of the Financial Action Task Force - FATF, which was achieved by only ten other jurisdictions in the

world. **The NBS played a significant role in the process of alignment with the said recommendations in the area of supervision, and a leading role in the alignment with standards governing digital assets.**



The NBS's income statement for 2023 disclosed total after-tax profit of RSD 26.0 bn. Operating profit (not stemming from exchange rate gains/losses and revaluation reserves) in the amount of RSD 17.6 bn was distributed as follows: 70% or RSD 12.3 bn to the Republic of Serbia's budget, and the remaining 10% to the capital and 20% to the special reserves of the NBS.

II INSTITUTIONAL FRAMEWORK AND ORGANISATION

II.1 Constitutional position and Law on the National Bank of Serbia

The institutional position of the National Bank of Serbia (NBS) is defined by the Constitution of the Republic of Serbia in its sections on the economic system and public finances. According to Article 95 of the Constitution, the National Bank of Serbia is the central bank of the Republic of Serbia, independent and subject to supervision by the National Assembly, to which it accounts for its work. It is managed by the Governor and its operations are governed by the Law on the National Bank of Serbia.

Article 107, paragraph 2 of the Constitution further assures the autonomy of the NBS by providing for its right to propose laws within its remit.

Law on the National Bank of Serbia

The Law on the National Bank of Serbia³ governs the status, organisation, powers and functions of the NBS and its relations to Serbian government authorities and international organisations and institutions.

Objectives

The primary objective of the NBS is to achieve and maintain price stability.

Without prejudice to its main objective, the NBS contributes to maintaining and strengthening of the stability of the financial system.

Without prejudice to the above objectives, the NBS supports the implementation of the Government's economic policy, operating in accordance with the principles of a market economy.

³RS Official Gazette, Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012, 14/2015, 40/2015 – CC decision and 44/2018.

Tasks

Tasks of the NBS are to:

- determine and implement monetary and foreign exchange policies;
- manage foreign exchange reserves;
- determine and implement, within its remit, the activities and measures aimed at maintaining and strengthening the stability of the financial system;
- issue banknotes and coins and manage cash circulation;
- regulate, oversee and promote the smooth performance of domestic and cross-border payment transactions, in accordance with law;
- issue and revoke banks’ operating licences, carry out prudential supervision of bank operations and perform other activities, in accordance with the law governing banks;
- issue and revoke insurance licences, supervise the insurance business, issue and revoke authorisations to perform specific insurance activities, and perform other activities, in accordance with the law governing insurance;
- issue and revoke financial leasing licences, supervise the performance of financial leasing operations and perform other activities, in accordance with the law governing financial leasing;
- issue and revoke operating licences of voluntary pension fund management companies, issue and revoke fund management licences, supervise this activity and perform other activities, in accordance with the law governing voluntary pension funds;
- issue and revoke operating licences of payment institutions and electronic money institutions, supervise the provision of payment services and electronic money issuance, and perform other activities, in accordance with the law governing payment services;
- pursue activities relating to the protection of rights and interests of consumers of services provided by banks, financial leasing providers, insurance undertakings, voluntary pension fund management companies, payment service providers and electronic money issuers, in accordance with law governing the rights and interests of the consumers of these services;
- ascertain the fulfilment of conditions for the initiation of procedures for the resolution of banks and/or banking group members, and implement these procedures; decide on instruments and measures to be taken in the resolution process, and perform other activities relating to bank resolution, in accordance with the law governing banks;

- issue and revoke operating licences of payment system operators, supervise their operation and perform other activities, in accordance with the law governing payment services;
- issue and revoke authorisations for exchange operations, supervise exchange and FX operations, and perform other activities, in accordance with the law governing FX operations;
- issue and revoke virtual currency service providers' licences for the provision of digital asset services in segment relating to virtual currencies, supervise their operations and perform other activities in accordance with the law governing digital assets;
- perform statutory or contractual activities for the Republic of Serbia, without prejudice to its autonomy and independence;
- perform other activities under its remit, in accordance with law (i.e. enforced collection or official statistics activities).

Position of the National Bank of Serbia

In compliance with international standards and rules, the Law on the National Bank of Serbia regulates in further detail the constitutional principle of the autonomy of the NBS, by stipulating that the NBS is autonomous and independent in carrying out its tasks as laid down by this and other laws, that NBS bodies and members of these bodies may neither seek nor take instructions from government bodies and institutions or other persons, and that government bodies and institutions and other persons may neither jeopardise the autonomy and independence of the NBS nor seek to influence the NBS, its bodies or their members in carrying out their tasks.

The NBS has a legal entity status *ex lege* and is not registered in the register of legal entities. The NBS has its Statute, which is published in the Official Gazette of the Republic of Serbia.

In the performance of its tasks, the NBS works together with the Government and other state institutions and, without prejudice to the achievement of its objectives, undertakes measures within its scope of authority to promote that cooperation.

The NBS may take up membership in international financial organisations and institutions, and engage in cooperation with foreign central banks, regulatory bodies and financial and credit institutions, of which it must inform the National Assembly. Without prejudice to the achievement of its objectives, the NBS may, with the Government's consent, act for and on behalf of the Republic of Serbia in international financial organisations and institutions and engage in other forms of international cooperation.

The NBS may not extend credits, loans, overdraft facilities or other forms of credit facilities to the Republic of Serbia, autonomous province or local government unit, public enterprises and other legal entities whose founder is the Republic of Serbia, autonomous province or local government unit, or public

enterprises and other legal entities in which the Republic of Serbia, autonomous province or local government unit have a controlling stake, nor may it issue guarantees for the settlement of obligations of these entities or otherwise ensure the settlement of their obligations, or buy securities directly from those entities. Exemptions from the monetary financing ban are daily loans and loans extended for the purpose of settling liabilities in respect of membership in the IMF. Banks in which the Republic of Serbia, autonomous province or local government unit have a controlling stake, have access to loans and lending facilities of the NBS on equal terms as other banks.

II.2 Governing bodies of the National Bank of Serbia

NBS governing bodies are:

- the Executive Board of the National Bank of Serbia (hereinafter: Executive Board);
- the Governor of the National Bank of Serbia (hereinafter: Governor);
- the Council of the Governor of the National Bank of Serbia (hereinafter: Council).

The Executive Board and the Governor are responsible for achieving the NBS's objectives, within their remit as defined by the Law on the National Bank of Serbia.

Executive Board

The Executive Board includes the Governor and Vice-Governors.

The Executive Board determines monetary and FX policies, as well as activities aimed at maintaining and strengthening stability of the financial system, and in particular:

- NBS monetary policy programme;
- manner of calculation, collection and payment of interest on loans and other receivables of the NBS and on the funds the NBS pays interest on;
- terms and conditions of issuing NBS securities;
- terms and conditions under which the NBS conducts open market operations and performs discount activities;
- short-term loan policy;
- dinar exchange rate policy;
- required reserves base and ratio, as well as terms, conditions and timelines for the allocation and use of banks' required reserves;
- FX reserve management policy and guidelines;
- other monetary and FX policy instruments and measures;

- measures for maintaining bank liquidity;
- measures and activities, within the NBS's remit, aimed at maintaining and strengthening the stability of the financial system.

The Executive Board sets the key policy rate and other interest rates applied by the NBS in the conduct of monetary policy, and also defines the manner of determining NBS interest rates.

In addition, the Executive Board exercises substantial powers in the field of supervision of financial institutions. In accordance with law, the Executive Board issues regulations and other general acts in the area of supervision of financial institutions (banks, insurance undertakings, financial lessors, VPF management companies, payment institutions and electronic money institutions), decides on the (de)licensing of these financial institutions, and on the fulfilment of conditions for filing bankruptcy or liquidation procedure against banks, insurance undertakings, financial lessors and VPF management companies.

The Executive Board enacts regulations and other general and individual acts in the field of bank resolution, in accordance with the law governing banks.

The Executive Board determines the uniform fees charged for services provided by the NBS.

The Executive Board, in accordance with law, adopts regulations and other general acts in the area of issuing and revoking authorisations to perform exchange operations and supervision of exchange and foreign exchange operations, and in the area of the protection of rights and interest of financial service consumers.

Executive Board meetings are held as often as deemed necessary, but no less than once a month. Meetings are chaired by the Governor. The Executive Board takes decisions by a majority vote of all members. In the event of a tie, the Governor has the casting vote. The minister in charge of finance is invited to attend the meetings of the Executive Board and participate in deliberations without the right to vote. The Executive Board adopts its Rules of Procedure.

Governor and Vice-Governors

The Governor:

- represents and acts on behalf of the NBS;
- manages the NBS and organises its work;
- implements decisions of the Executive Board and the Council;
- enacts regulations, general and individual acts under the NBS's remit, which are not assigned by law to the authority of the Executive Board and the Council;
- proposes regulations, general and individual acts to be adopted by the Executive Board and the Council, unless provided otherwise by the Law on the National Bank of Serbia;

- regulates the NBS's internal organisation and job classification, as well as labour relations of NBS employees;
- appoints and dismisses employees who manage NBS organisational units;
- performs other tasks defined by law in a manner that does not conflict with the objectives stipulated by the Law on the National Bank of Serbia.

The Governor is appointed by the National Assembly at the proposal of the President of the Republic of Serbia. The Governor is appointed for a six-year renewable term of office.

Pursuant to the Law on the National Bank of Serbia, the NBS has between two and four Vice-Governors. They are appointed by the National Assembly, at the proposal of the Governor, for a six-year renewable term of office. The provisions of the Law governing the appointment, incompatibility of office and conflict of interest regarding the Governor's position apply accordingly to Vice-Governors. Specific tasks that the Governor may confer upon Vice-Governors are regulated in detail by the Statute of the National Bank of Serbia.

Council of the Governor

The Council of the Governor consists of five members, including the President, appointed by the National Assembly at the proposal of the National Assembly's Finance Committee. Members of the Council are appointed for a five-year renewable term of office. Members of the Council are not NBS employees. Provisions of the Law on the National Bank of Serbia governing the appointment, incompatibility of office and conflict of interest regarding the Governor's position apply accordingly to the Council members. At least one member of the Council must have minimum ten years of work experience in accounting or auditing.

The Council:

- adopts the Statute of the National Bank of Serbia, at the proposal of the Executive Board;
- determines the exchange rate regime of the dinar, at the proposal of the Executive Board and with the Government's consent;
- adopts the FX reserve management strategy, at the proposal of the Executive Board;
- decides on membership in international financial organisations and institutions;
- adopts the NBS financial plan;
- adopts the NBS annual financial statements;
- appoints the manager of the NBS's organisational unit in charge of internal audit;

- selects the external auditor, considers the external auditor’s report and monitors the implementation of audit recommendations in the NBS;
- oversees the system of financial reporting, risk management and internal controls in the NBS;
- evaluates the adequacy of accounting policies and procedures adopted in the NBS;
- adopts the annual plan of internal audit in the NBS and periodically reviews internal audit reports;
- oversees the performance of internal audit and compliance of operations in the NBS;
- adopts the strategy of NBS development, proposed by the Executive Board, and monitors its implementation.

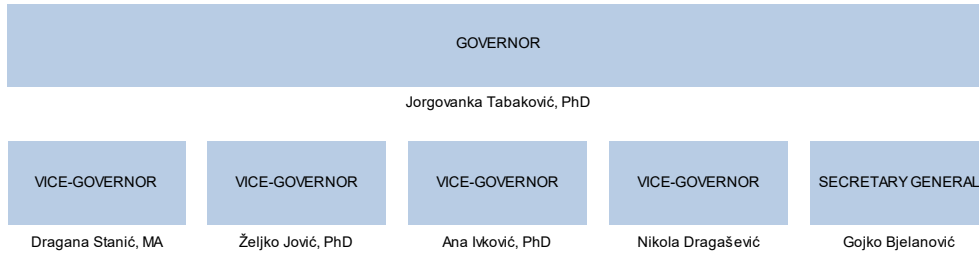
The Council submits a report on its work to the National Assembly as often as necessary, but no less than twice a year.

Meetings of the Council are held as often as necessary, but no less than once every two months. Meetings are held if at least three Council members are present. The Council takes decisions by a majority vote of all members.

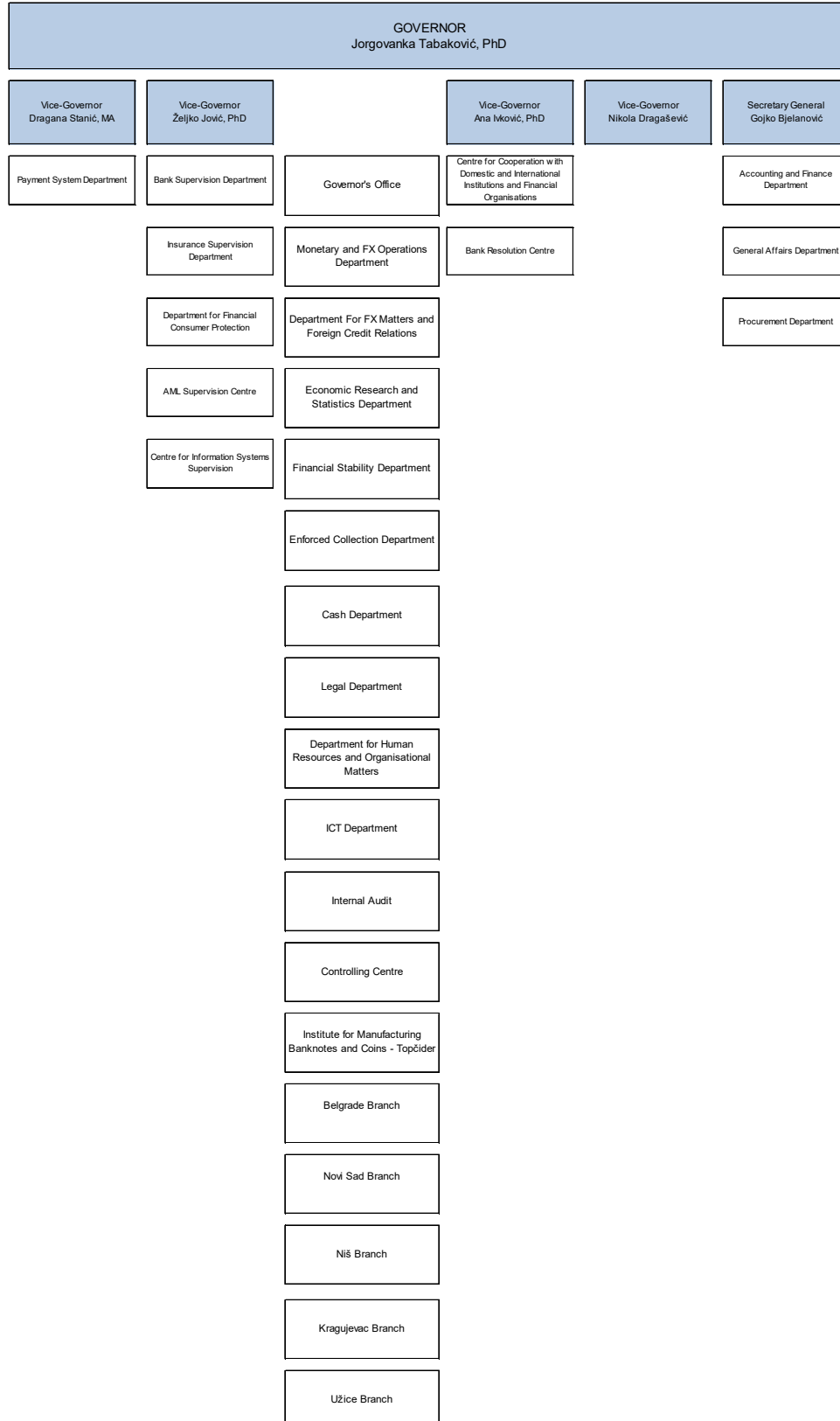
II.3 Organisation

MANAGEMENT OF THE NATIONAL BANK OF SERBIA

(as at 31 December 2023)

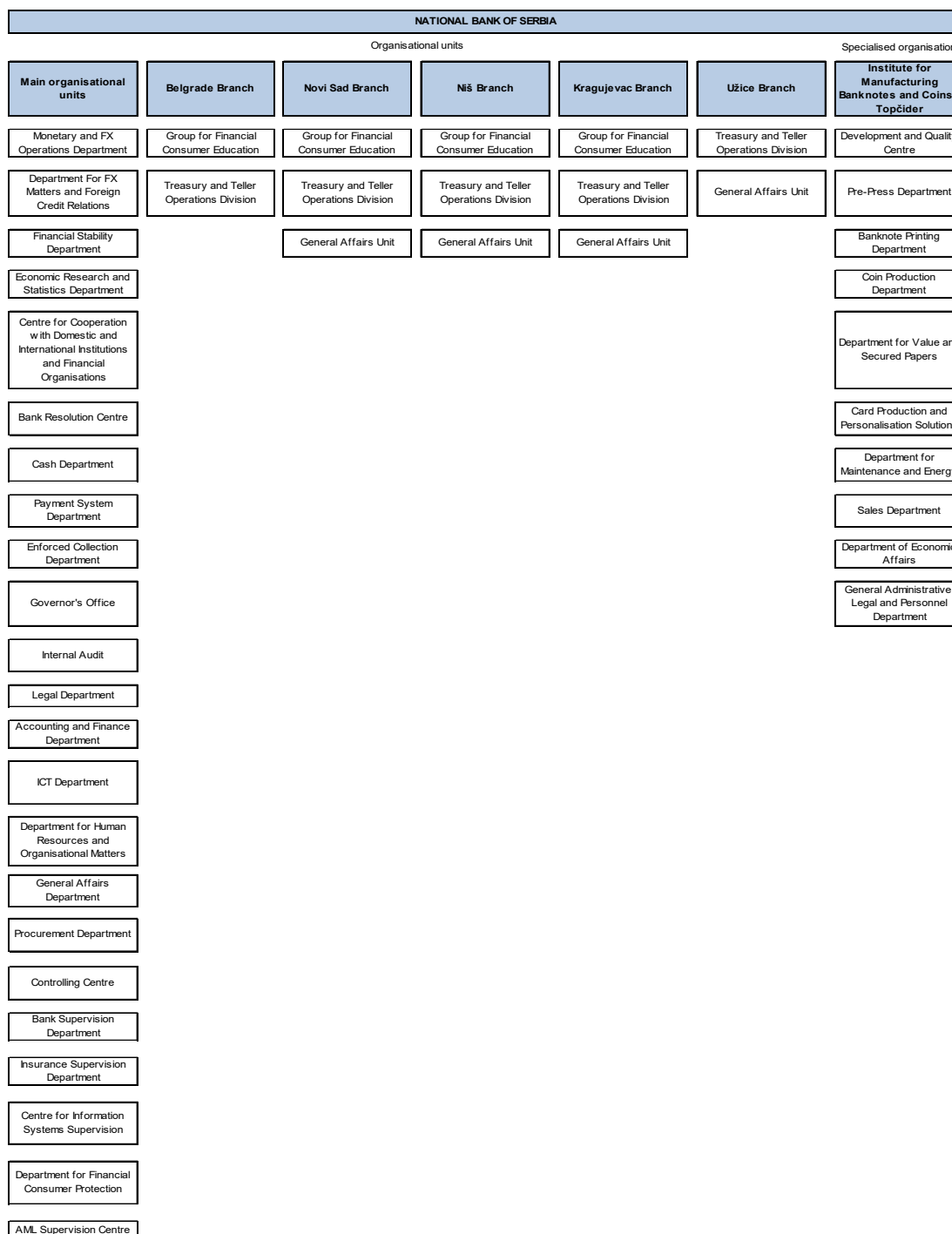


COORDINATION OF WORK WITHIN THE NATIONAL BANK OF SERBIA (as at 31 December 2023)



ORGANISATIONAL CHART OF THE NATIONAL BANK OF SERBIA

(as at 31 December 2023)



III INTERNATIONAL AND DOMESTIC ECONOMIC ENVIRONMENT

International economic environment

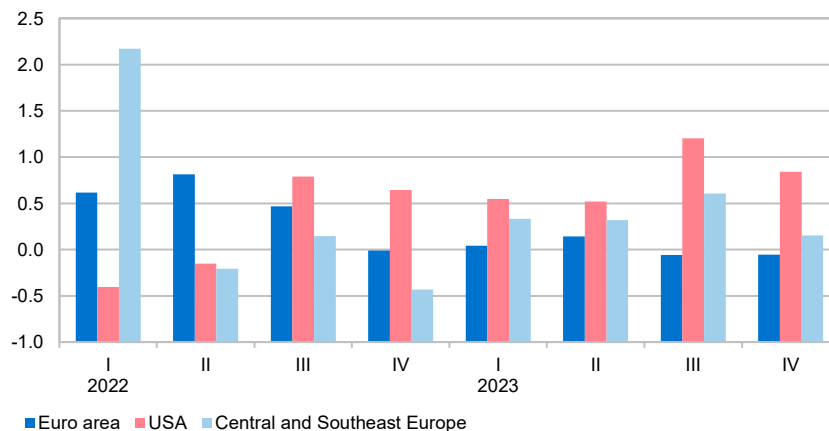
The international environment in 2023 experienced **prolonged negative effects of the pandemic, escalation of geopolitical tensions in the Middle East and monetary policy tightening by central banks aimed at ensuring a global inflation slowdown, withdrawal of fiscal support on account of high debt and low productivity growth. Nonetheless, the impact on global economic growth was less intense than anticipated.**

According to the IMF data from April 2024, global economic activity decelerated from 3.5% in 2022 to 3.2% in 2023, but exceeded expectations of all relevant international institutions as many countries, primarily the USA, China and Russia, exhibited greater resilience.

Influenced by the persistently high prices and costs of borrowing, and experiencing a fallout from the Ukraine crisis, **the economy of the euro area, our key trade partner, decelerated considerably, to 0.4% in 2023, from 3.4% in 2022.** On the expenditure side, a positive contribution to GDP growth came from consumption, fixed investments and net exports, while, sector-wise, growth was driven by services. Positive **labour market tendencies continued in the euro area** – the activity and employment rates went up, while the unemployment rate stood at a record low of 6.5% at end-2023.

US economic growth accelerated from 1.9% in 2022 to 2.5% in 2023, outstripping expectations of the Fed and international financial institutions. The growth was underpinned by private consumption and, on the production side, by services, manufacturing and construction. In 2023, **US labour market conditions** remained tight, but less so than in 2022, with the activity and employment rates increasing and the unemployment rate measuring 3.6% on average, which is close to a historical low.

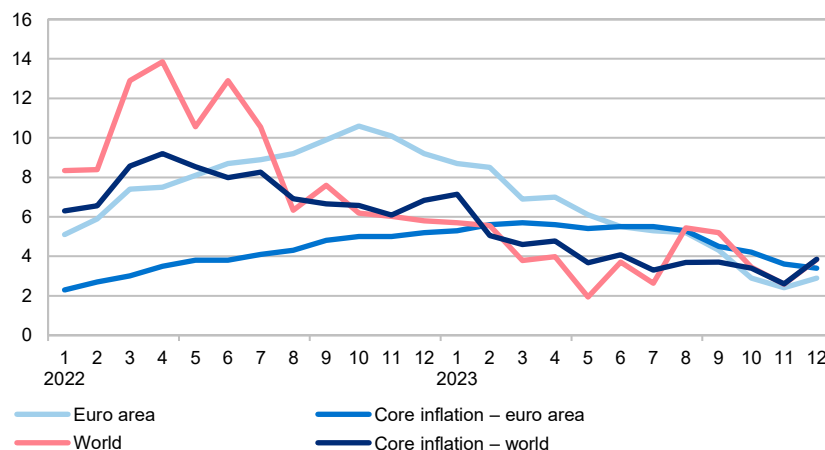
Chart III.1 Real GDP growth
(s-a, quarterly, in %)



Sources: Eurostat, U.S. BEA and NBS calculation.

As cost-push pressures weakened on account of lower food and energy prices, as well as tight monetary conditions, in 2023 global inflation decelerated faster than expected. Euro area y-o-y inflation was mainly on a downward path in 2023, measuring 2.9% in December. However, in most countries core inflation demonstrated a greater degree of persistence, dominantly influenced by tight labour market conditions. In December, it stood at 3.4% y-o-y in the euro area.

Chart III.2 Headline and core inflation – world and the euro area
(in %)



Sources: Eurostat and IMF WEO (April 2024.)

As inflation in many countries slowed down more than expected, the monetary tightening cycle was largely completed in 2023. The ECB further raised its key rates in 2023, by 200 bp each. The rate on the main refinancing operations stood at 4.50% since September, and lending and deposit facility rates at 4.75% and 4.00%, respectively. At the same time, in accordance with plan, the ECB continued reducing its balance sheet, at a moderate pace. In 2023 the Fed continued increasing its federal funds target rate range, by a total of 100 bp, to 5.25–5.50% in July. In their announcements, officials of leading central banks stressed that the

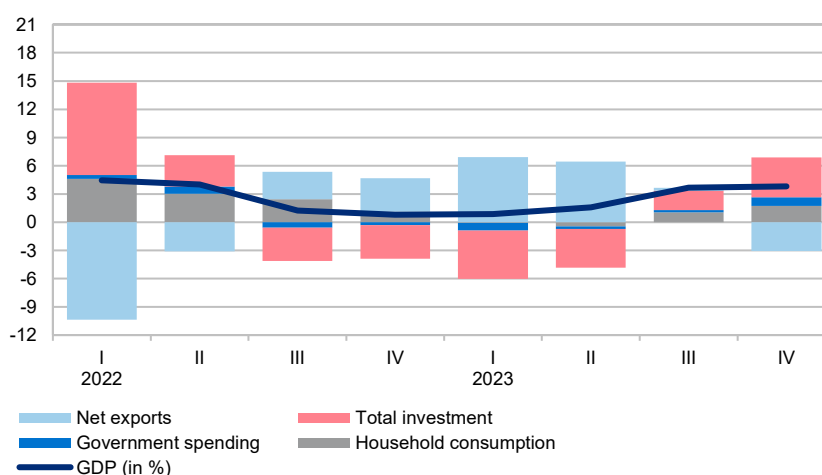
decision on the start of easing of financial conditions will depend on inflation, economic activity and labour market trends. In contrast, **the majority of inflation targeting central banks of the CESEE region kept their key rates unchanged throughout most of 2023**, with the central banks of Poland, Hungary and the Czech Republic initiating monetary easing at the end of the year.

In 2023, the yields on ten-year government securities dropped, with yields in advanced countries declining by around 83 bp on average, with the exception of US securities, whose yield rates stayed almost unchanged. The decrease reflected the downward inflation path and the expectations of market participants that the monetary tightening cycle was completed, and that monetary easing would ensue. At the same time, yields on ten-year bonds of CESEE countries declined, reflecting cuts in key rates of some central banks. **In 2023, the global risk premium went down**, with EURO EMBIG Composite dropping by 7 bp to 200 bp, and EMBI Composite by 55 bp to 319 bp.

Domestic economic environment

As a result of a responsible economic policy and a coordinated and efficient monetary and fiscal policy response, the domestic economy proved to be more resilient to unfavourable developments in the international environment compared to earlier crises. Speaking in favour of this is the **2.5% GDP growth rate in 2023**, despite lower external demand amid pronounced geopolitical tensions. The rise in economic activity was driven primarily by services, but with a positive contribution also coming from construction, industry and agriculture. On the expenditure side, the greatest positive contribution stemmed from net exports, on account of past investments in tradable sectors, and the recovery of energy sector output. A positive contribution also came from fixed investments and household and government consumption.

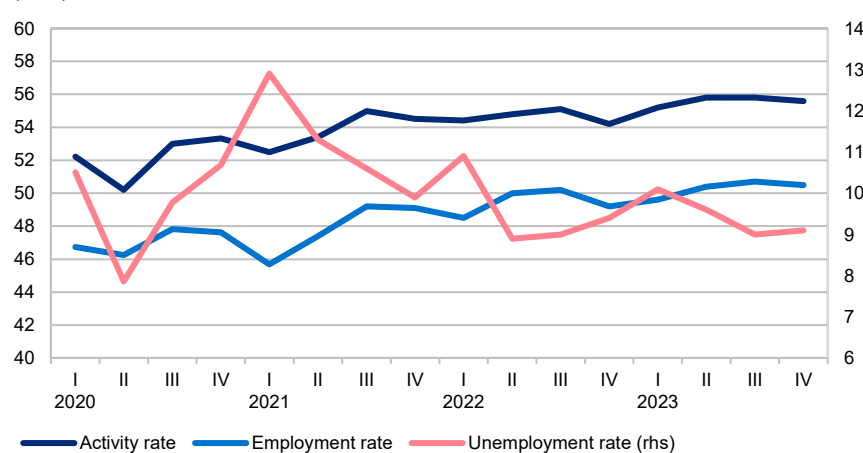
Chart III.3 Contributions to y-o-y GDP growth rate, expenditure side
(in pp)



Sources: SORS and NBS calculation.

In 2023, positive labour market developments continued, as testified by a further rise in employment and wages, coupled with the unemployment reduction. Formal employment went up during the year by around 15 thousand persons and equalled 2.36 mn in December, while unemployment declined by around 39 thousand, to 393 thousand. The average nominal net wage in 2023 amounted to RSD 86,007, recording the y-o-y growth of 14.8%, with private sector wages rising faster than those of the public sector. According to the Labour Force Survey, covering both formal and informal labour market segments, the employment rate reached 50.5% in Q4, and the unemployment rate 9.1%.

Chart III.4 Labour market indicators according to the Labour Force Survey
(in %)



Source: SORS.

Having peaked in March, y-o-y inflation in Serbia moved on the downward path until the end of the year. In December it stood at 7.6% and was two times lower than at end-2022. The inflation slowdown was a result of NBS and ECB monetary tightening and the waning of global cost-push pressures, primarily on account of lower global energy and food prices. Core inflation, most affected by monetary policy measures, also declined since April, measuring 6.5% y-o-y at year end.

To contain the second-round effects of elevated global cost-push pressures from the earlier period on the rise in prices at home, **since the beginning of the year until the end of July 2023, the NBS raised the key policy rate by 1.5 pp, to 6.5%.** As of August 2023, the NBS did not change the key policy rate, but in September it adopted the decision on raising the required reserve rates to withdraw a portion of banks' excess dinar liquidity and thus further tighten monetary conditions. Amid pronounced global uncertainty caused by geopolitical tensions in 2023, it also preserved **the relative stability of the euro exchange rate** by intervening in the FX market in a timely and well-calibrated manner. Appreciation pressures prevailed during the year. To maintain relative exchange rate stability, the NBS was mainly a buyer in the IFEM, purchasing EUR 3.9 bn net. As a result, **FX reserves expanded** to their highest level on record – **EUR 24.9 bn at end-2023.**

In 2023, the current account deficit came at 2.2% of GDP (RSD 181.1 bn), which is a RSD 46.4 bn lower level than anticipated by the supplementary budget for 2023, reflecting expenditures that underperformed and revenues that outperformed the plan. Central government public debt stood at EUR 36.2 bn at end-2023, and its share in GDP equalled 52.0%. It went down by 3.1 pp from end-2022, reflecting higher nominal GDP.

In 2023, the current account deficit declined to EUR 1.8 bn (2.6% of GDP), from EUR 4.2 bn (6.9% of GDP) in 2022, first and foremost under the impact of a goods deficit reduction by EUR 2.8 bn owing to higher export supply and lower energy imports. The external position improved in 2023 on account of the rising surplus in trade in services (by 30.4% from 2022), while a higher primary income deficit and a lower secondary income surplus worked in the opposite direction. At the same time, for the ninth year in a row, the current account deficit was entirely covered by net FDI inflows which stood at EUR 4.5 bn in 2023, touching a new record high.

In February and August 2023, Fitch Ratings affirmed Serbia's credit rating at BB+, a step away from investment grade, with a stable outlook, despite pronounced geopolitical tensions. According to the agency, the key factors behind such decision include preserved exchange rate stability, a credible macroeconomic policy framework, better-quality governance, and a higher economic development level compared to rating peers. In September, Moody's affirmed Serbia's credit rating at Ba2, with a stable outlook, emphasizing a favourable outlook for medium-term economic growth and the economy's resilience to unfavourable trends from the international environment. In April and October 2023, Standard & Poor's affirmed Serbia's credit rating at BB+, a step away from investment grade, with a stable outlook, despite pronounced geopolitical uncertainties. In April 2024, this rating agency revised from stable to positive Serbia's outlook for obtaining investment grade owing to solid macroeconomic outturns in 2023 and resilience demonstrated in the periods of global crises.

IV PRICE AND FINANCIAL SYSTEM STABILITY

IV.1 Monetary policy

IV.1.1 Monetary policy in 2023

In 2023, monetary policy was pursued in accordance with the NBS's 2023 Monetary Policy Programme⁴ and contributed to preserving macroeconomic and financial stability amid strong shocks from the international environment. The Monetary Policy Programme, adopted in December 2022, envisaged that the NBS would remain committed to achieving price stability in the medium run, thus contributing in the best way to the maintenance of financial stability and sustainable economic growth. It also envisaged that, in the decision-making process, the NBS would assess the nature and strength of inflationary pressures and, thus, preserve the necessary flexibility of monetary policy in terms of the scope of the response and use of instruments in order to ensure price stability in the medium term, but also to further support sustainable economic growth.

In 2023, the NBS further tightened monetary conditions by raising the key policy rate, though at a more moderate pace than in 2022. After July 2023, the key policy rate was kept unchanged. Still, **in September the NBS made the decision to absorb a part of banks' excess dinar liquidity through the required reserve instrument, thereby further tightening monetary conditions at home**. By **maintaining the relative stability of the dinar exchange rate against the euro**, the NBS significantly contributed to containing the spillover of rising import prices onto the prices at home, and to macroeconomic stability amid heightened global uncertainty.

In the period January–July 2023, the key policy rate was raised by a total of 150 bp, to 6.5%. The July hike was the 15th consecutive hike in the current cycle (since April 2022), resulting in a 550 bp higher key policy rate. The deposit and lending facility rates were lifted as well, to 5.25% and 7.75%, respectively. The

⁴ RS Official Gazette, No 137/2022.

weighted average repo rate was also raised by 129 bp since the start of the year to 5.45% at end-July.

By raising its interest rates, in the observed period the NBS responded to the persisting inflationary pressures, notably from the international environment. The Executive Board emphasised geopolitical tensions and uncertainty regarding the duration of the Ukraine conflict and its effects on global prices of energy and other primary commodities. Even though the global prices of oil, other energy products and primary commodities declined, the costs of container transport went down and global supply bottlenecks eased, the struggle of central banks with inflation was not over yet. **Further moderate monetary policy tightening was still mandated, as global inflation showed signs of stronger than expected resilience.** Headline inflation in **the euro area**, our key trade partner, slowed down gradually, remaining however considerably above the ECB's target. Particularly concerning was the divergent movement of headline and core inflation, under the impact of elevated inflation expectations, companies' high profit margins and labour market factors. Emphasising its commitment to bringing inflation back to the target in a timely manner, the **ECB** further tightened monetary policy from the start of the year until July 2023, by a total of 175 bp, to 4.25%, and once again in September to 4.5%. At the same time, the **Fed** further tightened monetary policy by expanding its federal funds rate range last time in July, to 5.25–5.50%, its highest level in 22 years.

In deciding to gradually increase the key policy rate, the Executive Board took into account that the **tightening of global financial conditions** could dampen capital inflows to emerging economies. In March, unexpected problems in some US and European banks shook global financial markets. Concerns over financial system stability in advanced economies led to the redirection of investors' funds into the safest asset classes and lowered down expectations regarding the Fed's and the ECB's interest rate hikes, as it was estimated that the leading central banks would prioritise financial stability in the new circumstances, and not the fight against high inflation. Nonetheless, in its March meeting, the ECB raised its key rate, as announced, and emphasised that the euro area banking sector is resilient, recording better performance in many aspects than prior to the 2008 economic crisis. It also added that it would use the key rate to fight inflation, and macroprudential measures to preserve financial stability.

As for Serbia, even amid uncertainty in the international market, **a high FDI inflow** was encouraging, as was the fact that **Serbia made a successful presentation at the international financial market, when it issued eurobonds.** In addition, the Executive Board pointed out that Serbia's credit rating was maintained at a step away from investment grade in the face of numerous global challenges. The rating agencies assess that Serbia has a coherent economic policy framework, credible monetary policy, preserved and moderate public debt levels, an adequate level of FX reserves, and a stable banking sector.

Following the hike in July 2023, the Executive Board kept the key policy rate on hold, but **in September decided to raise banks' required reserve rates**, namely: a) the required reserve rate on the FX base by 3 pp each, to 23% and 16% for liabilities with the maturity of up to and over two years, respectively; b) the required

reserve rate on the dinar base by 2 pp each, to 7% and 2% for liabilities with the maturity of up to and over two years, respectively. In the same period, it raised the percentages of dinar allocations of FX required reserves by 8 pp each, to 46% and 38% for liabilities with the maturity of up to and over two years, respectively. The said changes in the required reserves aimed to support past monetary policy tightening in an environment of pronounced excess dinar liquidity in the banking sector, thus contributing to inflation's return within the target tolerance band.

The Executive Board's decision to keep the key policy rate on hold since July 2023 was motivated by the continued subsiding of global inflationary pressures, the established downward trajectory of inflation at home and its anticipated retreat within the target tolerance band in mid-2024. The Board also took into account the past increases in the key policy and required reserve rates, with the full effects of these measures yet to play out. Past monetary policy tightening passed through to interest rates in the markets of money, loans and savings, which led to lower one-year ahead inflation expectations of the financial and corporate sectors, indicating the efficiency of the monetary policy transmission mechanism.

Y-o-y inflation in Serbia has been on a downward trajectory since April 2023, with its decline slightly sharper than expected. Until the end of the year, inflation declined to almost half the level recorded a year ago and measured 7.6% y-o-y in December, primarily as a result of monetary policy measures, the weakening of global cost-push pressures, the fall in imported inflation, a good agricultural season, and lower inflation expectations. Core inflation (CPI excluding food, energy, alcohol and cigarettes), which is most affected by monetary policy measures, moved below headline inflation throughout 2023, and measured 6.5% at the end of the year.

In making its monetary policy decisions, the Executive Board had in mind that global cost-push pressures continued to ease and inflation to decline, as these were the main drivers of domestic inflation in the prior period. Despite persisting geopolitical risks, it was estimated that the global economy was approaching price stability, owing to restrictive policies of the majority of central banks. **In the euro area**, headline inflation receded further, although it went up in December for the first time since April 2023 (to 2.9% y-o-y), which was expected given the low base from energy prices. Euro area inflation was expected to slow down further in 2024, to 2.7% on average, and 2.1% in 2025. The **ECB** pointed out that inflationary pressures in the euro area were still elevated, but that they would gradually decline as the inflation slowdown would soften the pressures on wage growth. Since September, the ECB has not changed its interest rates, which are at their highest level since the 1999 euro introduction. Their robust pass-through to financial conditions weakened the dynamics of the lending, and hence, economic activity in the euro area, especially in Q4 2023.

The policy rates of most other central banks peaked in 2023 in the current monetary tightening cycle as well. At the year end, a question arose as to when the interest rates of leading central banks, the ECB and the Fed, would start to decline and at what pace. It is expected that the leading central banks, as well as the central banks of most countries, will embark on the monetary policy easing cycle in 2024, but when this will happen depends on the specific circumstances of each country.

Nonetheless, the ECB, the Fed and the IMF point out that monetary easing should not come too early so as not to renew inflationary pressures.

Among the challenges from the international environment which mandate caution, the Executive Board highlighted geopolitical conflicts and the consequent risk of rising global prices of oil and other primary commodities. The prices of most primary commodities in the global market declined in 2023 but were still more than 40% above the pre-pandemic level. The global oil prices were particularly volatile – after the hike in September and October 2023, reflecting the decision of the OPEC+ countries to extend the cap on supply until end-2023, but also concerns over oil supply amid conflicts in the Middle East, the price of oil declined primarily due to subdued demand from advanced economies. The global gas price dropped as well, and so did the global electricity price. Still, uncertainty surrounding the movement of energy prices remained pronounced, particularly due to potential escalation of the Middle East conflict. In addition, China's economic performance largely affected global prices of energy and most other primary commodities, which is why China's growth outlook is one of the important factors of inflation movements in the period ahead.

As for factors at home, the Executive Board had in mind that **inflation expectations** of the financial and corporate sectors **continued down**, contributing to lower inflation and a higher real interest rate, i.e. more restrictive monetary conditions even without changes in the key policy rate. In deciding on the key policy rate, the Executive Board sought to make sure that monetary policy tightening **does not threaten the continuity of economic growth**. As expected, **lending activity** slowed down, reflecting tighter financial conditions in the European and home market, the resulting fall in loan demand, as well as the maturing of guarantee scheme loans to corporates. In the household loan segment, from September, a temporary negative influence stemmed also from the accounting treatment of receivables under housing loans after the adoption of the decision on capping the interest rates on these loans. Nonetheless, **domestic demand continued to be supported chiefly by the preserved labour market and FDI inflow**, yielding a positive impact on economic activity.

Despite the continuing rise in employment and the real wage growth of 2.4% in 2023, **household consumption did not exert any major inflationary pressures**. Additionally, despite higher outlays for public sector wages, pensions and one-off fiscal transfers at the end of the year, 2023 recorded a lower than expected general government deficit, measuring 2.2% of GDP, thus creating a weaker than expected fiscal impulse. Overall, **GDP growth measured 2.5% in 2023, fully in accordance with the NBS's forecast**. Growth was led by net exports, thanks to rising exports of goods and services and lower imports, and by fixed investments. The easing of inflationary pressures in the international and domestic markets, as indicated by lower producer and imported prices, should have a positive effect on economic growth in the period ahead.

As the main risks to inflation and other economic developments still emanate from the international environment, the NBS will continue to monitor and analyse trends in the international commodity and financial markets and make monetary

policy decisions depending on the pace of inflation's slowdown. The NBS will remain committed to its priority to deliver price stability in the medium term, while at the same time taking care of its other objective – preserving and strengthening financial stability. Without prejudice to these two objectives, the NBS will support continued growth and development of our economy, as well as a further rise in employment and preservation of a favourable investment environment.

IV.1.2 Monetary policy instruments

The main monetary policy instrument of the NBS is the **key policy rate, i.e. the interest rate on the main open market operations**. The role of the key policy rate is supported by the **corridor of interest rates on deposit and lending facilities and by other open market operations**. In addition to the key policy rate, the NBS uses other instruments of monetary regulation, notably **reserve requirements and operations in the FX market**.

Open market operations

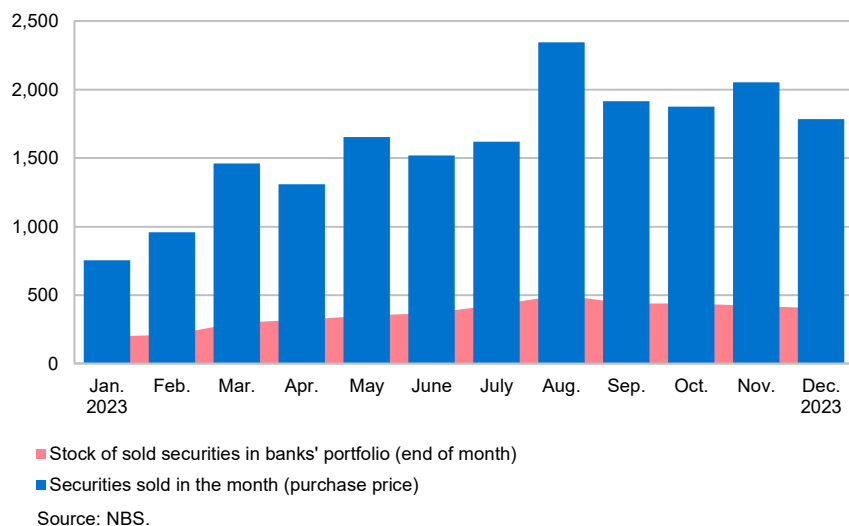
The main open market operations of the NBS in 2023 were again one-week reverse repo transactions, i.e. repo sales of securities (liquidity absorbing).

The NBS implemented repo transactions using its own securities. For the needs of repo sale, one series of T-bills was issued in 2023, in the total nominal value of RSD 1,000 bn. The issuance of this series was greater than in the previous years (RSD 500 bn), reflecting the need to provide enough market material for smooth performance of repo transactions in an environment of pronounced excess dinar liquidity in the banking system. The increase in excess dinar liquidity was mostly facilitated by the NBS's FX purchase interventions in the international FX market amid appreciation pressures on the dinar.

In 2023, fifty-two repo sale auctions were organised. Auctions were held once a week, applying the model of the variable multiple interest rate. Total securities sales in 2023 (RSD 19,252.9 bn) were significantly higher than in 2022 (RSD 2,951.5 bn) due to rising excess dinar liquidity.

The stock of sold NBS repo securities in banks' portfolios averaged RSD 367.9 bn in 2023, which is a significant rise from a year earlier (RSD 56.3 bn). Relative to end-2022, the stock of sold securities rose by more than three and a half times (by RSD 295.0 bn), measuring RSD 405.0 bn at end-2023.

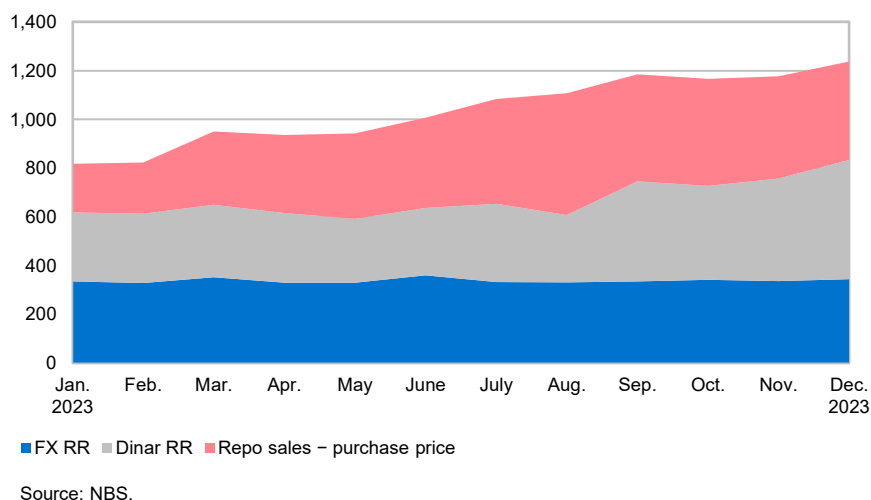
Chart IV.1.2.1 Repo sale and stock of sold securities
(RSD bn)



Deposit and lending facilities

In 2023, banks continued to place overnight deposits with the NBS (deposit facilities). The average daily stock of bank deposits with the NBS in 2023 came at RSD 131.2 bn, which is RSD 63.5 bn more than in 2022. The highest average monthly stock was recorded in May (RSD 173.9 bn) and the lowest in October (RSD 89.8 bn).

Chart IV.1.2.2 Volume of sterilisation by monetary policy instruments
(RSD bn)



In 2023, banks sporadically used daily liquidity loans against the collateral of securities – two banks as intraday loans in the total amount of RSD 32.4 bn, while overnight loans were not used at all.⁵

Required reserves

Taking into account the current monetary conditions in the banking sector and the movement of inflation above the upper target bound, in September 2023, the NBS Executive Board raised required reserve rates, namely: on dinar required reserves by 2 pp each (from 5% to 7%, and from 0% to 2% for liabilities with the maturity of up to and over two years, respectively), and on FX required reserves by 3 pp each (from 20% to 23%, and from 13% to 16%, respectively). At the same time, the percentages of dinar allocations of FX required reserves were raised by 8 pp each (from 38% to 46%, and from 30% to 38%, respectively).

The aim of increasing the required reserve rates was to support past monetary tightening carried out by raising the NBS main interest rates, and thus to enhance the efficiency of the monetary policy transmission mechanism and help inflation retreat within the target tolerance band. In addition, this measure aimed to absorb a part of excess dinar liquidity from the banking system and support the interbank money market, which recorded a significant drop in turnover amid excess dinar liquidity.

By implementing this measure, around RSD 114 bn worth of dinar liquidity was withdrawn, with an almost neutral effect on FX liquidity (withdrawal of almost EUR 25 mn). This also boosted the turnover in the interbank money market, contributing to an efficient monetary policy transmission mechanism and strengthening the representativeness of benchmark interest rates in that market. After this measure entered into force on 18 September 2023, the average daily trading in the overnight interbank money market rose to RSD 4.0 bn at end-2023 from RSD 1.4 bn in the previous part of 2023.

Calculated FX required reserve (including allocations in foreign currency and dinars) increased by EUR 770.1 mn in 2023, to EUR 5,222.1 mn at year end. The increase in FX required reserve in this period largely reflects the said increase in FX required reserve rates, and, to a lesser extent, the rise in banks' FX liabilities which make up the required reserve base. In 2023, these liabilities grew by EUR 0.4 bn, with an almost equal contribution coming from liabilities with the maturity of up to two years, and those of longer maturities. Given the FX base composition, the increase was recorded in FX savings (EUR 0.6 bn) and FX deposits of corporates (EUR 0.4 bn), while external FX liabilities contracted (EUR 0.6 bn).

As the rates of the FX required reserve increased in parallel with the percentages of its dinar allocations, the effect of the aforementioned measures on the part of the required reserve allocated in foreign currency was modest. Hence, the part of the

⁵ A liquidity loan may be used by a bank as:

- an intraday credit, i.e. a loan repaid to the NBS on the same working day; the NBS does not charge an interest on the amount of the used and repaid intraday credit;
- an overnight credit, i.e. a loan not repaid to the NBS on the same working day; the NBS charges an interest on the amount of the overnight credit which equals the key policy rate plus 1.25 pp.

required reserve allocated in foreign currency recorded moderate growth in 2023 (by EUR 70.1 mn), measuring EUR 2,862.6 mn at the end of the year.

Required reserves allocated in dinars increased considerably in 2023 – by RSD 136.9 bn (50.2%) to RSD 409.5 bn at year end. This increase chiefly reflects the growth in required reserve rates (dinar required reserves and FX required reserves and their share allocated in dinars) – the net effect equalled RSD 114 bn. The increase in required reserves was also underpinned by the increase in dinar liabilities which make up the base for the calculation of the required reserves (by RSD 336.5 bn) – which recorded a rise in all categories, mainly corporate and household deposits.

Interest rates

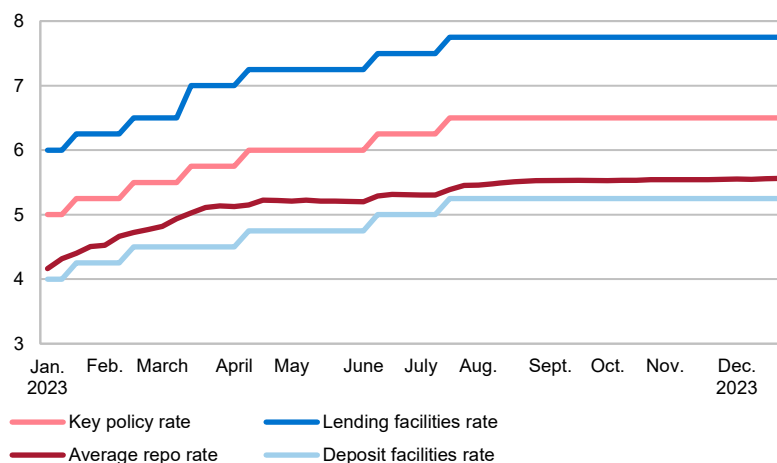
Amid persisting inflationary pressures in the global and domestic environment, since the start of 2023 the NBS Executive Board continued with the monetary tightening cycle (begun in April 2022) by raising the key policy rate.

By end-July 2023, **the key policy rate was raised by a total of 150 bp, to 6.50%**. At the same time, the interest rate corridor was widened in March from ± 1.00 pp to ± 1.25 pp relative to the key policy rate. From April 2022, the key policy rate was raised by 550 bp in cumulative terms, while the interest rate corridor was widened by a total of 0.35 pp. Hence, the rates on deposit and lending facilities increased to 5.25% and 7.75%, respectively.

As of August 2023, the NBS Executive Board decided to keep the key policy rate on hold in view of the continued easing of global inflationary pressures in H2 2023, a firm downward path of domestic inflation as of Q2 2023, as well as the NBS's expectation that inflation would return within the target tolerance band in mid-2024.

The interest rate at which the NBS calculates and pays the interest on the average daily balance of allocated dinar required reserves was kept at 0.75% in 2023.

Chart IV.1.2.3 **Movement in the key policy rate and average repo rate**
(daily data, p.a., in %)



Source: NBS.

FX market operations

Under the 2023 Monetary Policy Programme, the NBS continued implementing the managed float exchange rate regime, with the possibility to intervene in the FX market with a view to easing excessive short-term volatility of the dinar against the euro and maintaining price and financial stability and an adequate level of FX reserves.

In 2023, the dinar gained 0.1% against the euro in nominal terms. Amid strong appreciation pressures on the dinar, in 2023, the NBS net purchased EUR 3,940 mn in the IFEM, the record high FX purchase amount.

Appreciation pressures reflected FX inflows from record high FDIs, exports, tourism, remittances, etc. As a result, for the first time, residents were net sellers of foreign currency at the year-level, also due to lower FX demand by domestic companies – energy importers relative to the previous year. In 2023, appreciation pressures prevailed also on the back of other FX supply-side factors – chiefly banks' exceptionally high foreign cash purchases from authorised exchange dealers and natural persons and the lengthening of the FX position of banks on account of the use of foreign (non-resident) payment cards, and, to a lesser extent, the increase in net indexed bank assets. Pressures on the FX supply-side were extremely strong in April, July and September, when the NBS bought foreign currency in the IFEM in the net amount of EUR 600 mn, EUR 595 mn and EUR 615 mn, respectively. In January and November, the only months when depreciation pressures prevailed, primarily due to seasonally higher FX demand of energy importers, and somewhat higher FX demand of non-residents, the NBS net sold EUR 225 mn and EUR 60 mn, respectively.

FX swaps

In 2023, banks were still able to conclude bilateral transactions of swap purchase and sale of FX (euros) with the NBS. By introducing bilateral swap transactions, the NBS sought to provide not only assistance to banks in their liquidity management, helping them overcome the problem of insufficient limits for concluding interbank transactions, but also the flexibility regarding the moment of concluding transactions and their maturity.

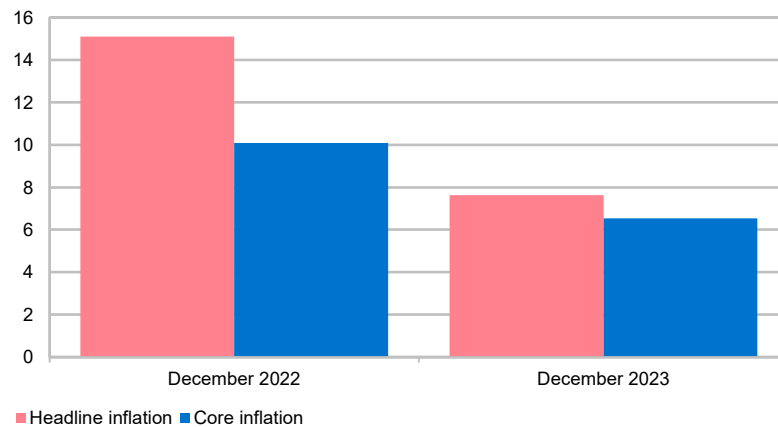
In 2023, NBS bilateral swap transactions amounted to EUR 1,126 mn (swap purchase and sale worth EUR 563 mn each).

IV.1.3 Achievement of inflation target in 2023

Inflation in Serbia peaked in March 2023, hitting a **stable downward path as of April**, mostly as the effects of past monetary policy tightening played out and global cost-push pressures eased on account of lower global prices of energy and food. According to SORS data, average inflation in 2023 equalled 12.1% and average core inflation 9.1%. Core inflation moved below headline inflation during

the entire 2023, propped by the NBS monetary policy tightening and the decline in import and producer prices.

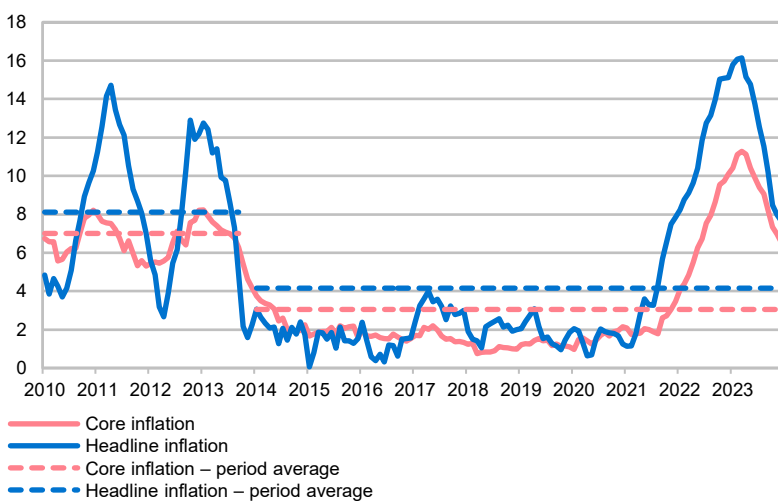
Chart IV.1.3.1 Y-o-y inflation at the end of 2022 and 2023
(in %)



Sources: SORS and NBS calculation.

Y-o-y inflation fell from 16.2% in March to 15.1% in April. In December 2023, it stood at 7.6%, almost half the level from end-2022. Y-o-y core inflation, which is most affected by monetary policy, hit a downward trajectory as of April, recording single-digit levels in H2, and measured 6.5% at end-2023. This y-o-y dynamics was in line with our projections in quarterly *Inflation Reports* for 2023.

Chart IV.1.3.2 Headline and core inflation
(y-o-y rates, in %)



Sources: SORS and NBS calculation.

Looking at basic CPI components, more than half of y-o-y inflation at end-2023 was led by food and energy prices. The prices in the group of **food and non-alcoholic beverages** increased by 8.4% y-o-y, with a 2.7 pp contribution to inflation. A somewhat higher contribution to y-o-y inflation stemmed from the prices of processed food (1.6 pp) than from the prices of unprocessed food (1.1 pp), with a 5.4 pp lower cumulative contribution in December compared to March when inflation

peaked. The slowdown of the y-o-y growth in food prices until end-2023 reflected the high base from the same period in 2022 and the weakening of cost-push pressures in food production and transport due to a decline in the global prices of primary agricultural commodities and raw materials used in food and beverages processing, and a solid agricultural season at home in Q3.

For the most part of 2023, the y-o-y growth in **energy prices** at home slowed down to 8.7% in December providing a 1.3 pp contribution to inflation. The increase in energy prices is almost entirely owed to adjustments in the administered prices of electricity and gas in January, May and November. In contrast, mirroring the movement in the global oil price, petroleum product prices were almost unchanged at end-2023 relative to end-2022, with a neutral contribution to y-o-y inflation, while the prices of solid fuels decreased in December y-o-y due to lower prices of firewood.

The y-o-y growth in the **prices of industrial products excluding food and energy** also slowed down in 2023 (7.4% in December, with a 2.1 pp contribution to inflation), reflecting lower prices of energy and industrial raw materials used in their production. Within this group, the greatest contribution to December y-o-y inflation came from the increase in the prices of clothes and footwear, furniture and household appliances, cigarettes, alcohol beverages and pharmaceutical products.

The prices of services posted a 6.1% y-o-y rise in December (with a 1.5 pp contribution to inflation) led primarily by the higher prices of catering services, cable subscription and internet, medical and utility services. A negative contribution came from the lower prices of public transport, notably in Belgrade.

At end-2023, **administered prices**, under government regulation, rose by 10.9% from a year earlier, on the back of the already mentioned adjustment of the prices of gas, electricity and cigarettes, as well as the rise in utility services.

IV.2 Regulation and supervision of financial institutions

IV.2.1 Banks

In 2023, the structure of the NBS-supervised segments of the financial sector remained largely unchanged. The banking sector continued to dominate the Serbian financial system and was the key factor of its stability. It participated with 90.9%⁶ in the balance sheet total of the NBS-supervised segments of the financial sector, which was around 80% of GDP in 2023.

The downward trend of employment in the Serbian banking sector, initiated back in 2009, continued in 2023 following a temporary slowdown in 2019. At the end of the year, the banking sector employed 21,899 persons, 96 fewer than at end-2022.

⁶ All data in the *Report* are based on the reports that banks are required to submit to the NBS. These reports were not audited by external auditors or verified by NBS on-site supervisors.

Table IV.2.1.1 Financial system structure

	31 December 2022			31 December 2023		
	Number	Balance sheet total (RSD bn)	Share (%)	Number	Balance sheet total (RSD bn)	Share (%)
Banking sector	21	5,455.4	91.2	20	5,941.2	90.9
Lessors	15	145.0	2.4	15	163.8	2.5
Insurance undertakings	20	336.6	5.6	20	375.5	5.8
Voluntary pension funds	7	48.2	0.8	7	53.8	0.8
Total	63	5,985.2	100.0	62	6,534.4	100.0

Source: NBS.

Banking sector structure

The banking sector comprised 20 banks at end-2023.⁷ As a result of changes in the ownership structure and mergers, at end-2023 there were 15 banks in the majority ownership of foreign shareholders, three banks with the majority private domestic capital and two in the majority ownership of the Republic of Serbia.⁸

Table IV.2.1.2 Ownership structure of the banking sector in 2023

	Balance sheet total (RSD mn)	Share (%)	Capital (RSD mn)	Share (%)
Domestic banks:	1,369,519	23.1	180,193	22.0
- state-owned	509,221	8.6	38,473	4.7
- private-owned	860,298	14.5	141,720	17.3
Foreign banks	4,571,722	76.9	637,758	78.0
Total	5,941,240	100.0	817,951	100.0

Source: NBS.

In 2023, banking sector balance sheet total expanded by RSD 485.8 bn, or by 8.9%. Owing to changes in the ownership structure and bank mergers, the share of banks in the ownership of foreign shareholders dropped by 6.7 pp to 76.9% at year end, the share of banks in government ownership increased by 0.8 pp to 8.6%, while the share of banks in the domestic shareholders' ownership went up by 5.9 pp to 14.5%.

Of banks owned by foreign shareholders, those from Italy (26.3%), Austria (19.4%), Hungary (13.9%) and Slovenia (9.9%) held the largest shares in total assets, while banks from other countries accounted for 7.3% of total assets.

Balance sheet capital of the banking sector went up in 2023 by RSD 97.8 bn (13.6%).

⁷ In April 2023, RBA a.d. Novi Sad merged with Raiffeisen banka a.d. Beograd. In April 2023, natural person Alexander Shnaider acquired 100% ownership in Expobank a.d. Beograd, which in September 2023 changed its business name into Adriatic Bank a.d. Beograd. In November 2023, AIK Banka a.d. Beograd became the sole owner of Eurobank Direktna a.d. Beograd.

⁸ The Republic of Serbia is the majority owner and major individual shareholder.

Concentration

In 2023, market concentration, measured by the HHI index⁹ increased in all three key categories (balance sheet total, total loans and total deposits). The HHI value in the case of balance sheet total and deposits is still below 1,000 indicating that these segments are concentration-free, while lending entered the moderate concentration zone.

Table IV.2.1.3 Concentration (HHI) and the shares of top banks in banking sector balance sheet total, loans and deposits

	31 December 2022	31 December 2023
Balance sheet total (HHI)	936	986
Share in balance sheet total		
Top five banks	59.3	61.4
Top ten banks	89.2	91.4
Gross loans (HHI)	1,004	1,059
Share in gross loans (%)		
Top five banks	61.3	64.7
Top ten banks	90.2	92.9
Deposit potential (HHI)	950	990
Share in deposit potential (%)		
Top five banks	59.8	61.3
Top ten banks	89.5	91.6

Source: NBS.

Structure of banking sector assets and liabilities

Structure of assets

As Serbian banks are more oriented to traditional credit-deposit activities, loans and receivables¹⁰ accounted for the dominant share of banking sector net assets, which measured RSD 5,941.2 bn, and are the most important determinant of asset quality. The bulk of loans and receivables (81.4%) pertained to the non-financial sector, and the rest to banks and other financial organisations. In addition to the nominal rise in net loans and receivables in 2023 (RSD 360.6 mn), their share in total net assets also increased, from 65.2% to 65.9%. The share of securities is also significant. Coupled with pledged financial assets, they accounted for 12.0% of net assets. The share of cash and assets with the central bank increased from 17.8% to 18.9% in 2023.

⁹ The HHI (Herfindahl-Hirschman Index) is calculated as the sum of square values of individual bank shares in the category observed (assets, loans, deposits, etc.). HHI up to 1,000 indicates that there is no market concentration; 1,000–1,800 indicates moderate concentration; above 1,800 indicates high concentration.

¹⁰ In addition to loans and deposits, this balance sheet item also includes FX accounts abroad, receivables from interest, fees and commissions and other receivables (factoring, forfeiting, guarantees, letters of credit and other sureties) and excludes excess liquidity and foreign currency required reserves deposited with the NBS.

Table IV.2.1.4 Structure of banks' net assets as at 31 December 2023

	Amount (RSD mn)	Share (%)
Cash and balances with the central bank	1,120,641.9	18.9
Pledged financial assets	26,475.1	0.4
Derivative receivables	4,904.4	0.1
Securities	689,442.0	11.6
Loans and receivables from banks and other financial organisations	726,521.8	12.2
Loans and receivables from clients	3,189,981.0	53.7
Changes in the fair value of items being subject to hedging	0.0	0.0
Receivables under derivatives intended for hedging	1,233.8	0.0
Investment in associated undertakings and joint ventures	768.8	0.0
Investment in subsidiaries	19,813.9	0.3
Intangible assets	23,239.3	0.4
Property, plant and equipment	74,773.1	1.3
Investment property	5,693.8	0.1
Current tax assets	2,820.9	0.1
Deferred tax assets	3,735.6	0.1
Non-current assets held for sale and discontinued operations	175.8	0.0
Other assets	51,019.0	0.9
Total assets	5,941,240.3	100.0

Source: NBS.

Structure of liabilities

Owing to higher retained earnings and reserves from profit, the share of capital in the structure of the sources of Serbian banking sector assets increased from 13.2% to 13.8%. Deposits and other liabilities¹¹ (of which 88.3% pertains to the non-financial sector) saw the nominal growth of RSD 351.9 bn, or 7.7%.

Table IV.2.1.5 Structure of banks' liabilities as at 31 December 2023

	Amount (RSD mn)	Share (%)
Derivative liabilities	3,525.5	0.1
Deposits and other liabilities to banks, other financial organisations and the central bank	575,297.2	9.7
Deposits and other liabilities to other clients	4,359,554.9	73.4
Liabilities arising from hedging derivatives	1,952.0	0.0
Changes in fair value of items subject to hedging	0.0	0.0
Liabilities under securities	0.0	0.0
Subordinated liabilities	61,558.3	1.0
Provisions	25,383.6	0.4
Liabilities in respect of assets held for sale and discontinued operations	0.0	0.0
Current tax liabilities	8,378.4	0.1
Deferred tax liabilities	622.5	0.0
Other liabilities	87,016.4	1.5
Total liabilities	5,123,288.8	86.2
Capital	817,951.5	13.8
Total liabilities	5,941,240.3	100

Source: NBS.

¹¹ Pursuant to balance sheet schemes, valid from 1 January 2018, the item 'Deposits and other liabilities', besides deposits, also includes received loans and liabilities in respect of interest, fees and commissions.

Total net retained earnings of the banking sector amounted to RSD 178.9 bn in 2023, up by RSD 63.2 bn from end-2022. Banks recorded an increase in profit from the current year by RSD 34.4 bn, from previous years by RSD 22 bn and the coverage for losses by RSD 6.9 bn. Net reserves from profit were higher by RSD 32.9 bn.

Table IV.2.1.6 **Structure of bank capital**

(RSD mn)

	31 December 2022	31 December 2023
Share capital and other capital	380,031	381,731
Own shares	0	0
Reserves*	224,400	257,293
Profit of the current and previous years	134,335	190,682
Loss of the current and previous years	18,635	11,754
Total	720,131	817,951

Source: NBS.

* Including unrealised losses.

Off-balance sheet items

Total off-balance sheet items of the banking sector measured RSD 8,406.3 bn at end-2023, up by 16.6% from end-2022.

The bulk of banking sector off-balance sheet items are items with no credit risk exposure¹² (80.5% of total off-balance sheet items). At end-2023, derivative receivables accounted for the bulk of total off-balance sheet items (10.8%). Issued guarantees and other sureties made up 7.5%, contingent irrevocable commitments 3.4% and financial assets carried over to off-balance sheet records in line with the Decision on the Accounting Write-Off of Bank Balance Sheet Assets 2.2%.

Currency risk

At end-2023, the banking sector's total open FX position equalled RSD 8.14 bn and exposure to FX risk (expressed as the FX risk ratio) 1.17%, which is significantly below the prescribed 20% cap.

Table IV.2.1.7 **Banks' exposure to FX risk as at 31 December 2023**

(RSD mn)

Open position in EUR		Open position in USD		Open position in CHF		Open position in other currencies		Open position in gold		Total open position		Total net open FX position
Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	
1,976	7,648	514	126	38	120	1,456	247	152	0	3,984	8,140	8,140

Source: NBS.

¹² Received material collateral, received guarantees and other sureties, funds from depositary and custody operations, approved framework loans and credit lines, revocable commitments, investments for and on behalf of third parties and other off-balance sheet assets.

Asset quality

According to data, Serbian banking sector asset quality was preserved at end-December 2023. The share of NPLs in total loans stood at 3.21%, still very close to the historical minimum. Since the adoption of the NPL Resolution Strategy in August 2015, this indicator dropped by as much as 19.0 pp. Total gross NPLs equalled RSD 107.3 bn. Of that, 39.7% were corporate¹³ NPLs (with a 2.57% NPL ratio) and 59.5% household¹⁴ NPLs (with a 4.31% NPL ratio).

Table IV.2.1.8 **NPL composition**

(RSD mn)

	31 December 2022	31 December 2023
Total gross NPL		
amount	99,509	107,296
ratio	3.0%	3.2%
Corporates [*]		
amount	40,661	42,549
ratio	2.5%	2.6%
Natural persons ^{**}		
amount	57,228	63,791
ratio	3.9%	4.3%
Other		
amount	1,620	956
ratio	0.8%	0.5%

^{*}Corporate sector includes companies, public enterprises, companies in bankruptcy and public enterprises in bankruptcy, as well as legal entities and institutions in education and health sectors not financed from the budget.

^{**}Households, entrepreneurs, private households with employed persons and registered farmers.

Source: NBS.

NPL coverage with allowances for impairment increased in 2023, indicating that banks remained cautious and proactive in their assessments of expected credit losses. At end-2023, 60.5% of total gross NPLs were covered by their accompanying allowances for impairment carried out in line with the IFRS 9, while 101.0% of NPLs were covered by allowances for impairment of total loans.

At end-2023 total classified balance sheet and off-balance sheet assets of the banking sector stood at RSD 5,272.8 bn, up by RSD 271.2 bn, or by 5.4% from last year.

¹³ Inclusive of sectors of companies, public enterprises, companies in bankruptcy and public enterprises in bankruptcy as well as legal entities and institutions in education and health sectors not financed from the budget.

¹⁴ Includes sectors of households, entrepreneurs, private households with employees, registered agricultural producers and entrepreneurs in bankruptcy.

Table IV.2.1.9 **Classification of bank assets**

(RSD mn)

	Gross amount	Total classified assets	Classified assets		Share of assets classified in categories D and E in total classified assets (%)
			A + B + C	D + E	
31 December 2023					
Balance sheet assets	6,163,234	3,631,125	3,370,406	260,719	7.2
Off-balance sheet items	8,406,300	1,641,711	1,591,297	50,414	3.1
Total	14,569,534	5,272,836	4,961,703	311,133	5.9
31 December 2022					
Balance sheet assets	5,664,812	3,582,915	3,366,523	216,391	6.0
Off-balance sheet items	7,208,721	1,418,730	1,379,832	38,897	2.7
Total	12,873,533	5,001,645	4,746,355	255,288	5.1

Source: NBS.

Banking sector liquidity

The Serbian banking sector remains exceptionally liquid. Of all the risks in the system, liquidity risk is the least pronounced.

In December 2023, the average monthly banking sector liquidity ratio was twice higher than the prescribed minimum (1.0) and equalled 2.51. In 2023, the ratio was constantly above 2, suggesting that liquid assets (first-degree liquid receivables and other receivables due in the next month) were double the sum of liabilities without a set maturity date and liabilities due in the next month. As at 31 December 2023 liquid assets accounted for 44.1% of total balance sheet assets and 58.2% of short-term liabilities. The average monthly narrow liquidity ratio of 1.78 in the same period was also considerably above the regulatory minimum (0.7).

Liquidity Coverage Ratio – LCR has been in use since June 2017 and equals 193.7%, also confirming high banking sector liquidity.

Capital adequacy ratio of the banking sector

Owing to considerable capital reserves built over previous years and a favourable structure of regulatory capital, mainly (around 92%) composed of core capital (and almost in its entirety the top-quality capital component – CET 1 capital), the Serbian banking sector remained adequately capitalised in 2023 as well. CAR stood at 21.38% at the end of the year, significantly above the regulatory minimum (8%). Core capital adequacy ratio stood at 19.67% (the regulatory minimum is 6%), and CET 1 capital adequacy ratio equalled 19.62% (the regulatory minimum is 4.5%). The leverage ratio, i.e. ratio of core capital and total balance sheet and off-balance sheet exposure at end-2023 stood at 10.33%.

Performance indicators

Nineteen out of 20 banks fully complied with the prescribed limits of performance indicators at end-2023. One bank failed to comply with one indicator.

Table IV.2.1.10 **Banks' performance indicators**

	31 December 2023	Number of non-complying banks
Capital adequacy ratio (min. 8%)	21.4%	0
Indicator of total investments in non-financial sector entities, fixed investments and banks' investment real estate (max. 60%)	11.5%	1
Indicator of the sum of all great exposures to a single entity or a group of related entities	-	0
Liquidity ratio*	2.5	0
FX risk ratio (max. 20%)	1.2%	0

* Average monthly indicator.

Source: NBS.

Profitability

In 2023, the Serbian banking sector again posted a positive pre-tax net financial result. It measured RSD 138.16 bn. RoA increased from 1.9% in 2022 to 2.4% and RoE from 13.8% to 18.0%.

Table IV.2.1.11 **Banks' financial result**

	31 December 2022		31 December 2023	
	Amount (RSD mn)	Number of banks	Amount (RSD mn)	Number of banks
1 Profit	99,815	20	138,277	19
2 Loss	192	1	113	1
Financial result (1–2)	99,623	21	138,164	20

Source: NBS.

In 2023, 19 banks operated with profit, while one bank posted a negative pre-tax financial result.

Table IV.2.1.12 **Banking sector profitability indicators**

(%)

	2022	2023
ROA	1.9	2.4
ROE	13.8	18.0
Interest margin / average balance sheet assets	2.9	4.0
Interest margin / total operating income	58.4	71.6
Operating expenses / total operating income	52.3	47.8
Salary expenses / operating expenses	36.4	36.7

Source: NBS.

Given the dominant reliance of domestic banks on traditional credit-deposit business models, the greatest generator of the Serbian banking sector net profit in 2023, as in previous years, was net income from fees and interests (RSD 304.9 bn, up by RSD 85.4 bn or 38.9% from the year before). Net income from interest stood at RSD 227.6 bn in 2023, up by RSD 77.7 bn or 51.8%, reflecting the rise in key rates prompted by the NBS and ECB monetary policy tightening. Net income from fees and commissions equalled RSD 77.3 bn, up by RSD 7.7 bn or 11.1%, with the pace of their y-o-y growth decelerating on account of the effects of supervisory activities and measures taken by the NBS in relation to bank fees. On the other hand, net credit losses stood at RSD 27.8 bn as they rose by RSD 5.0 bn or 21.8% primarily due to the modification of financial instruments caused by the implementation of the Decision on Temporary Measures for Banks Relating to Natural Persons' Housing Loans. Operating expenses measured RSD 151.8 bn, up by RSD 17.4 bn or 13% from a year earlier.

Bank supervision activities

Regulatory activity

In view of the aggravated circumstances in the agricultural cycle phase, especially weakened demand and unfavourable movement of raspberry prices in the international market, which pushed businesses in fruit, and especially raspberry purchase-storage chain, in an extremely difficult position, the NBS enabled the rescheduling of liabilities for bank borrowers engaged in the purchase and cold storage of fruit and adopted in January 2023 the Decision Amending the Decision on Temporary Measures for Banks Aimed at Adequate Management of Credit Risk in Agricultural Loans Portfolio in Conditions of Aggravated Agricultural Production.¹⁵

In June 2023, the NBS adopted the Decision Amending the Decision on Capital Adequacy of Banks and Decision Amending the Decision on Reporting Requirements for Banks¹⁶ to boost financial system dinarisation and change the currency composition of lending in the Republic of Serbia by enabling a greater share of dinar loans in total loans and creating conditions for more favourable dinar lending to corporates, especially small and medium-sized enterprises.

After three years of postponement due to various negative factors in the international environment, the Decision envisages the inclusion into calculation and reporting, as of 1 July 2023, of all newly approved – non-purpose and non-investment loans approved to economic entities, entrepreneurs and agricultural producers, while postponing the obligation of capital reduction due to the violation of the 71% limit on the share of FX and FX-indexed loans in total loans for a year and a half (up to 31 December 2024). After this date, percentages are envisaged for the share of FX and FX-indexed loans in total loans, as a basis for applying

¹⁵ RS Official Gazette, No 5/2023 of 24 January 2023.

¹⁶ RS Official Gazette, No 48/2023 of 9 June 2023.

deductibles from capital and their phased lowering by 7 pp – starting from 1 January 2025.

In September 2023, the NBS adopted the Decision on the Management of Risks Arising from Outsourced Activities.¹⁷

This Decision lays down additional obligations for banks in all phases of outsourcing, placing special emphasis on activities whose performance is important for ensuring the continuity of business processes and/or unhindered provision of banking services to clients, as well as on the outsourcing of receivables collection and on upgrading reporting to the NBS about the outsourced activities.

To preserve financial sector stability and protect households from uncertainty induced by fluctuating interest rates, in September 2023 the NBS adopted the Decision on Temporary Measures for Banks Relating to Natural Persons' Housing Loans.¹⁸ This Decision limits the interest rate for borrowers – first-time users of a variable rate housing loan, whose agreed amount does not exceed EUR 200,000.

Three sets of measures are prescribed under this decision:

The first measure: a reduction and a temporary freeze on the contracted variable nominal interest rate on housing loans that were approved to the borrowers before the effective date of this Decision (13 September 2023), until 31 December 2024, in accordance with the following rules:

- the nominal interest rate may not exceed 4.08%;
- by way of exception, in case that a housing loan was approved to a borrower in the period since 31 July 2022 until the effective date of this Decision, whereby at the time of conclusion of the loan agreement the nominal interest rate exceeded 4.08% – the nominal interest rate on such loan may not exceed the nominal interest rate from the repayment schedule that was submitted to the borrower at conclusion of the loan agreement (first repayment schedule);
- if a variable rate loan was approved after 31 July 2022 at a nominal variable interest rate lower than 4.08% at the time of loan approval – the nominal interest rate may not exceed 4.08%;

The second measure: capping the contracted nominal interest rate for variable rate housing loans approved in the period of application of this Decision. Accordingly, the bank shall set the fixed part of the nominal interest rate (bank's margin) in a percentage not higher than 1.1% until 31 December 2024, whereafter the percentage defined by the loan agreement shall apply. In housing loans with a fixed interest rate approved in the period of application of this Decision – the bank may approve a housing loan at a nominal interest rate of up to 5.03%;

The third measure: enabling full or partial early repayment of a housing loan, free of charge, regardless of the amount that is being early repaid – until end-2024.

¹⁷ RS Official Gazette, No 77/2023 of 8 September 2023.

¹⁸ RS Official Gazette, No 78/2023 of 12 September 2023.

By adopting a new Decision on Liquidity Risk Management by Banks¹⁹ in November 2023, the NBS has set up a comprehensive and modern regulatory framework for managing liquidity risk in banks, aligned with the international standards and European regulations – in a manner which also accounts for local specificities. The adoption of this regulation is yet another step toward the alignment of banking regulations with those of the EU, through introduction of a new ratio – the net stable funding ratio (NSFR), harmonisation of the rules for the calculation of the existing liquidity coverage ratio (LCR) with the changes in the EU and further adjustment of domestic liquidity ratios (liquidity ratio and narrow liquidity ratio).

At the same time, the NBS passed the Decision Amending the Decision on Reporting Requirements for Banks²⁰ so as to implement the regulatory solutions of a new Decision on Liquidity Risk Management by Banks through the reporting system. Specifically, in order to implement a new and upgraded liquidity framework, this regulation introduces new reports for NSFR calculation (EOSF, EZSF and NSIF forms), and appropriate amendments to existing reports for the purpose of calculating the liquidity coverage ratio (PPLA 1–4 forms), and the daily liquidity ratio (LIK form). Both decisions shall apply as of 30 June 2024.

Further, in December 2023, the NBS adopted the Decision Amending the Decision on Temporary Measures for Banks to Facilitate Access to Financing for Natural Persons, Decision Amending the Decision on Capital Adequacy of Banks and Decision Amending the Decision on Temporary Measure Regarding the Calculation of Bank Capital.²¹

The Decision Amending the Decision on Temporary Measures for Banks to Facilitate Access to Financing for Natural Persons has extended, for another year, a temporary measure relating to the approval of consumer loans worth up to RSD 90,000 and maturing within up to two years to natural persons whose salary or pension is not paid to the account in a concrete bank – which implies that the bank may accept from the applicant and feed into the credit file, as a proof of borrower’s employment or salary in the past three months, the signed borrower’s statement on these facts, given under full criminal and financial liability. This measure has enabled a fast, efficient and simple credit procedure and accessibility of products to a wider circle of clients and banks may approve such loans also electronically, which promotes the development of modern (electronic) banking and the digitalisation process, supported by the NBS.

The Decision Amending the Decision on Capital Adequacy of Banks envisages, as one of the conditions that must be met in order for exposures or parts thereof to be considered fully secured by mortgage, that the loan amount to which 35% risk weight applies should not exceed 90% of the market value of the mortgaged real estate, if the loan is approved as part of government support to certain categories of natural persons or to a natural person for the purchase of first residential real estate.

¹⁹ RS Official Gazette, No 100/2023 of 13 November 2023.

²⁰ RS Official Gazette, No 100/2023 of 13 November 2023.

²¹ RS Official Gazette, No 110/2023 of 8 December 2023.

The Decision Amending the Decision on Temporary Measure Regarding the Calculation of Bank Capital has extended this measure for another year, with the phasing down of the amount of temporary regulatory adjustment which the bank is allowed to exclude from the calculation of its Common Equity Tier I capital. Specifically, instead of reducing unrealised losses by 70%, in accordance with the current solution, they may be reduced by 50%, on the reporting dates of 31 March and 30 June 2024, and by 25% on 30 September and 31 December 2024. The modality of further application of this measure reflects current stabilisation trends in the securities market, while the NBS continues to carefully monitor the overall situation and circumstances in the financial markets, alert to potential need for further action.

Off-site supervision

Off-site supervision means supervision and analysis of the reports and other documents banks are obliged to submit pursuant to NBS laws and regulations, as well as of other data on bank operations available to the NBS and data obtained from external sources (including foreign regulatory bodies with which the NBS has signed multilateral or bilateral agreements on cooperation, exchange of information and coordination of supervisory activities).

To identify key operating risks and draw up risk profiles of banks, annual supervisory assessments were prepared, analysing banks' business models, the quality of corporate governance and system of internal controls and the risks affecting banks' solvency and liquidity, as well as assessing capital adequacy of banks. The supervisory assessments also included the evaluation of banks' recovery plans. The assessments of minimum bank capital adequacy ratios were submitted to banks, along with the decisions determining a capital adequacy ratio above the prescribed level, in accordance with the provisions of Article 23 of the Law on Banks²² and Section 5 of the Decision on Capital Adequacy of Banks.²³

In 2023, the NBS monitored on a daily basis the information on the movement of the liquidity ratio and on a weekly basis the changes in largest depositors, and/or changes in receivables and liabilities of the banking sector toward foreign banks and international financial institutions, as well as the quarterly liquidity gap analysis. The NBS also produced, on a monthly basis, the information on credit activity and movement of NPLs, banking sector profitability and optimisation of the liquidity coverage ratio by banks, while banks' solvency and concentration risk, as a subtype of credit risk, were monitored on a quarterly basis.

In relation to temporary measures adopted with a view to supporting households and corporates amid the coronavirus pandemic, the NBS continued to produce during 2023, on a monthly basis, information on clients in default status using banking sector guarantee schemes and information about the application of repayment facilities.

²² RS Official Gazette, Nos 107/2005, 91/2010 and 14/2015.

²³ RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020, 59/2021, 67/2022, 137/2022, 48/2023 and 110/2023.

In 2023, the NBS monitored the implementation of banks' plans for the reduction of gross NPLs and analysed the possibilities for further reduction of the NPL ratio at the level of individual banks.

Apart from that, it analysed 31 notifications on introduction of new products and notifications about the outsourcing of activities and assignment of receivables.

In 2023, the NBS conducted one off-site supervisory procedure to examine the accuracy of forms on the balance and structure of the bank's accounting records, as well as the accuracy of data on interest rates on loans and deposits. Also, to act preemptively and preclude the spillover of negative effects on the banking sector and the real economy, the NBS stepped up its monitoring of the liquidity position and loan approval in some banks.

It also held meetings with banks' managing bodies, monitored activities related to planned bank integrations (mergers) and analysed specific aspects of banks' operations.

All these analyses and information were used in the preparation of a draft on-site supervision plan and plan of supervisory activities for 2024.

On-site supervision

On-site supervision of banks is supervision carried out on site by inspecting the business books and other documents of the bank, in accordance with the annual on-site supervision plan.

Table IV.2.1.13 Overview of on-site examinations in 2023

Type of on-site examination	Subject of on-site examination	Number of on-site examinations
Prudential supervision of bank operations in accordance with the Law on Banks	Operational risk management with a focus on operational risk events relating to the abuse of payment cards and other payment instruments and the process of approval of credit cards to natural persons	1
	Operational risk management with a focus on activities outsourced to third parties	1
	Process of assessment of impairment of balance sheet assets and probable losses on off-balance sheet items, as well as the management of interest rate risk in the bank ledger	1
	Management of the source of funding liquidity risk	1
	Management of interest rate risk in the bank ledger	1
	Short- and long-term sustainability of the business model from the aspect of its impact on the bank's capital adequacy	1
	Process of household loan approval	1
	Process of cash loan approval and monitoring and the management of non-performing cash loans, as well as the management of interest rate risk in the bank ledger	1
	Internal rating models and the process of assessment of impairment of balance sheet assets and off-balance sheet items and probable losses on off-balance sheet items, as well as the management of interest rate risk in the bank ledger	1
Follow-up on the implementation of measures imposed by the NBS	Relating to prudential supervision of bank operations in accordance with the Law on Banks	10
Total on-site examinations conducted in 2023		19

Source: NBS.

In 2023, 19 on-site examinations were carried out, in accordance with the Law on Banks, including nine targeted prudential examinations and ten follow-ups

on the measures pronounced by the NBS. An overview of on-site examinations conducted in 2023 by supervision subject is shown in the table above.

Measures against banks

In the bank supervision procedure in the course of 2023 the NBS adopted one decision fining a bank with RSD 2,600,000, or 0.07% of its total income in 2021, issued 14 letters of warning to ten banks and suspended supervisory procedures in seven banks.

Acting upon requests for consent

Acting upon requests for issuing operating licences and various consents and approvals in 2023, pursuant to the Law on Banks, the NBS issued:

- 14 decisions granting consent to banks' core acts (founding acts and articles of association) and one decision suspending the procedure of granting consent to a bank's core acts;
- 73 decisions on granting prior consent to the appointment of members of managing and executive boards and one decision suspending the procedure for giving consent to the appointment of a member of the managing board;
- one decision granting prior consent to include subordinated liabilities in the calculation of Tier 2 capital;
- four decisions granting prior consent to a bank for the inclusion of ordinary shares in Common Equity Tier 1 (CET 1) capital calculation – for the purpose of increasing CET 1 capital;
- four decisions granting consent to a bank not to include a subsidiary, which is a financial sector entity, in its consolidated financial statement as at 31 December 2022;
- two decisions granting consent to a bank to exclude a non-bank subsidiary from the annual audit of financial statements of its banking group with balance as at 31 December 2022;
- one decision on granting consent to merger by acquisition;
- two decisions granting prior consent for acquisition of ownership in a bank;
- two decisions granting prior consent for the allocation of undistributed profit from previous years by dividend payment to its shareholders which exceeds 10% of the bank's capital;
- three decisions granting consent to the acquisition of a subsidiary;
- two decisions granting prior consent for the inclusion of profit from the current year in CET 1 capital;
- one decision granting prior consent for assigning 0% risk weight to counterparty exposures, and

- one decision granting prior consent for a bank to adjust the calculation of its capital requirement for operational risk.

The NBS also processed 195 notifications on outsourcing and 32 notifications on the intended assignment of receivables.

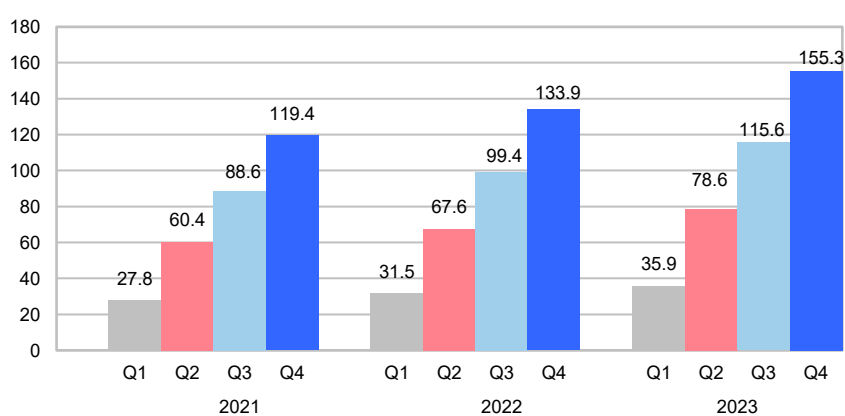
IV.2.2 Insurance sector

The share of the insurance sector's balance sheet total in the balance sheet total of the financial sector supervised by the NBS (banks, financial lessors, (re)insurance undertakings and voluntary pensions funds)²⁴ was 5.7% in 2023, slightly up from 2022 (5.6%).

At end-2023, twenty (re)insurance undertakings operated in the Republic of Serbia, same as in 2022, with 16 of them engaging in insurance and four in reinsurance. Of the insurance undertakings, four were exclusive life insurers, six were exclusive non-life insurers, and another six undertakings provided both life and non-life insurance. The breakdown by capital ownership shows that 15 insurance undertakings were in majority foreign ownership.

Besides (re)insurance undertakings, the sales network also included: 15 banks, nine financial lessors and one public postal operator which are licensed for insurance agency operations, 114 legal entities (insurance brokerage and agency undertakings), and 77 insurance agents (natural persons – entrepreneurs). A total of 4,454 persons were certified for insurance brokerage/agency activities and listed in the NBS register of active certified brokers/agents in insurance.

Chart IV.2.2.1 Movement of total premium cumulatively by quarter (RSD bn)



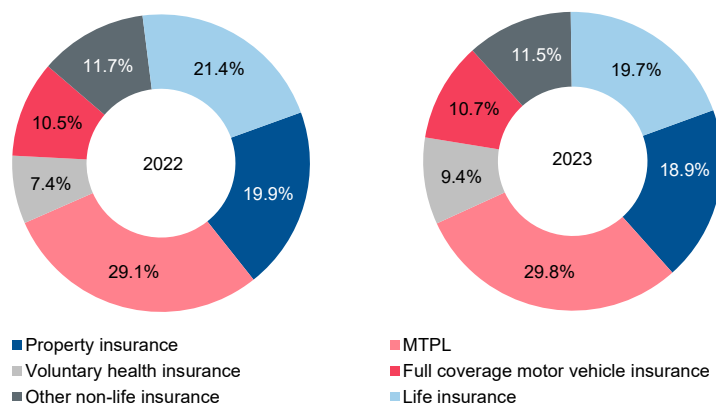
Source: NBS.

In 2023, total insurance premium amounted to RSD 155.3 bn (1.9% of GDP), up by 15.9% from a year earlier. Non-life insurance had an 80.3% and life insurance a 19.7% share in the premium structure. Non-life insurance premium rose by 18.6% relative to 2022 and life insurance premium by 6.3%.

²⁴ Except payment institutions, electronic money institutions and virtual currency service providers.

By type of insurance, motor third party liability insurance (MTPL) retained the largest share in the total premium (29.8%), followed by life insurance (19.7%), property insurance (18.9%) and full coverage motor vehicle insurance (10.7%).

Chart IV.2.2.2 Total premium by type of insurance



Source: NBS.

The balance sheet total of (re)insurance undertakings at end-2023 came at RSD 375.5 bn, up by 11.6% from a year earlier. The bulk of assets of (re)insurance undertakings consisted of debt securities measured at fair value through other comprehensive income (37.7%), fixed-income debt securities (15.3%), cash and short-term deposits (10.3%), receivables (10.2%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (8.9%) and property, plant and equipment (7.7%).

Technical provisions (68.2%) and capital (21.2%) accounted for the largest share of (re)insurance undertakings' liabilities. In 2023, capital rose by 10.5% (to RSD 79.5 bn), and technical provisions by 11.4% (to RSD 256.0 bn). The largest share in technical provisions was that of mathematical reserves, which rose slightly in 2023, by 1.8%.

Measured by HHI, market concentration decreased in 2023 relative to the year before, but remained moderate, at 1,194.²⁵

Performance indicators

In 2023, the **core capital adequacy ratio - CAR**,²⁶ as an indicator of capital coverage of risk exposure, equalled 208.6% for predominantly non-life insurance undertakings and 195.7% for predominantly life insurance undertakings.

The net combined ratio,²⁷ as an indicator of price policy and adequacy, i.e. sufficiency of premiums for the settlement of obligations arising from non-life insurance contracts and adequacy of risk transfer to reinsurance and coinsurance was satisfactory in 2023 (93.4%), unchanged relative to the year before.

²⁵ HHI is calculated based on the balance sheet totals of (re)insurance undertakings.

²⁶ The ratio of available to required solvency margin.

²⁷ Ratio of the sum of net claims and underwriting expenses relative to earned net premium.

As an indicator of life-insurance premium adequacy, the **benefit ratio**²⁸ was 83.4% in 2023, which is a decrease compared to the previous year when it stood at 85.7%.

Business result

The insurance sector ended 2023 with a positive net financial result of RSD 10.8 bn before tax and²⁹ RSD 10.2 bn after tax. Total income of (re)insurance undertakings amounted to RSD 252.5 bn, up by 16.1% from 2022. The largest share in the sector's income was made up of premium income (69.1%) and other operating (functional) income (19.7%). Total expenses of (re)insurance undertakings in 2023 equalled RSD 241.7 bn, up by 15.7% from 2022. The greatest share in expenses belonged to the compensation of damage and sum insured, together with expenses of site inspection, assessment, liquidation and payment of damage (39.0%), other operating (functional) expenses (36.3%) and insurance administration expenses (21.2%).

Results of supervisory activities

Supervisory activities in insurance undertakings and other supervised entities in 2023 included off-site supervision and on-site examinations, in the area of prudential supervision and market behaviour (three examinations in insurance undertakings, of which one follow-up examination and one examination of a financial lessor).

1) On-site examinations – a series of activities were undertaken in the area of prudential supervision: on-site examination reports were prepared in seven examination procedures and submitted to undertakings, conclusions and findings were drawn-up in another three procedures, while one report is pending. These examinations focused on: verifying the formation and calculation of mathematical reserve and claim provisions, managing insurance administration costs, examining premium sufficiency, operations in the part of property insurance, corporate governance and activities with related persons. One segment included targeted examinations, placing special emphasis on significant activities determined through off-site prudential supervision. Apart from the above, other follow-up activities were undertaken, i.e. responding to undertakings' objections to the findings and conclusions from seven examination procedures, imposing supervisory measures in four procedures, proposing supervisory measures in another four procedures, monitoring and overseeing the implementation of supervisory measures, etc.

In the segment of *supervision of market behaviour*, in 2023 the NBS carried out planned activities of preparing examination reports and responding to the objections,

²⁸ Ratio of the sum of net claims and changes in technical provisions compared to the earned net premium. When interpreting the results, we need to take into account the long-term character of life insurance and a significant impact of changes in technical provisions on this indicator.

²⁹ Includes only tax expenses which (re)insurance undertakings carried until submission of data to the NBS.

imposing penalties and discontinuing procedures in insurance undertakings which were found to have implemented the NBS's supervisory measures.

In 2023, the supervisor continued to examine significant segments of operation of participants in the insurance market, especially the manner in which insurance undertakings and the persons carrying out insurance agency inform the policyholders and sell insurance services, as well as how they create insurance products and how they act upon consumer claims and complaints. Aspects of market behaviour which were identified as deficient in some market participants became the subject of on-site examinations and all subsequently identified irregularities were addressed by the imposing of appropriate measures.

In the previous period the NBS acted through supervisory activities which resulted in indemnification of a great number of insurance service users. All passengers (with orderly documentation) who were unable to realise their paid travel arrangements due to insolvency of tourist agencies (organisers of tourist travels) were paid a compensation based on insurance contracts covering this type of risk. The NBS took due care both of the stability of the insurance market and the operations of insurance undertakings. In 2023, it calculated 4,960 claim compensations in the amount of RSD 242 mn (more than EUR 2 mn). This supported households' confidence in the insurance service and significantly underpinned the confidence in and development of tourist services. The NBS also supported activities of competent government authorities aimed at improving the regulations on this issue.

The supervisor made sure that pensioners receive their accident insurance compensations which had previously been denied to them due to omissions on the part of insurance undertakings which failed to adequately inform them prior to and during the term of insurance contracts. More than 1000 pensioners were indemnified through premium refund or payment of contracted compensation, in the total amount of RSD 20 mn. Also, owing to the supervision of insurance undertakings' actions on compensation claims for loan insurance concluded through banks and the implementation of effective supervisory measures, the insurance service users were reimbursed for previously underpaid insurance compensations in the amount of about RSD 18 mn. Therefore, thanks to the NBS's supervision of market behaviour in the past period, an immediate financial effect was achieved for insurance service users in the total amount of around RSD 280 mn. Through its supervisory actions, the NBS also helped insurance undertakings to improve their handling of compensation claims and informing of insured persons and third damaged parties in this respect.

Special supervisory activities concerned insurance agency activities carried out by lessors and banks, which are growing in importance as an insurance sales channel. The undertaken supervisory measures enhanced consumer protection by ensuring better informing and offering a wider choice of distribution channels for insurance service.

2) Off-site supervision – The NBS also engaged in continuous off-site supervision, both in the part of *prudential supervision* and the *supervision of market behaviour*.

Prudential off-site supervision included continuous monitoring of re(insurance) undertakings both from the *financial-economic* and *actuarial* aspect, as well as taking activities to clarify the submitted data and information and to remove the identified irregularities. Activities under the off-site prudential supervision included: (1) monitoring of the risk of (re)insurance undertakings by supervisory matrices, (2) analysis of quarterly opinions of the certified actuary, opinion of the certified actuary on financial statements and annual reports on the operations of undertakings, opinion of the certified actuary on the implementation of the coinsurance and reinsurance policy, analysis of undertakings' internal audit, receipt and analysis of the submitted internal acts of (re)insurance undertakings; (3) receipt and analysis of submitted annual, quarterly and monthly data of insurance undertakings, as well as drafting of appropriate reports; (4) preparation of quarterly reports about the situation in the insurance sector. Off-site prudential supervision placed special emphasis on the implementation of legal provisions on solvency requirements, especially amid unfavourable geopolitical developments, interest rate rise and persisting inflation, an increasing number of large damages due to adverse weather conditions, fires, etc. The focus was also on examining the formation of prescribed technical provisions sufficient for meeting all future liabilities toward insurance users, implementing coinsurance and reinsurance policy, adequate investment of insurance assets and preserving their real value, liquidity, assessment of balance sheet positions and insurance administration costs. Off-site prudential supervision is focused on monitoring the identified operating risks, with a view to preserving financial stability and solvency and improving the system of internal controls and corporate governance of (re)insurance undertakings.

Within off-site supervision of *market behaviour* of insurance undertakings, the NBS regularly monitored the risks of market behaviour, based on the analysis of qualitative and quantitative indicators, identifying problematic aspects of operation of individual insurance undertakings and other supervised entities. These aspects of operation, i.e. activities of insurance undertakings and other supervised entities which were recognised as potentially detrimental to rights and interests of insurance service users were covered by supervisory actions in order to timely examine the activities and carry out appropriate measures to protect the rights and interests of insurance service users. Concurrently with the mentioned activities, a large number of thematic analyses were carried out, the necessary opinions were provided to insurance service users, supervised entities, journalists and other interested parties, with regard to the introduction of new insurance products, advertising and sales of insurance, distribution channels for various types of insurance, conclusion of distance insurance contracts, content of insurance conditions, rights to compensation from insurance contracts and others.

In 2023 the NBS carried out regular analyses of annual reports for 2022 about insurance brokerage and agency activities submitted by 212 other supervised entities (insurance brokerage/agency undertakings, agents – entrepreneurs, banks, financial

lessors, public postal operator) to the NBS, based on which supervisory action was taken (letters of warning, off-site supervision).

In 2023, one more insurer in the Serbian insurance market (three so far) fulfilled the prescribed requirements for carrying out the procedure of verifying customer identity by means of electronic communication and without mandatory presence of the customer being identified (video identification).

As part of its licensing work, in 2023 the NBS issued 23 prior approvals of appointment of members of management in (re)insurance undertakings, 20 prior approvals of selection of audit firms and one prior approval of acquisition of a qualifying holding. It also issued 32 confirmations that (re)insurance licences are still valid. In other supervised entities, five insurance brokerage licences were issued during the reporting period to insurance brokerage undertakings, two insurance agency licences to insurance agency undertakings and five insurance agency licences to insurance agents, while seven licences expired, of which one insurance brokerage and six insurance agency licences. Also, when it comes to other supervised entities, the NBS conducted one procedure for issuing prior approval for carrying out insurance agency as an additional activity (while one approval expired), five procedures for issuing prior approval for the acquisition of a qualifying holding, four procedures for issuing prior approval for the appointment of members of management and ten procedures for issuing prior approval for changing the business name and/or head office address.

Certification and further professional development in insurance

In 2023, the NBS organised certification exams for insurance brokers/agents, in regular exam terms, in May and December.

In two regular exam terms, the NBS also organised certification exams for acquiring the title of a certified actuary.

Based on the final results of exams, it issued 488 decisions on acquiring the title of a certified broker or a certified agent in insurance, and three persons acquired the title of a certified actuary.

In 2023, the NBS regularly supervised continuous professional development of certified insurance brokers/agents and actuaries. A proof of continuous professional development for 2023 was submitted by 64 certified actuaries and the requirement of continuous professional development in 2023 was fulfilled by 3,383 certified brokers and agents.

Regulatory and European integration activities

The NBS continuously monitors EU regulations in the insurance area with a view to aligning domestic regulations and adequately preparing the Republic of Serbia for joining the EU, taking care of the stability of the insurance market and protecting the rights and interests of insurance service users.

In accordance with the timeframe defined in the Strategy for Implementation of Solvency II in the Republic of Serbia, the NBS continued the drafting of preliminary versions of regulations necessary for establishing a new regulatory framework for carrying out (re)insurance business. It also continued activities related to the assessment of the readiness of (re)insurance undertakings to respond to the regulatory requirements prescribed in Solvency II through the implementation of the Third Quantitative Impact Study in the Republic of Serbia (QIS3), as well as the preparation of a preliminary working version of the drafts of the parts of the regulation transposing the Insurance Distribution Directive in the Republic of Serbia.

In 2023, the NBS adopted the following by-laws: the Decision on the Content and Layout of Financial Statement Forms for Insurance Undertakings³⁰ and the Decision Amending the Decision on the Chart of Accounts and Content of Accounts in the Chart of Accounts for Insurance Undertakings,³¹ which enacted the essential and terminological alignment of the financial reporting framework with the International Financial Reporting Standards (IFRS 9 – Financial Instruments, IFRS 16 – Leases, IFRS 38 – Intangible Assets, IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and IAS36 – Impairment of Assets) and upgraded the financial reporting of insurance undertakings in order to prepare them for the requirement under IFRS 17 – Insurance Contracts.

IV.2.3 Voluntary pension funds

At end-2023, the market comprised four companies managing seven voluntary pension funds (VPFs), same as in 2022. The assets of all funds were held with two custody banks, while in 2022 one bank provided custody service for all funds. Intermediation services in the conclusion of VPF membership contracts were provided by five banks and one insurance brokerage undertaking, acting as intermediaries, while information services on membership in VPFs were provided by 470 sales agents (of 1,085 persons licensed by the NBS to perform these activities) who were engaged by voluntary pension fund management companies (hereafter: management companies), intermediary banks and an insurance brokerage undertaking. For the purpose of securities purchase and sale, management companies cooperated with ten brokerage firms.

The market remained highly concentrated, as indicated by the HHI of 2,748 points at end-2023 (vs. 2,723 at end-2022). The share of the largest fund in net assets of the entire sector was around 42%, while four largest funds held around 91% of the market.

The VPF balance sheet total increased in 2023. **At year-end, net VPF assets equalled RSD 53.8 bn, up by 11.5% relative to December 2022.** Payments to individual accounts of members amounted to RSD 4.3 bn, around 16% more than in 2022, while withdrawals totalled RSD 2.7 bn (RSD 3.5 bn in 2022). A significant impact on the value of net assets came from the **realised profit from investment of**

³⁰ RS Official Gazette, No 115/2023.

³¹ RS Official Gazette, No 115/2023.

VPF assets, which amounted to RSD 3.9 bn in 2023. Members' individual payments rose by around 12% compared to 2022, indicating increased household confidence in these financial institutions.

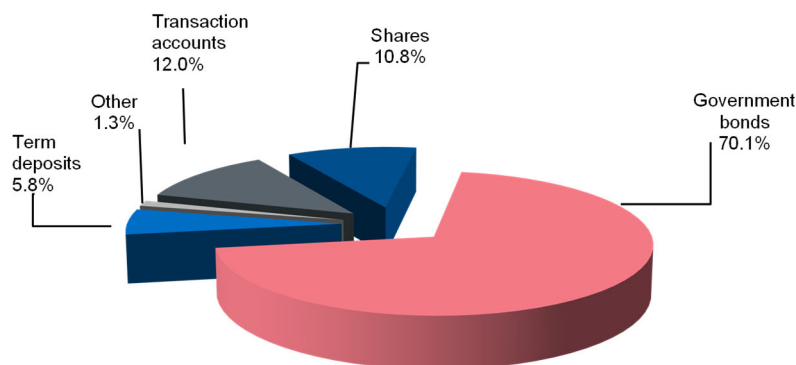
At end-2023, VPF services were used by 220,714 persons (2.4% more than in 2022), accounting for around 9.6% of the total number of employees in the Republic of Serbia. **At end-2023, 304,821 VPF membership contracts were concluded, up by 3.5% from 2022.**

Depending on its investment policy, each VPF defines the structure of its investments, so that some funds invest solely in euro instruments, while others are primarily oriented toward dinar instruments. All VPFs invest primarily in government debt securities.

As before, VPF investments were dictated by financial market developments, so at end-2023, the major portion of VPF assets was invested in government bonds – 70.1%, funds in custody accounts accounted for 12%, shares 10.8% and time deposits 5.8%.

At end-2023, the major part of government bonds owned by VPFs were 5–10Y government bonds. Specifically, 9.4% of government securities had the maturity of up to one year, 5.7% – from one to two years, 36.5% – from two to five years, 43.8% – from five to ten years, and 4.6% above 10 years. The average maturity of funds invested in government bonds, weighted by their share in total investments in such government debt instruments, amounted to 5.5 years.

Chart IV.2.3.1 **Composition of VPF assets**
as at 31/12/2023



Source: NBS.

As the investment structure varies, the returns of VPFs also differ. Annual VPF returns in 2023 ranged from 2.19% to 10.45%. The sector's return in 2023, measured by FONDex, which indicates movements in investment unit values of all VPFs, measured 8.1%.

Broken down by currency structure, at end-2023, dinar assets accounted for around 78% of total assets, and FX-denominated assets (euros) for the remaining share of about 22%.

Regulatory and European integration activities

The NBS employees keep abreast of educational content and amendments to domestic and EU regulations, in order to harmonise and improve regulations in the VPF field, with a view to preserving the stability of the VPF sector and protecting the interests of fund members.

In Q4 2023, the employees participated in a two-day expert TAIEX workshop: **“Off-site supervision of private pension funds”, organised in cooperation with the European Commission and experts from the Directorate-General for Insurance and Pension Funds of Spain.**

The workshop aimed to present business practices of the partner institution in order to improve off-site supervision and exchange experiences regarding the requirements under the Directive on the activities and supervision of institutions for occupational retirement provision (IORPs). A special emphasis was placed on the supervision of investment of VPF funds.

There were neither amendments to regulations nor any new regulations in 2023.

Ongoing supervision

During 2023, the NBS continuously supervised VPFs by collecting, monitoring and analysing the submitted reports and performed on-site examinations and licensing procedures.

In Q1, the supervisor conducted targeted on-site examinations of two VPF management companies. After on-site activities were completed, a first draft examination report was prepared within one procedure.

In Q2, one on-site examination was discontinued. Also, the NBS carried out one targeted examination of a VPF management company and the VPFs it manages. The NBS supervisors drafted the on-site examination report and, in its response, the management company did not dispute the established facts.

In Q3, one targeted examination of a VPF management company was conducted. The supervisor considered the management company’s additions to the on-site examination report.

In Q4, one on-site examination procedure was discontinued. Also, the supervisors initiated an on-site examination of a management company and the fund it manages.

In 2023, two decisions were issued giving consent to the appointment and one decision on re-appointment of members of management of management companies, seven decisions were issued approving VPF prospectuses and summary prospectuses, as well as four decisions approving the text of advertisement.

The NBS also organised licensing exams in two regular exam terms, in May and December, for natural persons to be engaged in the provision of information on VPF membership and operation, as well as the dissemination of prospectuses and issued 65 licences to persons who passed the examination.

IV.2.4 Financial leasing

Market participants

At end-2023, there were 15 financial lessors licensed by the NBS to perform financial leasing, employing 386 people in total.

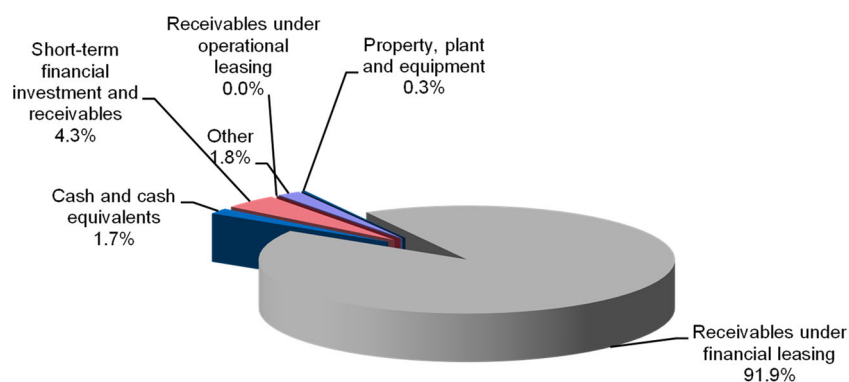
The majority of financial lessors (11) were owned by banks, banking group members or other financial institutions. Seven financial lessors were fully or mostly owned by foreign legal persons, while eight lessors were in majority ownership of domestic persons, of which seven were owned by domestic banks with foreign capital.

Balance sheet

At end-2023, balance sheet assets of financial lessors totalled RSD 163.8 bn, up by 13% from end-2022. The largest share of financial lessors' total balance sheets was made up of financial lease receivables (91.9%). The share of short-term financial assets and receivables stood at 4.3%, while that of cash and cash equivalents amounted to 1.7%.

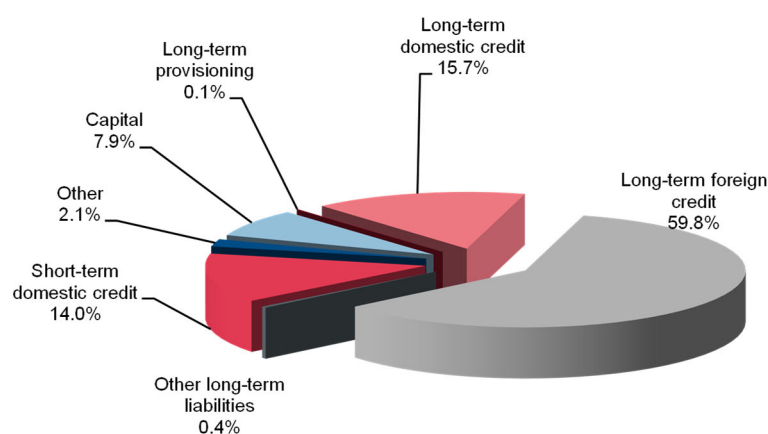
As financial lessors finance most of their activities by long-term foreign borrowing, long-term foreign credits made up the largest portion of their liabilities (59.8%), while the share of long-term and short-term loans in the country measured 15.7% and 14.0%, respectively.

Chart IV.2.4.1 **Composition of lessors' assets**
(as at 31 December 2023)



Source: NBS.

Chart IV.2.4.2 **Composition of lessors' liabilities**
(as at 31 December 2023)



Source: NBS.

Market share

The financial leasing market falls into a moderate concentration category, as indicated by the HHI, which equalled 1,367.7 points in 2023. The share of the largest financial lessor in total balance sheet assets came at 20.1%, recording a slight decrease from 2022 (20.3%).

Structure of lease investments

At end-2023, the bulk of **financial leasing** went to non-financial corporates (84.6%), while entrepreneurs received 6.4%, public enterprises 3.2%, farmers 2.8% and natural persons 2.7%. At end-2023, **operational leasing** approved to non-financial corporates made up 89.1%, to entrepreneurs 7.1%, natural persons – 2.2% and autonomous province and local government units – 1.6%.

At year end, the structure of investment by the **financial lease** asset showed that the financing of passenger vehicles accounted for the share of 43.2%, and freight vehicles, minibuses and buses for 34.8%. The financing of construction machinery and equipment made up 7.6% and agricultural machinery 5.3% of total financial lease receivables. The smallest share of financing was that of machinery and equipment for service provision (2.8%), production machinery and equipment (2.6%), other movables (1.4%), commercial immovables (1.2%), railway vehicles, vessels and aircrafts (0.7%) and other immovables (0.4%). The structure of receivables by the **operational lease** asset consisted of passenger vehicles (93.8%) and freight vehicles, minibuses and buses (5.6%).

Breakdown by sector shows that the majority of **financial lease** investments went to other activities (27.2%), transportation and storage, information and communications (25.9%), trade (14.4%), mining, manufacturing, water supply and management and electricity and gas supply (12.7%), construction (12.4%), agriculture, forestry and fishing (5.4%), accommodation and food services (1.2%),

health and social care (0.5%) and financial sector (0.3%). As for the sector composition of **operational lease** investments, other activities accounted for 30.4%, trade for 29.4%, mining, manufacturing, water supply and management and electricity and gas supply 19.8%, transportation and storage, information and communications 10.0%, construction 7.6% and health and social care 0.1%.

Income statement

Total pre-tax result of all financial lessors in 2023 equalled RSD 2 bn (up by 37.9% from 2022, when it stood at RSD 1.4 bn). Relative to 2022, total income and gains increased by 85.5%, and total expenses and losses by 102.8%.

The most significant category of lessor income was interest income from financial lease with the share of 76.9% in total income. The largest category in total lessor expenses were financial lease expenses (12.5%), followed by operational lease expenses (1.8%). Net other interest income accounted for 2.0% of total income.

The largest category in total lessor expenses were financial lease interest expenses (54.2%), salaries, salary compensations and other personal expenses (17.7%), other operating expenses (13.8%), financial lease expenses (5.6%) and operational lease expenses (1.1%).

Off-site supervision of financial lessors

Off-site supervision of financial lessors was conducted based on data from quarterly reports submitted in **2023**. Out of 15 financial lessors, 14 were found to have committed no irregularities or illegalities, while significant changes in some positions were identified in reports of one lessor, which entailed both off-site and on-site supervision procedures with the report underway.

On-site supervision of financial lessors

In accordance with the amended Annual On-Site Supervision Plan for 2023 within the remit of the Bank Supervision Department, the supervisors conducted a comprehensive on-site examination in one financial lessor (which was initially not envisaged in the annual plan) and the preparation of the supervision report is currently underway.

In 2023, the NBS conducted two follow-up examinations in relation to letters of warning in two lessors and the relevant official notes are being drawn up.

The NBS also continued to supervise one lessor in a procedure initiated in 2022 and is currently preparing an official note in response to the objections to the report.

Licensing and consent issuing

In 2023, the NBS issued:

- one decision licensing a financial lessor and granting consent to the appointment of members of the managing and executive boards;
- one decision granting consent to a lessor's assembly to adopt the documents prescribed under Article 29, paragraph 7 of the Law on Bankruptcy and Liquidation of Banks and Insurance Undertakings, in order to complete the voluntary liquidation procedure;
- 15 decisions granting consent to the appointment of members of managing and executive boards in financial lessors;
- two decisions granting consent to the acquisition of ownership over stakes of the lessor, which provide the owner 10% and more of voting rights.

IV.2.5 Supervision of financial institutions' information systems

The NBS continuously monitors how financial institutions (banks, re/insurance undertakings, financial lessors, VPF management companies, payment institutions, e-money institutions and public postal operator in the part of their operation regarding payment services provision and/or electronic money issuance) manage the information-communication technology system (ICT) risk and assesses such risk, in order to achieve higher levels of security and stability of financial institutions. The NBS also assesses the adequacy of ICT systems of virtual currency service providers.

During 2023, pursuant to its mandate, the NBS conducted examinations targeting the management of ICT systems and business continuity in financial institutions, according to the examination plan for 2023. An on-site examination was conducted in one bank. An ad hoc on-site examination was conducted in one bank, in the part of operation regarding outsourcing activities. Also, the NBS continued implementing activities regarding on-going examinations, and monitoring measures imposed to financial institutions in such examinations in order to remove identified irregularities in the ICT system management.

In 2023, the NBS actively monitored activities of eight institutions related to the transition to a new system of core business applications and data migration due to status change (acquisition) of a financial institution, and/or the planned implementation of the strategy of development of the ICT system. Throughout 2023, the NBS monitored data migration due to the status change in three banks – one bank and one financial lessor changed the core business application and one payment institution changed the data centre location. The NBS actively monitored the procedures by holding regular meetings, in order to act preventively, protect consumers' interests and provide adequate services.

In November 2023, the NBS adopted the Decision on Terms and Conditions of Outsourcing Relating to Financial Institution's Information System.³² The NBS held several presentations to spark a public debate about the new Decision.

The NBS continued to organise successful education in the area of ICT supervision in cooperation with the Association of Serbian Banks. It took part in many seminars held during 2023, as well as in the regular meetings of the World Bank in relation to the implementation of the Western Balkans Payment Modernization Project.

The NBS analysed the submitted documents as part of notifications about the outsourcing of ICT-related activities and application of new technologies and assessment of risk in the provision of electronic services. In 2023 it processed 456 cases and the majority of them concerned new innovative solutions for electronic services including new channels of communication with service consumers.

IV.2.6 Protection of financial services consumers

In 2023, the NBS continued to actively assist financial services consumers in exercising their rights through procedures of individual protection of consumers – by dealing with complaints, mediating in disputes and providing education and information. In addition, the NBS carried out bank supervisory procedures for the protection of financial services consumers.

Although in complaint procedures regarding the work of banks, financial lessors, payment services providers and e-money issuers the NBS is authorised to order the removal of irregularities and to fine the financial services provider, the most significant results are achieved in implementing supervisory procedures, where the NBS establishes a systemic irregularity and orders the removal of such irregularity in respect of all consumers affected.

In the observed period, based on the conducted procedures of bank supervision, consumers gained a direct financial effect of over RSD 2.57 bn. Moreover, based on the activities which the NBS undertook in the previous years, a large number of loan beneficiaries who make an early repayment were allowed a reduction in the remaining amount of debt, which, according to data and estimates, equals around EUR 5 bn per annum – this amount was possibly even higher due to the increase in the amount of early loan repayment. In consumer complaints and mediation procedures, consumers gained a direct financial effect of around RSD 44.9 mn. The immediate financial effect could not be calculated in all cases. The indirect (financial) effect is even greater, but impossible to quantify, and relates to the prevention of the repetition of observed individual irregularities and elimination of systemic irregularities.

In March 2023, the NBS was accepted as a full member of the International Financial Consumer Protection Organisation (FinCoNet), which was founded with a view to promoting strong and effective protection of financial services consumers among supervisory authorities, establishing international cooperation in the area of

³² RS Official Gazette, No 100/2023.

improving the protection of financial services consumers, and conducting various research and exchanging experiences between members.

Bank supervision in the area of protection of financial services consumers

In the observed period, the NBS supervised banks' legal compliance with to the Law on Banks and regulations governing the protection of financial services consumers (provision of financial and payment services etc.) and followed up on banks' actions in accordance with the measures imposed by the NBS.

The NBS also conducted off-site and on-site supervision in the area of protection of financial services consumers, with both types of supervisory procedures offering specific advantages. Off-site supervision in the field of consumer protection enables swift response upon detecting a specific problem in operation, starting from problem identification, carrying out the supervisory procedure to imposing of measures aimed at removing irregularities in respect of all affected consumers. On the other hand, comprehensive on-site examinations are conducted based on the on-site examination plan, on banks' premises. Supervisory procedures are important as they ensure that banks remove systemic irregularities which affect a large number of consumers, even the ones who are not aware of such irregularities.

Fifteen such procedures were conducted in the period observed, including on-site and off-site supervision procedures and follow-up procedures concerning measures imposed by the NBS. In follow-up procedures, the NBS issued three letters of warning, one decision imposing a fine in the amount of RSD 3,673,000, and two reports on the detected irregularities, which were removed thereafter.

Handling of complaints

In complaint procedures, the NBS adopts decisions ordering the removal of irregularities and/or imposing fines on banks or other financial service providers found not to have complied with certain provisions of the law governing the protection of financial services consumers. Before adopting a decision, the NBS draws up findings on established irregularities, on the basis of which banks or other financial service providers usually immediately remove the irregularity during the complaint procedure. Also, if irregularities of minor importance are found in the complaint procedure, the NBS sends the service provider a notice ordering it to remove such irregularities. In the observed period, in handling complaints from financial services consumers, the NBS drafted six findings which were sent to financial service providers (four findings were sent to banks, as well as one finding each to a financial service provider and a payment institution) and five notifications to banks, which were sent for the purpose of removing irregularities.

In 2023, the NBS acted upon 2,022 complaints, 61.2% of which related to the work of banks, 38.2% insurance undertakings, 0.2% payment institutions, and 0.1% each – VPF management companies, financial lessors and e-money institutions.

Of the 1,237 complaints against banks resolved in 2023, the majority involved payment services (70.5% – of which 43% concerned payment accounts and 27.5% payment cards).

Table IV.2.6.1 Number of complaints by financial services provider in 2023

Financial services provider	Total	In %
Banks	1,237	61.2
Insurance undertakings	773	38.2
VPF mng companies	2	0.1
Financial lessors	3	0.1
Payment institutions	5	0.2
E-money institutions	2	0.1
Total	2,022	100.0

Source: NBS.

Also, 773 complaints against insurance undertakings were resolved, most of them relating to motor third party liability insurance – 37.1%, and 14.2% to accident insurance.

Mediation procedure

In 2023, 148 mediation proposals were made, of which 41 were accepted by the parties. In the observed period, 48 mediation procedures were initiated, of which 60.4% pertained to insurance undertakings and 35.4% to banks.

Table IV.2.6.2 Number of mediation procedures in 2023

Financial service providers	In progress	Agreements	Peaceful resolution	Cancellation	Abandonment	Total	In %
Banks	0	6	4	4	3	17	35.4
Insurance undertakings	4	9	3	8	5	29	60.4
VPF mng companies	0	1	0	0	0	1	2.1
Financial lessors	0	0	0	1	0	1	2.1
Total	4	16	7	13	8	48	100.0

Source: NBS.

Of the total number of completed mediation procedures (44), an agreement between the financial institution and consumer was achieved in 16 procedures before the NBS, while a peaceful settlement was reached in seven procedures.

Regulatory activity

By continuously improving the regulatory framework to ensure the most efficient protection of financial services consumers, in 2023 the NBS amended the decision on handling complaints of financial services consumers. The most significant amendments were made taking into account the interest of consumers in having the identified irregularities removed as soon as possible.

Informing financial services consumers and financial education

In 2023, financial services consumers were informed through NBS responses to media queries, consumers' queries and calls addressed to the Info Centre, while regional financial education offices at NBS branches informed the consumers who addressed them. They also held educational panels.

In relation to financial services and protection of consumers' rights, the NBS responded to around 50 queries from the print and electronic media, by TV appearances and statements by phone.

The NBS responded to around 1,041 queries from consumers (one or more questions) regarding financial services and consumer rights, the majority of which concerned bank operations (85%).

The NBS Info Centre responded to 16,279 calls from consumers, while 1,829 consumers addressed financial education offices at NBS branches.

Fifty-five educational panels attended by around 1,800 participants were held in the given period and around 20,000 educational flyers were distributed.

IV.2.7 Anti-money laundering/countering the financing of terrorism

In the area of anti-money laundering and countering the financing of terrorism (AML/CFT), the NBS has a twofold role of both the regulator and the supervisor.

Regulatory role

As a regulator, the NBS draws up/takes part in drawing up some laws and by-laws in this area aimed, among other things, at reducing the possibilities for money laundering and terrorism financing (ML/TF) through financial institutions and other entities supervised by the NBS, in accordance with the Law on the Prevention of Money Laundering and the Financing of Terrorism.³³

In order to identify new circumstances which may indicate grounds for suspicion of ML/TF, as a result of new trends in the payment services and digital assets market, the conclusions of national risk assessments and good practices, the NBS drafted new lists of indicators for recognising grounds for suspicion of ML/TF in payment institutions, e-money institutions and service providers related to virtual currencies.

Supervisory role

As a supervisor, the NBS issues appropriate licences and approvals and, **in the course of supervision, verifies whether the supervised entities comply with regulations**. In particular, supervision concerns the assessment of compliance of supervised entities' operations with AML/CFT regulations. If irregularities and/or shortcomings in the application of regulations or the implementation of AML/CFT

³³ RS Official Gazette, Nos 113/2017, 91/2019, 153/2020 and 92/2023.

measures are detected, the NBS takes corrective measures or sanctions in accordance with regulations.

Off-site supervision

To further strengthen financial sector stability and improve the supervisory function in line with the development and expansion of supervised entities' activities, as well as to ensure alignment with EU regulations, relevant international standards and best practices, **the NBS continuously works on improving the supervisory assessment of the ML/TF risk.**

Sources of data used for ML/TF risk assessment in entities supervised by the NBS are internal acts related to ML/TF risk management, findings of on-site examinations and other supervisory assessments, data and information received from the Administration for the Prevention of Money Laundering, data from the questionnaire drawn up for the purpose of collecting quantitative and qualitative data, information received from the competent prosecutors' offices and courts, results of the National Money Laundering and Terrorist Financing Risk Assessment in the Republic of Serbia and other data and information available to the supervisor.

Continuous upgrades were made to questionnaires on AML/CFT activities through which relevant data are collected from banks, financial lessors, life insurance undertakings, insurance brokerage undertakings acting as intermediaries in concluding life insurance contracts, VPF management companies, authorised exchange dealers, payment institutions, e-money institutions, public postal operator, and virtual currency service providers, in order to keep in step with all trends and ensure timely updating of supervisory information.

The key result of the supervisory ML/TF risk assessment is the supervisory judgement about financial institutions' exposure to this risk, quality of risk management, and its maintenance at an acceptably low level. Internal methodologies for risk assessment were upgraded for the same purpose.

In addition to examinations envisaged in the on-site examination plan for 2023, ongoing off-site supervisions of ML/TF risk management in entities supervised by the NBS were also conducted. **In 2023, 1,348 off-site supervisions of entities supervised by the NBS in the AML/CFT area were conducted.** In addition, in 2023 the NBS invited authorised dealers and the public postal operator to submit annual reports on conducted internal control in 2022 and 748 such reports were analysed.

On-site supervision

In the course of 2023, the NBS carried out 255 AML/CFT on-site examinations of supervised entities. The NBS accordingly undertook the following measures – sent letters of warning, issued decisions imposing fines, filed charges for commercial offences and misdemeanours and discontinued follow-up examinations in cases when entities implemented the supervisory measures.

Based on the supervisory assessment of ML/TF risk exposure, the NBS drafted the AML/CFT on-site examination plans for 2024 for the entities it supervises.

NBS as a member of the AML/CFT Coordination Body

The NBS took active part in the work of the AML/CFT Coordination Body and of the National Coordination Body for Countering the Proliferation of Weapons of Mass Destruction, established by the Serbian Government to improve coordination and efficiency of cooperation of all stakeholders in the AML/CFT system and the system for countering the proliferation of weapons of mass destruction in the Republic of Serbia. The NBS continued to actively participate in the implementation and monitoring of the activities envisaged by the Action Plan for Implementing the AML/CFT Strategy 2022–2024.

Cooperation with international organisations (Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism – Moneyval)

The NBS has an active role in Moneyval, the Council of Europe’s committee which gathers experts who assess the compliance of the AML/CFT regulations in member states with all relevant international standards in the field of legal practice, financial system and internal affairs through the process of mutual evaluations of equal members. The Committee aims to ensure that all member states, including Serbia, have systems to effectively prevent money laundering and terrorism financing in accordance with relevant standards, particularly with the **FATF Recommendations** and international conventions. Moneyval’s reports include recommendations for the improvement of the effectiveness of AML/CFT systems in individual states, as well as for boosting the capacity for international cooperation. As part of the Serbian delegation (consisting of the representatives of the Administration for the Prevention of Money Laundering, the NBS and the Ministry of Interior), an NBS representative took part in two Moneyval Plenary Meetings (65th and 66th), and three FATF plenary meetings in the capacity of an observer. Regular and extraordinary reports on the progress and AML/CFT activities taken in the Republic of Serbia were submitted to the European Commission, the IMF, as well as the Moneyval and FATF bodies.

To fulfil Moneyval’s recommendations for improving the AML/CFT system in the Republic of Serbia for the purpose of drafting the fifth report on the Moneyval monitoring, the NBS, in cooperation with other competent authorities, reported about the progress made in the Republic of Serbia in relation to the FATF Recommendation 15 on new technologies and virtual assets. At its 66th plenary session, in December 2023, **Moneyval adopted the 5th Enhanced Follow-up Report & Technical Compliance Re-Rating, whereby Recommendation 15 was upgraded from *partially compliant* to *largely compliant*, i.e. Serbia is now compliant or largely compliant with all 40 FATF Recommendations. Only ten other jurisdictions in the world have achieved this. The NBS played a significant**

role in ensuring compliance with supervisory-related Recommendations and a leading role in ensuring compliance with standards in the area of digital assets.

In 2023, several expert visits by representatives of the Council of Europe were carried out as part of the technical support project entitled “Preventing Money Laundering and Terrorist Financing in Serbia”, during which recommendations were given for the further development of supervisory activities in the AML/CFT field. One of the important topics of these visits was the supervision of digital asset service providers. In addition, Moneyval presented activities to be undertaken in order to prepare the competent authorities for the sixth round of mutual evaluations of the AML/CFT system in the Republic of Serbia. In accordance with expert recommendations, activities were promptly taken to upgrade the existing internal acts and supervisory practices in order to keep up with the latest trends in AML/CFT.

IV.3 Bank resolution function

As a bank resolution authority, the NBS is responsible for the planning, initiation and implementation of the resolution of banks and banking groups under its jurisdiction.

Bank resolution is carried out in order to achieve the following objectives:

- ensure the continuity of banks’ critical functions;
- avoid a significant adverse effect on the stability of the financial system;
- protect budgetary funds and other public funds;
- protect depositors and investors; and
- protect client funds and other assets.

In other words, the objective of bank resolution is to minimise the use of budgetary and other public funds, while at the same time avoiding the adverse effects of the discontinuation of bank’s operations on financial stability, businesses and citizens.

Regulatory activities

As an integral part of the continuous monitoring and improvement of practice and the regulatory framework, the following by-laws were adopted in 2023:³⁴

The Decision Amending the Decision on the Information and Data Submitted to the National Bank of Serbia for the Purpose of Drafting and Updating Resolution Plans of Banks and Banking Groups, which introduced two additional reporting periods (31 March and 30 September), and shortened deadlines for submitting reports in order to timely establish potential obstacles to resolution and, consequently, make an adequate assessment of bank resolvability.

³⁴ RS Official Gazette, No 116/2023.

The Decision Amending the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, which enables a more comprehensive assessment of the possibility of bank's resolution to be carried out through a dialogue with banks, taking into account their specificities, and to define an activity plan with the aim of removing possible obstacles, where necessary.

Planning resolution activities

Updates of draft resolution plans for all banks and banking groups under the NBS's competence were adopted in 2023, as well as solutions for the minimum requirement for own funds and eligible liabilities (MREL), which banks are required to fulfil to ensure adequate capacity to cover losses and capital increase in the event of initiation of a resolution procedure.

A new cycle of drafting resolution plans for banks and banking groups began, including: conducting a strategic analysis of the bank's operations, choosing a resolution strategy, i.e. resolution measures and tools, assessing the financial and operational prerequisites for ensuring continuity in the event of initiating the resolution procedure, analysing management information systems and ways of providing information for the needs of resolution, assessing the resolvability, i.e. obstacles to implementing the resolution procedure (including defining appropriate activities for their removal, where applicable), as well as determining MREL requirements.

Through regular and periodic reports and information from banks, the fulfilment of prescribed MREL requirements was monitored, as well as other elements affecting bank resolvability. The quality of the reporting system was improved by introducing additional logical controls.

In accordance with cooperation agreements, the NBS took part in the work of colleges for the resolution of banking groups with cross-border operations, whose members operate in the territory of the Republic of Serbia. In the previous year, the NBS cooperated mainly with the EU Single Resolution Board and the central banks of Hungary and the Czech Republic, exchanging information necessary for preparing plans for the resolution of relevant banking groups and their members. Key elements of resolution plans were exchanged.

IV.4 Financial system stability

IV.4.1 Financial stability function

In addition to its primary objective, which is to maintain price stability, the NBS is also mandated to safeguard and strengthen the stability of the financial system.

Within its scope of authority, the NBS determines and carries out measures and activities aimed at preserving and strengthening financial system stability. The NBS's regulatory and other recommendations and measures in this field, as well as

a detailed analysis of financial stability and potential risks, are published in the *Annual Financial Stability Report*, which is submitted to the National Assembly in accordance with the Law on the National Bank of Serbia.

In 2015, the NBS published a consultation document *Macroprudential Framework*, setting down in more detail the objectives, instruments and decision-making process of macroprudential policy, without prejudice to the achievement of the central bank's primary objective – maintenance of price stability.

To ensure preservation of financial stability, regulatory standard Basel III was adopted at the international level in response to the global financial crisis of 2007–2008. With a view to implementing this standard in the Republic of Serbia, in 2016 the NBS Executive Board adopted the regulatory package transposing Basel III into domestic regulations. An integral part of this set of regulations is the Decision on Capital Adequacy of Banks, which introduced capital buffers into the banking regulations, as the most important instrument of macroprudential policy. Capital buffers represent additional CET 1 capital that banks are obligated to maintain above the regulatory minimum so as to limit systemic risks in the financial system. They have been applied as of 30 June 2017 and include capital conservation buffer, countercyclical buffer, capital buffer for global systemically important banks, capital buffer for systemically important banks and systemic risk buffer.

Capital conservation buffer is the requirement for a bank to maintain additional CET 1 capital equal to 2.5% of its total risk-weighted assets.

Countercyclical buffer is additional CET 1 capital applied in the financial cycle upturn phase which may range from 0% to 2.5% of a bank's risk-weighted assets. The NBS sets the countercyclical buffer rate on a quarterly basis, taking into account the deviation of the credit-to-GDP ratio from its long-term trend and additional optional indicators reflecting the characteristics of the domestic financial system and pertaining to the real estate market, the country's external position and movements in the banking sector. The Decision on the Countercyclical Buffer Rate for the Republic of Serbia from June 2017 set the rate for this capital buffer at 0%. The rate was kept at the same level in 2023, in order to support lending activity amid tightened global financial conditions.

Capital buffer for systemically important banks, identified as such in the Republic of Serbia, is determined based on at least one of the following criteria: bank's size, importance for the Serbian economy, importance of bank's cross-border activities, connectedness with the financial system, replaceability in the financial system and complexity of operations. The identified systemically important banks are required to maintain additional CET 1 capital up to 2% of their risk-weighted assets. The Decision on Establishing a List of Systemically Important Banks in the Republic of Serbia and Capital Buffer Rates for Those Banks of 15 June 2023 identifies nine systemically important banks, four of which are required to maintain capital buffer at 2% of their risk-weighted assets, while the other five are required to maintain it at 1%. The list of systemically important banks and capital buffer rates for these banks is published on the NBS website and is reviewed at least once a year.

The application of **capital buffer for global systemically important banks** in the Republic of Serbia is postponed until the day of Serbia's accession to the EU.

Systemic risk buffer was set in June 2017 to mitigate the systemic risk of euroisation and incentivise banks to reduce the degree of euroisation. Since euroisation is a major systemic risk, it was decided that all banks headquartered in Serbia whose FX and FX-indexed receivables exceeded 10% of their total household and corporate receivables must maintain systemic risk buffer at 3% of their FX and FX-indexed receivables to corporates and households in Serbia. The NBS re-examines the systemic risk buffer requirement at least every two years.

Pursuant to the Decision on Temporary Measures for Banks to Facilitate Access to Financing for Natural Persons,³⁵ until end-2023 banks were able to use a portion of allocated capital buffers (capital conservation buffer and systemic risk buffer) to facilitate access to financing for natural persons. They were also able to offer facilities to borrowers by extending the repayment term of housing loans by a maximum of five years. In an environment of elevated EURIBOR, this relieved the pressure on the borrowers repaying variable rate housing loans and prevented an increase in NPLs. The amendments to the Decision from December 2023 allowed banks to approve consumer loans of up to RSD 90,000 with a maximum two-year repayment term by end-2024 to natural persons without wage/pension transfer.

Further, in December 2023, the NBS adopted the Decision Amending the Decision on Capital Adequacy of Banks,³⁶ which stipulates that exposures are fully secured by mortgage if the amount of the loan to which the 35% risk weight is assigned does not exceed 80% of the market value of the residential property that is the subject of the mortgage, and/or 90% of that value if the loan is approved within the government measures supporting specific categories of natural persons or a natural person for the purchase of the first residential property, in line with the LTV limit prescribed by the Decision on Measures for Safeguarding and Strengthening Stability of the Financial System.³⁷

Even amid necessary monetary policy tightening, the NBS was committed to supporting citizens and businesses, within its scope of competence, while at the same time maintaining and strengthening the resilience of the banking sector.

IV.4.2 Financial stability assessment

The comparison of **financial system vulnerability indicators**³⁸ for 2023 and 2022 reveals an increase in the financial system's resilience, reflected in a reduced share of public debt in GDP (from 55.1% to 52.0%), a decline in the current account deficit in GDP (from 6.9% to 2.6%), a decreased share of private external debt in

³⁵ RS Official Gazette, Nos 108/2020, 119/2021, 137/2022 and 110/2023.

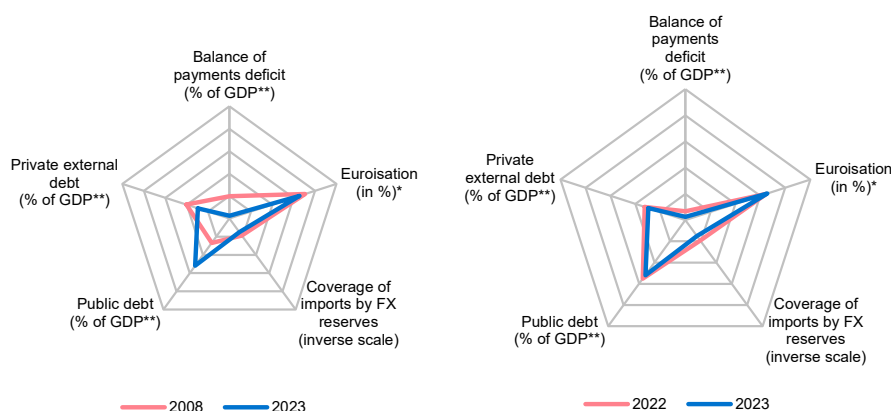
³⁶ RS Official Gazette, No 110/2023.

³⁷ RS Official Gazette, Nos 34/2011, 114/2017 and 84/2020.

³⁸ The following were used as basic indicators of vulnerability of the Serbian financial system: change in the current account deficit, private external debt, public debt, degree of euroisation and FX reserves adequacy (measured by the inverse value of the number of months of the coverage of imports by gross FX reserves). The farther the position from the centre of the chart, the higher the risk for each of the indicators.

GDP (from 32.7% to 29.7%), higher FX reserves, which touched a record-high level at end-2023 (EUR 24.9 bn), as well as the FX reserves coverage of goods and services imports, which was more than double the standard level of FX reserves adequacy. The current account deficit contracted owing to a decrease in the goods deficit and a widening surplus on the services account. The narrowing of the goods deficit reflected a combined influence of rising exports (3.7% y-o-y) and falling imports (4.8% y-o-y), primarily due to the energy deficit which declined owing to reduced global energy prices, lower quantity imports and elevated electricity exports. Goods exports were up primarily owing to manufacturing exports, which rose 5.4% as a result of past investments, which indicates the resilience and diversification of our export supply, especially given that the growth was achieved in conditions of lower external demand. The share of the current account deficit in GDP in 2023 was at the lowest level so far, with the deficit fully covered by the net FDI inflow for the ninth year in a row.

Chart IV.4.2.1 Key macroeconomic risks



* Share of FX and FX-indexed receivables in total receivables from corporates and households.

** NBS estimate.

Source: NBS.

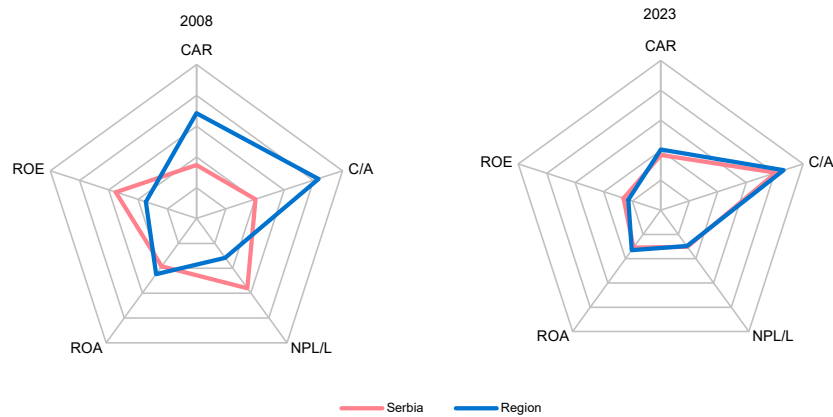
The degree of euroisation of the domestic financial system, measured by the share of FX and FX-indexed corporate and household receivables in total bank receivables, increased in 2023 by 0.6 pp to 65.5% at year end. On the other hand, the share of FX and FX-indexed corporate and household deposits in total bank deposits contracted (from 59.9% at end-2022 to 55.6% at end-2023).

The stability of the financial system reflects the stability of the banking system, since banks make up around 91% of the Serbian financial system. **The banking sector can be assessed as stable thanks to its high capitalisation, liquidity and profitability.** Several approaches were used to assess financial stability, some of which are presented below: comparison of financial soundness indicators with some countries of the region, composite systemic stress indicator, stress tests and network modelling.

The comparison of selected financial soundness indicators aims to assess the financial soundness of the Serbian banking sector relative to other countries in the region. **Financial soundness indicators show that the capitalisation of the**

Serbian banking sector is somewhat higher than the region’s average. Serbia’s banking sector posted a positive result in 2023. ROA stood slightly above the region’s average, while ROE was somewhat below, as a result of high capitalisation of the domestic banking sector. **The end-2023 share of NPLs in total loans was 3.2%.**

Chart IV.4.2.2 Financial soundness of the Serbian banking sector compared to regional average

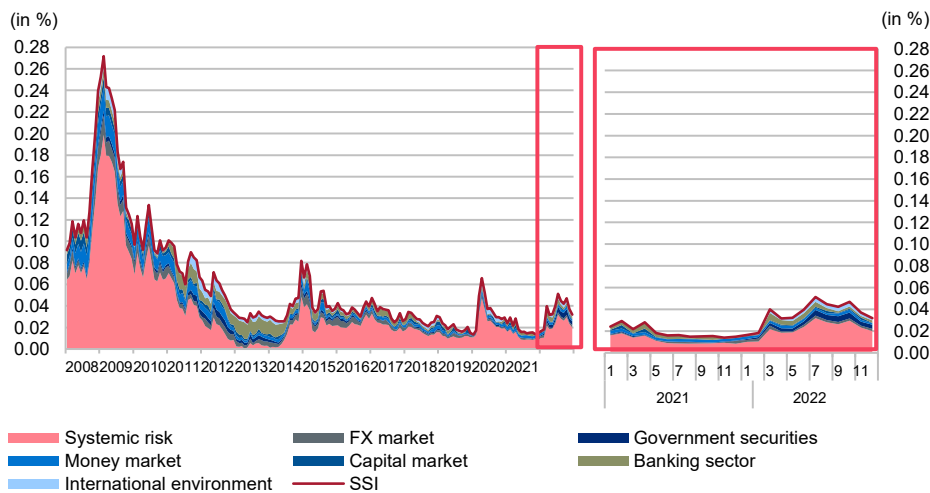


* The chart shows standardised values of the most common financial soundness indicators: CAR – Capital Adequacy Ratio (Regulatory Capital to Risk-Weighted Assets); C/A - Capital to Assets; NPL/L – Gross NPLs to Total Gross Loans; ROA – Return on Assets; ROE – Return on Equity.
 ** Greater distance from the network centre indicates greater risk .
 *** The region refers to CEE countries: Bosnia and Herzegovina, Bulgaria, Hungary, North Macedonia, Poland, Romania, Turkey and Croatia. The region’s FSIs are non-weighted averages of the individual countries’ FSIs.

Sources: NBS and IMF.

In order to determine crisis periods and the level of systemic stress of the Serbian financial system, a methodology was developed based on which the **composite indicator of systemic stress**³⁹ was constructed. This indicator is used by the European Systemic Risk Board⁴⁰ and the ECB⁴¹ to analyse risk accumulation in

Chart IV.4.2.3 Systemic Stress Indicator



Source: NBS.

³⁹ Kovačević, Darko (2021) “Assessment of the Republic of Serbia’s Systemic Risk and the Likelihood of a Systemic Crisis”, the *NBS Working Papers Bulletin*. p. 75–125, and the *Annual Financial Stability Report – 2015*.

⁴⁰ <https://www.esrb.europa.eu/pub/rd/html/index.en.html>.

⁴¹ <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1426.pdf?6d36165d0aa9ae601070927f3ab799fc>.

different segments of the financial system and assess the level of total systemic stress.

This indicator gives decision-makers significant and timely information about trends in financial markets or instability in the financial system and possible implications for financial and macroeconomic stability. Additionally, it enables the identification of early warning signals, which provides timely information on the potential occurrence of a systemic crisis. The SSI covers a great number of indicators which capture the level of financial stress in six major segments of the Serbian financial system: the FX market, government securities market, money market, capital market, banking sector and international environment.

In 2023, the systemic stress indicator pointed to a period of low risk, followed by a low and stable systemic component. The systemic stress indicator level in 2023 recorded a downward trend, thus its average value was lower than its average value in 2022. Its value depended largely on developments in the government securities market and banking sector.

Macroprudential stress tests of the NBS⁴² are conducted on a quarterly basis and serve for assessing banking sector resilience and vulnerability in adverse scenarios of different intensity.

Macroprudential stress tests of the NBS enable:

- measurement of banking sector resilience to an increase in credit risk caused by the assumed adverse macroeconomic developments;
- measurement of the liquidity risk caused by the loss of depositors' confidence and unfavourable macroeconomic conditions;
- application of network modelling to assess banking sector systemic risk and systemic importance of individual financial institutions;
- application of network modelling to assess the transfer of systemic risk from the real to financial sector and systemic importance of groups of connected enterprises.

Credit risk is the most significant risk in the Serbian banking sector. Solvency stress tests assess the resilience of the banking sector to an increase in credit risk over a period of one year, by projecting a higher share of NPLs in total loans for three different macroeconomic scenarios. The projection of trends in the NPL share was obtained based on a regression model with three explanatory variables: the nominal exchange rate of the dinar against the euro, the key policy rate and s-a real net wages.

High solvency of the banking system is supported by the results of macroprudential solvency stress tests which indicate that the banking sector would remain adequately capitalised even in the worst-case scenario (which implies high depreciation of the dinar, a decrease in real wages and an increase in the key policy rate). In other words, the capital adequacy ratio remains above the regulatory minimum of 8% under all scenarios.

⁴² A detailed overview of the results of macroprudential stress tests at the banking sector level is published in the *Annual Financial Stability Report*.

The analysis of macroprudential liquidity stress tests includes three assumed scenarios. The first two scenarios, *déjà vu* and *risk spillover*, are based on the withdrawal of deposits which occurred in October 2008. The worst-case scenario is based on an expert assessment of the largest possible deposit withdrawal. Liquidity stress tests, used to measure liquidity risk caused by the loss of depositors' confidence and unfavourable economic conditions, indicate that the liquidity indicator would remain above the regulatory minimum even in the case of the largest assumed deposit withdrawal, i.e. the liquidity indicator remains above the regulatory minimum of 1% under all scenarios.

As the interconnectedness of financial institutions in the banking sector may lead to a contagion or shock transmission, it is of particular importance to assess the connection among banks and the potential systemic risk arising therefrom.

Network modelling, based on interbank exposures, is used to assess the systemic component of risk which stems from the banks' interconnectedness in the system. The network model provides an assessment of the global efficiency and the density of connectivity in the banking sector which indicate the capacity of the network in terms of shock transmission and possible paths of shock propagation through the system. Also, the network model assesses the systemic impact of the corporate sector on the capital positions of the banking sector in the conditions of greater probability of default. The results of network modelling indicate that there is no significant systemic risk component in the Serbian banking sector arising from interbank connectivity and links with the real sector.

The results of the conducted macroprudential stress tests confirm the banking sector stability and resilience to the consequences of the multidimensional crisis we have been faced with in the past period.

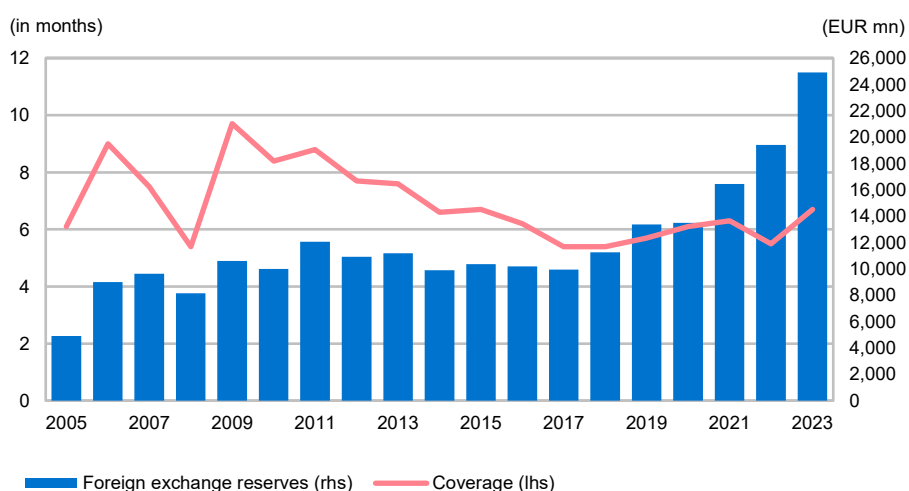
V OTHER FUNCTIONS AND ACTIVITIES OF THE NATIONAL BANK OF SERBIA

V.1 Foreign exchange reserves management

Stock and changes in FX reserves in 2023

At end-2023, gross NBS FX reserves were at their highest end-of-month and end-of-year level on record (since 2000), amounting to EUR 24,909.1 mn, up by EUR 5,493.4 mn from end-2022. This level of FX reserves covered 167% of money supply (M1) and 6.7 months' worth of the country's imports of goods and services (twice the level prescribed by the adequacy standard).

Chart V.1.1 Coverage of imports by FX reserves



Source: NBS.

In 2023, FX reserves growth was propped up primarily by FX inflows from the NBS activities in the IFEM⁴³ (net inflow of EUR 4,015.0 mn or 73% of the total increase in FX reserves) and by the issue of FX government securities in the domestic and international financial market in the net amount of EUR 1,141.2 mn.

Sizeable FX inflows also came from grants (EUR 442.8 mn), payment transactions with Kosovo and Metohija (EUR 392.9 mn),⁴⁴ and redeemed coupons and net interest on foreign securities (EUR 351.6 mn).

FX inflow worth EUR 199.8 mn was recorded on account of the second tranche of the stand-by arrangement that the IMF approved to the Republic of Serbia on 19 December 2022. These funds can be used to refinance Serbia's obligations and/or to finance current budgetary needs.⁴⁵

Banks allocated EUR 90.8 mn more in FX required reserves than at end-2022.

The largest outflow from the NBS FX reserves resulted from the settlement of FX government liabilities and net debt repayment by the Republic of Serbia to foreign creditors in the total amount of EUR 1,502.9 mn.

A total of EUR 25.1 mn was paid on account of unpaid FX savings of citizens under the Law on the Settlement of the Public Debt of the Republic of Serbia (including unpaid FX savings of citizens from the former SFRY republics in the amount of EUR 22.9 mn).

Net FX reserves also climbed to their highest end-of-month and end-of-year levels **and measured EUR 20,785.2 mn on 31 December 2023**, up by EUR 5,359.5 mn from end-2022.

Structure and profitability of FX reserves

On 31 December 2023, the NBS FX reserves were made up of: foreign securities (50.14%), FX funds in accounts abroad (33.58%), gold in NBS vaults (9.61%), foreign cash (6.39%), and SDR holdings with the IMF (0.28%).

The currency composition of the NBS FX reserves (excluding gold) on 31 December 2023 was as follows: 77.22% – EUR, 19.02% – USD, 1.30% – GBP, 1.30% – CAD, 0.30% – SDR and 0.76% – other currencies.

A major portion of FX reserves – EUR 12,490.0 mn, was invested in securities denominated in the euro, US dollar, pound sterling and Canadian dollar. Of this, 72.49% was invested in long-term and 27.51% in short-term securities.

Within long-term securities, funds were invested in: government securities with maturities of one to ten years of the USA, Canada, Germany, UK, France, Austria, Luxembourg, Slovakia, Belgium, Finland and the Netherlands, including Treasury

⁴³ Transactions under NBS interventions in the IFEM are disclosed in line with the accounting rules as at the execution day, and not the trading day.

⁴⁴ Under the Law on Temporary Performance of Some Payment Transactions in the Territory of the FRY (FRY Official Gazette, No 9/01), banks are required to sell the FX proceeds from transactions with Kosovo and Metohija to the NBS.

⁴⁵ On 9 February 2023, the National Assembly of the Republic of Serbia adopted the Law on the Regulation of the Republic of Serbia's Obligations to the International Monetary Fund in Respect of the Use of Funds under the Stand-By Arrangement Approved to the Republic of Serbia by the Decision of the International Monetary Fund's Executive Board of 19 December 2022.

Inflation-Protected Securities (TIPS); public sector securities (supranational, subnational, agencies, sovereign), including floating rate notes (FRN); covered bonds with maturities from one to five years.

As for short-term securities, funds were invested in the following types of assets: government discount securities (T-bills) with up to one-year maturity (Germany, France, Austria, Finland and Canada), government coupon securities with up to one-year maturity (USA, Canada, UK, France and Slovakia), public sector securities (supranational, subnational, agencies and sovereign), including FRN and covered bonds.

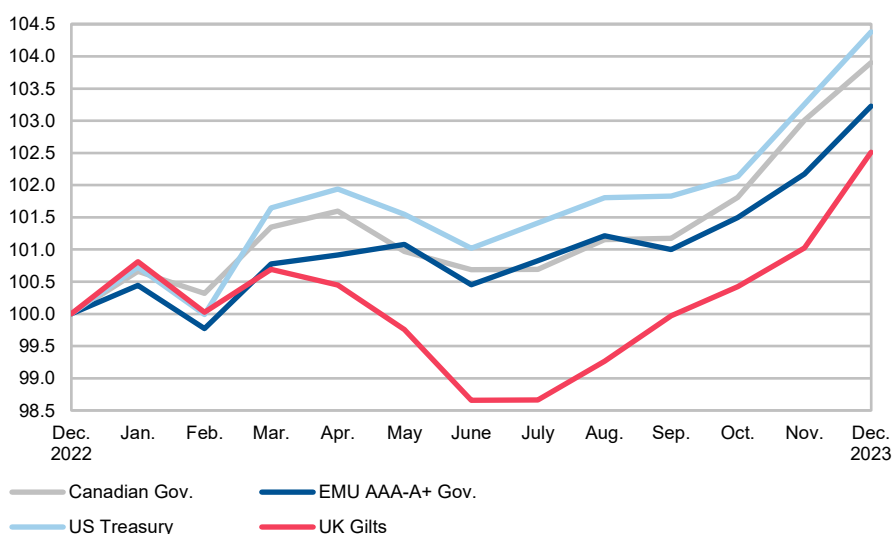
A portion of FX reserves worth EUR 8,365.7 mn was held in current accounts abroad and invested in term deposits. Of this amount, 78% was invested with central banks (Fed, Bundesbank, Bank of Canada, Oesterreichische Nationalbank, Central Bank of Luxembourg and Reserve Bank of Australia) and the international financial organisation BIS in Basel, while 22% went to top-tier foreign commercial banks with a composite credit rating of AAA (up to six months), foreign commercial banks with a composite credit rating of at least AA- (up to three months), and current accounts of correspondent commercial banks abroad.

In 2023, the NBS generated net income of EUR 344.2 mn from investment in foreign securities and interest on foreign exchange assets.

Risk management

In 2023, the NBS remained committed to maintaining its portfolio risk at a very low level, sustaining high levels of safety and liquidity.

Chart V.1.2 **Sovereign bond indices in local currency**
(Dec 2022 = 100)

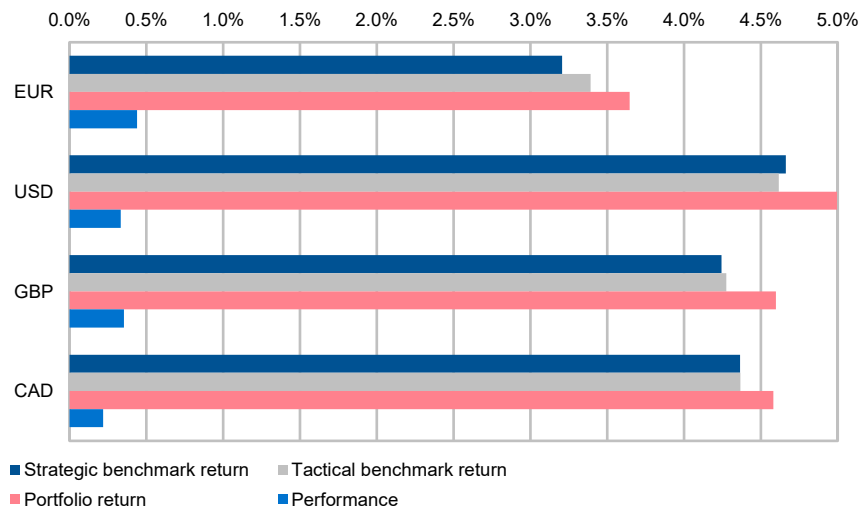


Source: NBS.

As the yield rates on government bonds in the NBS portfolio went up for shorter and down for longer maturities in 2023, all yield curves were more or less inverted. In the case of European government bonds (German, French and Dutch), the yield

rates rose mostly on securities of up to two years, while yield rate growth on US and Canadian government bonds was particularly pronounced for up to one-year maturities. The yield curve for UK gilts rose the most in the part of the three-month curve.

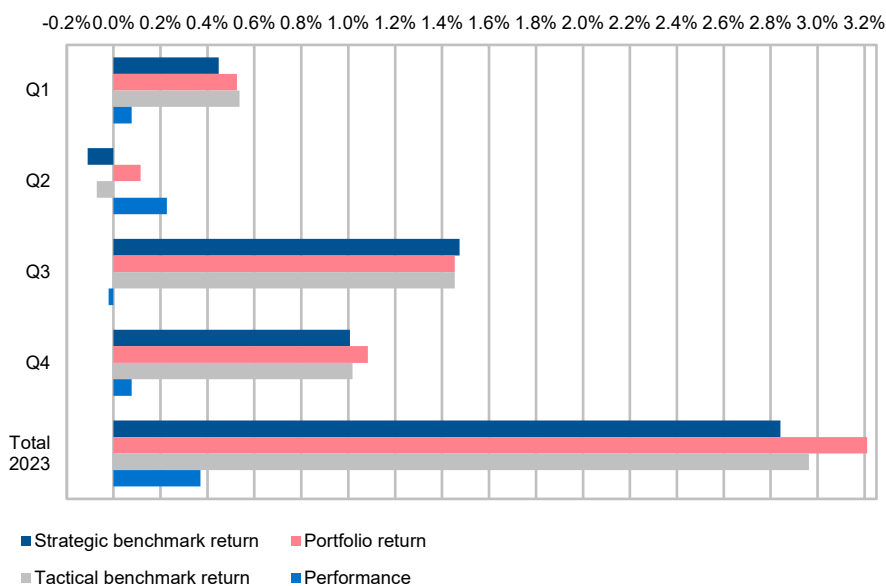
Chart V.1.3 Portfolio and benchmark return in original currency in 2023



Source: NBS.

In such circumstances, and thanks to a timely adjustment of duration and a cautious investment approach, the NBS generated positive yields on all its portfolios. The highest yield of 5.00% was recorded in the USD portfolio, followed by the portfolio in the GBP (4.60%), CAD (4.58%) and EUR (3.65%). **All NBS portfolios posted higher yields relative to the comparable tactical benchmarks.**

Chart V.1.4 Total portfolio and benchmark return recalculated in RSD, by quarter



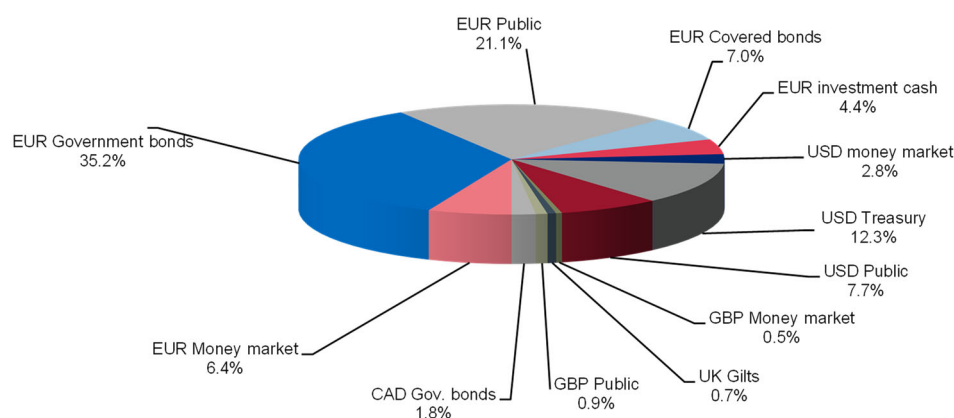
Source: NBS.

Generally speaking, 2023 was marked by a continuation and further heightening of geopolitical tensions, energy crisis and a weak global growth outlook. Inflationary pressures persisted in H1, prompting leading central banks to extend their monetary restriction until mid-year. The ECB was the last of the leading central banks to raise its main interest rates (in September).

The euro gained 3.01% against the US dollar and 0.64% against the Canadian dollar, while depreciating by 2.21% against the pound sterling. The yield of the entire investment portfolio calculated in euros was positive, measuring 3.34%, mostly due to the yields generated within the original portfolios. In the conditions of a mild appreciation of the dinar exchange rate against the euro, the overall portfolio yield calculated in dinars was positive at 3.21%.

The asset and currency structure of the investment portfolio was in line with the Strategic Guidelines for the Management of FX Reserves of the National Bank of Serbia.

Chart V.1.5 **Composition of investment portfolio**
(as at 31 December 2023)



Source: NBS.

In 2023, the NBS invested in highly liquid bonds of low market and credit risk. The currency risk was considerably mitigated by matching the currency structure of FX reserves and the country's external debt, while the interest rate risk was reduced by maintaining low portfolio duration. This is also confirmed by the low value-at-risk (VaR) which estimates the value of market risk for a given level of confidence and is calculated by individual portfolios and different calculation methods.

Table V.1.1 **Value-at-Risk (VaR) as at 31 December 2023**

(degree of probability 95%, reference period one day)

	EUR portfolio	USD portfolio	GBP portfolio	CAD portfolio
Parametric VaR	0.16%	0.19%	0.14%	0.14%
Historical VaR	0.10%	0.16%	0.11%	0.13%
Monte Carlo VaR	0.15%	0.18%	0.13%	0.14%

Source: NBS.

Stress testing indicates the percentage by which the market value of the NBS portfolio would decrease in case of an abrupt and unexpected 1.00 pp rise in market yield rates.

Table V.1.2 **Stress test as at 31 December 2023**

(reference period one day)

Scenario	Change in market value			
	EUR portfolio	USD portfolio	GBP portfolio	CAD portfolio
Rise in market interest rates by 100 bp	-1.37%	-1.32%	-0.94%	-1.11%

Source: NBS.

To manage credit risk, the NBS has set high criteria for depositing FX reserve funds with issuers and banks. Eligible are banks with the minimum composite credit rating of AA- (according to Standard & Poor's, Moody's and Fitch). The minimum composite credit rating for government bonds is A-, for public sector bonds – A+, and for covered bonds – AA. In 2023, credit ratings of issuers and bonds in the NBS portfolio mostly remained the same as in 2022, according to all rating agencies, while the outlook was periodically revised. The ratings of commercial banks in which the NBS invests remained largely unchanged and their rating outlook was periodically revised.

In addition to financial indicators from bank balance sheets, other credit risk indicators were also monitored, such as the five-year CDS⁴⁶ spread for banks.

In 2023, all other indicators: the tracking error, limits on the structure and duration of the portfolio, as well as credit limits, were within the framework prescribed by the Strategic Guidelines for the Management of FX Reserves of the National Bank of Serbia.

V.2 Issue of money and cash management

V.2.1 Issue of banknotes and coins

In 2023, currency in circulation included banknote series issued by the NBS from 2003 onwards – banknotes in denominations of 10, 20, 50, 100, 200, 500, 1000, 2000 and 5000 dinars and coins in denominations of 1, 2, 5, 10 and 20 dinars.

As at 31 December 2023, currency in circulation (excluding currency kept in NBS vaults, cash vaults of banks and the Ministry of Finance – Treasury Administration) totalled RSD 369.4 bn (banknotes and coins), up by 18.8% from end-2022. Of the total stock of cash in circulation, banknotes accounted for 99.1% and coins for 0.9%. The share of banknotes inched up and the share of coins down by 0.1% relative to end-2022. to 468.5 mn pieces. At end-2023, there were 468.5 mn pieces banknotes in circulation, or 9.6% more than a year ago.

⁴⁶ CDS (Credit Default Swap) spread is a market risk indicator. It includes the implicit probability of the issuer's bankruptcy according to market assessment.

Table V.2.1.1 Denominational structure of currency in circulation

Denomination	31 December 2022		31 December 2023	
	In RSD mn	In %	In RSD mn	In %
RSD 5000	35,779	11.6	60,210	16.4
RSD 2000	158,974	51.7	192,703	52.6
RSD 1000	88,741	28.8	86,250	23.6
RSD 500	13,564	4.4	15,479	4.2
RSD 200	4,301	1.4	4,555	1.2
RSD 100	2,848	0.9	3,069	0.8
RSD 50	1,591	0.5	1,704	0.5
RSD 20	1,161	0.4	1,266	0.4
RSD 10	850	0.3	921	0.3
Total:	307,809	100.0	366,157	100.0

Source: NBS.

In nominal terms, the share of 5000- and 2000-dinar banknotes increased by 4.8% and 0.9%, respectively, relative to the previous year, while the share of 1000-dinar banknotes decreased by 5.2%. The share of 500- and 200-dinar banknotes decreased by 0.2%, 100-dinar banknotes by 0.1%, while the share of 50-, 20- and 10-dinar banknotes was unchanged from the year before. The share of 500-, 1000-, 2000- and 5000-dinar banknotes in cash transactions came at 96.8% nominally, up by 0.3% from end-2022.

There were 1,065.2 mn circulating coins at end-2023, up by 55.2 mn coins or 5.5% compared to end-2022. The denomination structure of circulating coins shows the prevalence of 1-dinar coins (40.7%), followed by 5-dinar coins (28.3%), 2-dinar coins (26.5%), 10- and 20-dinar coins (2.2%).

To meet the needs of cash payment operations and replace banknotes unfit for circulation, in 2023 the NBS planned the production of an additional quantity of banknotes in denominations of 2000, 1000, 20 and 10 dinars (100.0 mn pieces). The planned production of 40 mn 2000- and 15 mn 20-dinar banknotes was fully realised in 2023, while the production of 1000- and 10-dinar banknotes did not begin in 2023 and will be realised in 2024.

In 2023, the production of 14.1 mn 5000-dinar banknotes was realised under the 2021 production plan (8.4 mn pieces planned) and 10.0 mn 50-dinar banknotes of the 15 mn planned pieces under the 2022 production plan.

The plan for 2023 was to produce 80.0 mn coins. Of this, 50.0 mn were 5-dinar coins, whereas 20.0 mn 2-dinar coins were planned but 10.8 mn were produced and 10.0 mn 1-dinar coins were planned but 8.5 mn were produced. A total of 69.3 mn 5-, 2- and 1-dinar coins were produced (86.6% of the quantity planned for 2023).

In the process of **expert analysis** of suspect counterfeits, **1,985 counterfeit (dinar) banknotes** were detected in 2023. In denomination terms, the dominant share among counterfeits related to 2000-dinar (60.55%), 1000-dinar (15.67%) and 500-dinar (11.74%) notes, which account for 87.96% of the total number of detected banknote counterfeits.

Table V.2.1.2 Overview of detected banknote counterfeits
(in pieces)

Denomination	5000	2000	1000	500	200	100	50	20	10	Total
Pieces	63	1.202	311	233	50	118	6	1	1	1,985
Share in %	3.17	60.55	15.67	11.74	2.52	5.94	0.30	0.05	0.05	100.00

Source: NBS.

In value terms, the 2000- and 5000-dinar banknotes made up the largest share of the dinar counterfeit structure (75.87% and 9.94%, respectively). In percentage terms, these two denominations taken together accounted for 85.81% of the total number of detected banknote counterfeits.

Table V.2.1.3 Overview of detected banknote counterfeits
(in RSD thousand)

Denomination	5000	2000	1000	500	200	100	50	20	10	Total
Amount	315.00	2404.00	311.00	116.50	10.00	11.80	0.30	0.02	0.01	3168.63
Share in %	9.94	75.87	9.81	3.68	0.32	0.37	0.01	0.00	0.00	100.00

Source: NBS.

The ratio of the number of detected dinar counterfeits and of genuine dinar banknotes in circulation reveals that 3.40 pieces in one million circulating banknotes were found to be counterfeit, i.e. in nominal terms, there was RSD 6,953.43 worth of counterfeits in every RSD 1 billion.

The largest number of detected counterfeits was produced on commercial paper, using inkjet or laser printers, or colour photocopying machines of the newer generation. They were therefore considered bad and medium-quality counterfeits. Among medium-quality counterfeits, there were 2000-dinar banknotes which imitated optically variable ink, producing a rather convincing impression of a genuine banknote. The counterfeits detected did not include those made by intaglio, letterpress and offset techniques, which in the majority of cases belong to the category of higher quality counterfeits (very good quality and dangerous counterfeits) that are hard to distinguish from genuine notes.

Numismatic money

In February 2018, the NBS signed the Framework Agreement on cooperation with Mish International Monetary Inc, concerning the production of numismatic money with the portrait of Nikola Tesla and individual contracts based on this Agreement for 2018, 2019, 2020, 2021, 2022 and 2023. In 2023, the remaining quantities of numismatic money with Nikola Tesla's portrait were manufactured (the 2020 and 2021 issues of 295 pieces each and the 2022 issue of 500 pieces). Of the 500 pieces planned for 2023, 270 were manufactured.

Cash management

In 2023, NBS branches in Belgrade, Kragujevac, Niš, Novi Sad and Užice were supplied with sufficient quantities of banknotes and coins in a timely manner, to meet bank requirements for cash withdrawal at all times.

In 2023, 684.3 mn pieces of banknotes and coins worth RSD 632.1 bn nominally were **delivered to** banks. Relative to 2022, the quantity increased by 0.4% and the nominal value decreased by 3.2%.

A total of 576.9 mn pieces of banknotes and coins were **submitted by** banks, in the nominal amount of RSD 561.9 bn. Relative to 2022, the quantity decreased by 0.02% and the nominal value by 10.9%.

In the NBS count rooms, 572.5 mn pieces of banknotes were **processed**, in the nominal amount of RSD 561.9 bn, up by 6.6 mn pieces relative to 2022. Of the total banknotes processed, 92% were fit for circulation. In 2023, the velocity of money (the quantity of processed relative to the quantity of circulating banknotes) equalled 1.22.

A total of 25.1 mn pieces of banknotes unfit for circulation, worth RSD 9.0 bn nominally, were **destroyed**. The renewal index (number of destroyed banknotes relative to the number of banknotes in circulation) was 5.4. In addition, around 709,600 pieces of faulty 500-dinar banknotes were destroyed.

V.2.2 Activities of NBS Branches

In 2023, NBS Branches performed vault and teller operations as part of cash management and organised education of financial service consumers about financial products and services of the institutions supervised by the NBS.

Belgrade Branch

In the process of managing the flow of cash and other valuables in 2023, the Belgrade Branch received from and delivered to banks dinar and foreign cash, and provided them with uniform blank bills of exchange, received foreign cash from government bodies, sold commemorative coins and performed safe custody operations.

In 2023, total cash in-payments from banks were lower by 13% than in 2022, and cash out-payments by 5.1%. In nominal terms, banks' in-payments of foreign cash increased by 19.1%, and out-payments decreased by 80.4% relative to 2022.

In 2023, EUR 1,494,215 were received from government bodies, which is 54.4% less than in the previous year. The Belgrade Branch processed 331 mn pieces of banknotes, i.e. RSD 354.9 bn, as well as foreign cash received from banks operating in the territory of the Republic of Serbia, i.e. 4.7 mn pieces of banknotes in the equivalent of EUR 307 mn.

A total of 18.6 mn banknotes, worth RSD 8.4 bn (5.6% of the total volume of banknotes processed) were cancelled and destroyed.

A total of 1,420 banknotes were sent for expert analysis as suspect counterfeits to be checked against the degree of damage and alert colour. Also, 422 foreign currency banknotes were sent for analysis as suspect counterfeits.

Table V.2.2.1 Cash management and foreign cash operations – Belgrade Branch

(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2023	Index 2023/2022
	In 2022	In 2023		
Cash in-payments by banks	404,197,607,500	351,760,406,500	351,760,406,500	87.0
Cash out-payments to banks	332,224,147,000	315,116,036,500	315,116,036,500	94.9
Foreign cash in-payments by banks	185,722,927 ¹⁾	221,233,074 ¹⁾	25,922,697,843 ²⁾	119.1
Foreign cash in-payments by government bodies	3,286,769 ¹⁾	1,494,215 ¹⁾	175,082,700 ²⁾	45.5
Foreign cash out-payments to banks	260,640,851 ¹⁾	51,038,890 ¹⁾	5,980,415,585 ²⁾	19.6
TOTAL			698,954,639,128	

¹⁾ In EUR.

²⁾ In the dinar equivalent at the middle exchange rate of the dinar as at 31 December 2023.

Source: NBS.

The Branch handed over 1.4 mn blank bills of exchange worth RSD 71.4 mn to commission banks and recorded six sales of commemorative coins in the total amount of RSD 285,065.32. It also received 20 and issued seven safe custody items.

Since it keeps an electronic database of account statements and payment orders from accounts of government bodies, legal entities and entrepreneurs, the Belgrade Branch processed and addressed 69 applications requesting copies of account statements – payment orders and statements on balance and changes in accounts kept until 31 December 2002 by the National Bank of Yugoslavia – Accounts and Payment Bureau (ZOP). It also issued 37 fee payment notifications in respect of data found.

Novi Sad Branch

In 2023, the Novi Sad Branch processed 3,233 cash in-payment and out-payment transactions with banks and the Treasury Administration, and 404 foreign cash in-payment and out-payment transactions with banks, customs, judiciary and other government bodies, in the total amount of RSD 163.9 bn. All foreign cash in-payments from customs, judiciary and other government bodies were processed at the Novi Sad Branch tellers upon receipt. In the reporting period, as part of vault operations, the Branch received 33 and issued 16 safe custody items.

In addition, as part of its teller operations, the Branch handed over 425,000 blank bills of exchange worth nominal RSD 21.2 mn to commission banks. In 47 transactions with natural persons, it sold 399 commemorative coin packs and vacuum sets of coins issued by the National Bank of Yugoslavia and the NBS, in the total amount of RSD 0.9 mn. The Branch **received** 843 pieces of dinar and foreign currency banknotes which were sent for expert analysis as being suspect counterfeits, stained with colour or unfit for replacement.

The Novi Sad Branch **processed** cash in-payments received at its tellers from banks and the Treasury Administration, as well as cash paid-in to the cash tellers of

other branches in the NBS system. In total, RSD 88.9 bn, i.e. 139.5 mn pieces of banknotes and coins were processed. In the processing procedure, the Branch **cancelled** 15.1 mn banknotes worth RSD 2.1 bn and **destroyed** 1 mn banknotes worth RSD 548.3 mn. In the course of processing, 53 banknotes were set aside and sent for expert analysis, suspected to have been counterfeited or damaged in a high percent, above the regulatory threshold.

Table V.2.2.2 **Cash management and foreign cash operations – Novi Sad branch**

(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2023	Index 2023/2022
	In 2022	In 2023		
Cash in-payments	71,863,732,500	65,896,430,00	65,896,430,000	91.7
Cash out-payments	105,480,951,000	84,374,755,00	84,374,755,000	80.0
Foreign cash in-payments by banks	27,032,768 ¹⁾	113,998,263	13,357,598,227 ²⁾	421.7
Foreign cash in-payments by government bodies	960,799 ¹⁾	2,083,579	244,140,664 ²⁾	216.9
Foreign cash out-payments to banks	32,160,874 ¹⁾	490,000	57,415,113 ²⁾	1.5
TOTAL			163,930,339,004	

¹⁾ In EUR.

²⁾ In the dinar equivalent at the middle exchange rate of the dinar as at 31 December 2023.

Source: NBS.

In 2023, the Novi Sad Branch processed 14 applications requesting copies of statements of changes in accounts kept until end-2002 by the National Bank of Yugoslavia – Accounts and Payment Bureau (ZOP). Of this, seven requests were submitted by natural and seven by legal persons.

Niš Branch

In 2023, through dinar and foreign cash receipt from and delivery to clients (banks and government bodies), as part of cash management, the Niš Branch generated a turnover of RSD 147 bn.

In 1,018 transactions, total cash in-payments from commercial banks, the Ministry of Finance and Treasury Administration in 2023 were worth RSD 55 bn, down by 13.11% from 2022, while 1,985 out-payment transactions amounted to RSD 89.9 bn, down by 9.60% relative to 2022.

In-payments of foreign cash from commercial banks in 31 transactions were worth EUR 17 mn, eight times greater than the year before, while out-payments in 10 transactions were worth EUR 0.5 mn, having decreased four times relative to 2022. In 176 transactions, EUR 2.3 mn were received from government bodies, by 18.95% less than in the previous year.

The Niš Branch processed 72.3 mn banknotes in the nominal amount of RSD 77.4 bn.

Niš Branch tellers received 258 pieces of dinar and 71 pieces of foreign currency banknotes suspect as counterfeits and sent them for expert analysis.

Table IV.2.2.3 Cash management and foreign cash operations – Niš Branch

(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2023	Index 2023/2022
	In 2022	In 2023		
Cash in-payments	63,289,305,000	54,996,038,000	54,996,038,000	86.89
Cash out-payments	99,402,933,000	89,867,052,000	89,867,052,000	90.40
Foreign cash in-payments by banks	2,043,251*	16,990,768*	1,990,871,152**	831.56
Foreign cash in-payments by government bodies	2,827,022*	2,291,395*	268,491,230**	81.05
Foreign cash out-payments to banks	22,898,963*	540,000*	63,273,798**	2.35
TOTAL			147,185,726,180	

* In EUR.

2) In the dinar equivalent at the middle exchange rate of the dinar as at 31 December 2023.

Source: NBS.

In addition, the Branch handed over 258,000 blank bills of exchange to commission banks, worth RSD 12.9 mn nominally.

Since the Niš Branch keeps a part of the electronic database of payment orders and statements of the stock and flow in the gyro accounts kept until end-2002 by the National Bank of Yugoslavia – Accounts and Payment Bureau (ZOP), in 2023 it processed 10 requests for such data and issued seven copies of payment orders.

Kragujevac Branch

Through 3,506 dinar in-payment and out-payment transactions with banks and the Treasury Administration, 14 foreign cash in-payment and out-payment transactions with banks, customs, judiciary and other government bodies, 531 transactions of buying and selling foreign cash from/to natural persons, the Kragujevac Branch generated a turnover of RSD 150.98 bn, up by 3.9% compared to 2022.

Table V.2.2.4 Cash management and foreign cash operations – Kragujevac Branch

(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2023	Index 2023/2022
	In 2022	In 2023		
Cash in-payments	61,111,575,000	60,402,965,000	60,402,965,000	98.84
Cash out-payments	80,224,424,500	88,576,686,500	88,576,686,500	110.41
Foreign cash in-payments by banks	1,059,220*	2,111,165*	247,373,048**	199.31
Foreign cash out-payments to banks	32,227,921*	14,890,000*	1,744,716,393**	46.20
Foreign cash in-payments by government bodies	434,959*	15*	1758**	0
Purchase of foreign cash from natural persons	30,078*	23,502*	2,755,547***	78.14
Sale of foreign cash to natural persons	31,153*	23,084*	2,706,972***	74.10
TOTAL			150,977,205,218	

1) In EUR.

2) In the dinar equivalent at the middle exchange rate for foreign cash as at 31 December 2023.

3) In the dinar equivalent at the daily middle exchange rate.

Source: NBS.

In addition, the Branch handed over 257,000 blank bills of exchange worth nominal RSD 12.85 mn to commission banks. The Branch sold commemorative coins in seven transactions worth RSD 154,789.91. The Branch received at its tellers 132 pieces of dinar and foreign currency banknotes which were suspect as being counterfeits, stained with colour or unfit for replacement, and they were sent for further expert analysis. In 2023 the Kragujevac Branch processed 31.61 mn banknotes in the nominal amount of RSD 43.69 bn and cancelled 430,000 pieces.

In 2023, the Branch also processed 10 requests for the issuance of copies of payment orders and statements of changes in accounts kept until 31 December 2002 by the National Bank of Yugoslavia – Accounts and Payment Bureau (ZOP).

Užice Branch

In 2023, banks paid at the Branch tellers dinar cash worth RSD 28.7 bn and submitted requests for dinar cash out-payments worth RSD 36.2 bn. In 2023 total cash in-payments by banks were 4% lower than in 2022, while **cash out-payments were 2.4% higher**. In 2023, the Branch received EUR 245,080 from government authorities, 14.4% less than in 2022.

It supplied commission banks with 150,000 blank bills of exchange, worth RSD 7.5 mn, up by 2.7% relative to 2022. Also, it **received** 337 dinar and foreign currency banknotes suspect as being counterfeit/stained with alert colour and sent them to expert analysis. In 2023, the sale of numismatic money equalled RSD 169,400.

Table V.2.2.5 **Cash management and foreign cash operations – Užice Branch**

(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2023	Index 2023/2022
	In 2022	In 2023		
Cash in-payments by banks	29,887,959,500	28,702,135,000	28,702,135,000	96.0
Cash out-payments to banks	35,357,875,000	36,200,379,000	36,200,379,000	102.4
Foreign cash in-payments by banks	330,765 ¹⁾	9,605,662 ¹⁾	1,125,530,957 ²⁾	2,904.1
Foreign cash out-payments to banks	8,482,000 ¹⁾	260,000 ¹⁾	30,465,162 ²⁾	3.1
Foreign cash in-payments by government bodies	286,465 ¹⁾	245,080 ¹⁾	28,716,930 ²⁾	85.6
TOTAL			66,087,227,049	

¹⁾ In EUR.

²⁾ In the dinar equivalent at the middle exchange rate of the dinar as at 31 December 2023.

Source: NBS .

In the reporting period, the Užice Branch **processed** cash in-payments at its tellers from banks and the Treasury Administration, as well as cash paid in at the cash tellers of other branches in the NBS system. A total of 39.3 mn banknotes worth nominally RSD 33.8 bn were processed. In the processing procedure, the Branch **cancelled** 3.2 mn pieces of banknotes, worth RSD 400.1 mn and **destroyed** 238,880 banknotes, worth RSD 271.6 mn. In the course of processing, 35 suspect counterfeits were set aside and sent for expert analysis (to be checked against the degree of damage and the alert colour).

In 2023, the Užice Branch processed 18 requests for copies of payment orders and statement of changes in accounts kept until 31 December 2002 by the National Bank of Yugoslavia – Accounts and Payment Bureau (ZOP). It issued 11 fee payment notifications for the services provided.

V.3 Payment system operator, oversight of payment service providers, e-money issuance and provision of virtual currency services

Performance indicators of payment systems and DinaCard system

The NBS operates the following payment systems: the NBS RTGS payment system, NBS IPS system, NBS clearing system, DinaCard clearing system, as well as the systems of interbank and international clearing of foreign exchange payments.

At end-2023, the RTGS included 24 participants – 20 banks, the Ministry of Finance – Treasury Administration, the Central Securities Depository and Clearing House, the Association of Serbian Banks and the NBS.

On 22 October 2018, the NBS launched the IPS (Instant Payments Serbia) system that has been operating successfully for the sixth year in a row. At end-2023, the system included 22 direct participants – 20 banks, the NBS and the Ministry of Finance – Treasury Administration, and public enterprise “Pošta Srbije” as an indirect participant with indirect access.

At end-2023, 17 banks and 11 processing companies participated in the DinaCard clearing system. Fourteen banks participated in the payment card settlement in the Visa system, 13 banks were members of the MasterCard system, and 11 of the UnionPay system.

The number of participants in the systems of interbank and international clearing of foreign exchange payments was 21: 12 banks from the Republic of Serbia, the NBS, seven banks from Bosnia and Herzegovina and one bank from Montenegro.

The availability of the NBS RTGS and clearing systems in 2023 was 100.00%, and of the central switch in the DinaCard system 99.98%.

NBS RTGS system

The RTGS is a system for real-time gross settlement of interbank payments.

A total of 212.2 mn payments were carried out through the NBS RTGS system in 2023, with total turnover amounting to RSD 198,756.7 bn.

Table V.3.1.1 Value of turnover and number of payments in RTGS

(turnover in RSD bn, number of payments in thousand)

2023	Number of business days	Number of payments	Average daily number of payments	Value of turnover	Average daily turnover
January	20	15,363.2	768.2	13,363.6	668.2
February	18	16,635.3	924.2	12,865.4	714.7
March	23	18,689.1	812.6	17,549.9	763.0
April	18	16,928.7	940.5	15,623.4	868.0
May	21	18,260.0	869.5	18,579.5	884.7
June	22	18,019.9	819.1	15,820.6	719.1
July	21	17,452.6	831.1	15,444.9	735.5
August	23	17,598.4	765.1	21,527.6	936.0
September	21	17,377.5	827.5	16,783.9	799.2
October	22	18,232.0	828.7	16,879.6	767.3
November	22	17,707.0	804.9	17,715.6	805.3
December	21	19,958.3	950.4	16,602.6	790.6
Total	252	212,222.0		198,756.7	
		Monthly average: 17,685.2	Daily average: 842.1	Monthly average: 16,563.1	Daily average: 788.7

Source: NBS.

NBS clearing system

The NBS clearing system is a system for the exchange and processing of individual or aggregate payment orders of payment system participants, on a multilateral net basis.

Table V.3.1.2 Value of turnover and number of payments in the clearing system

(turnover in RSD bn, number of payments in thousand)

2023	Number of business days	Number of payments	Average daily number of payments	Value of turnover	Average daily turnover
January	20	1,767.6	88.4	31.9	1.6
February	18	2,058.5	114.4	33.5	1.9
March	23	2,070.0	90.0	39.3	1.7
April	18	1,641.1	91.2	33.9	1.9
May	21	2,050.9	97.7	36.9	1.8
June	22	1,795.0	81.6	36.7	1.7
July	21	1,368.4	65.2	32.4	1.5
August	23	1,630.0	70.9	34.2	1.5
September	21	1,516.1	72.2	32.7	1.6
October	22	1,642.4	74.7	34.8	1.6
November	22	1,543.0	70.1	32.8	1.5
December	21	1,502.1	71.5	35.0	1.7
Total	252	20,585.2		414.2	
		Monthly average: 1,715.4	Daily average: 81.7	Monthly average: 34.5	Daily average: 1.6

Source: NBS.

A total of 20.6 mn payments, worth RSD 414.2 bn, were performed in the clearing system in 2023.

NBS IPS system

The NBS IPS system carries out individual instant credit transfers of up to RSD 300,000. The system operates in the 24/7/365 regime. Payments are executed almost instantaneously, and the funds are made available to the recipient within no more than a few seconds.

The IPS system infrastructure enables instant payments via standard means of payment (e.g. e-/m-banking or tellers of payment service providers), instant payments at merchants' points-of-sale, as well as additional services for participants – bill presentment (BP) and transfer service, i.e. making instant payments using the registered mobile phone number of the payee.

Table V.3.1.3 **Value of turnover and number of payments in NBS IPS system**

(turnover in RSD bn, number of payments in thousand)

2023	Number of business days	Number of payments	Average daily number of payments	Value of turnover	Average daily turnover
January	31	4,617.9	149.0	43.2	1.4
February	28	5,024.1	179.4	48.0	1.7
March	31	5,406.0	174.4	55.0	1.8
April	30	5,114.8	170.5	52.8	1.8
May	31	5,632.8	181.7	59.6	1.9
June	30	5,565.2	185.5	61.3	2.0
July	31	5,418.1	174.8	60.5	2.0
August	31	5,605.4	180.8	61.9	2.0
September	30	5,723.3	190.8	62.6	2.1
October	31	6,071.2	195.8	67.4	2.2
November	30	6,073.3	202.4	66.6	2.2
December	31	6,710.8	216.5	78.2	2.5
Total	365	66,962.9		717.3	
		Monthly average:	Daily average:	Monthly average:	Daily average:
		5,580.2	183.5	59.8	2.0

Source: NBS.

In line with the system's operating rules, IPS participants can be the NBS, a bank headquartered in Serbia and licensed by the NBS, the Ministry of Finance – Treasury Administration, a payment institution with the head office in Serbia and licensed by the NBS for the provision of payment services, an e-money institution with the head office in Serbia and licensed by the NBS for e-money issuance, and the public postal operator with the head office in Serbia.

A total of 67.0 mn payments worth RSD 717.3 bn were performed in the NBS IPS system in 2023. The average daily number of payments was 183,500, and the average daily value of transactions RSD 2.0 bn. The average transaction execution time was 1.1 seconds.

The fee of RSD 4 per transfer order in the NBS IPS system, which the NBS as the payment system operator charges to system participants, equals the fee charged for retail payments in the RTGS and clearing systems.

The fee for the execution of transfer orders based on requests for payment at a point-of-sale equals RSD 1 for amounts of up to RSD 600 and RSD 2 for amounts above RSD 600. These fees are charged to the acquirer – merchant’s payment service provider.

The multilateral interchange fee is determined by the NBS IPS system operating rules and equals 0.2% of the value of an executed instant payment at a point-of-sale and is paid by the acquirer to the issuer of the IP payment instrument.

Systems of interbank and international clearing of foreign exchange payments

The interbank and international payments clearing systems enable euro payments between all participants of these systems in Serbia, Bosnia and Herzegovina and Montenegro, on a multilateral net basis. In 2023, 45,554 payments worth EUR 779.2 mn were processed in the systems.

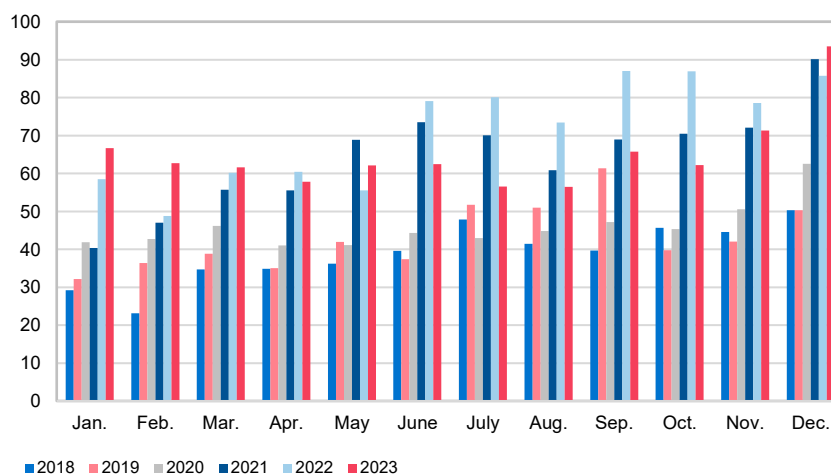
Table V.3.1.4 Turnover and number of payments in interbank and international clearing

(in EUR mn)

2023	Number of business days	Number of payments	Averagedaily number of payments	Value of turnover	Average daily turnover
January	20	3,282	164.1	66.7	3.3
February	18	3,217	178.7	62.7	3.5
March	23	3,886	169.0	61.6	2.7
April	18	3,286	182.6	57.8	3.2
May	21	3,715	176.9	62.1	3.0
June	22	3,940	179.1	62.5	2.8
July	21	3,836	182.7	56.6	2.7
August	23	3,667	159.4	56.4	2.5
September	21	3,551	169.1	65.8	3.1
October	22	4,253	193.3	62.2	2.8
November	22	4,234	192.5	71.3	3.2
December	21	4,687	223.2	93.5	4.5
Total	252	45,554		779.2	
		Monthly average:	Daily average:	Monthly average:	Daily average:
		3,796.2	180.8	64.9	3.1

Source: NBS.

Chart V.3.1 Turnover in interbank and international clearing (EUR mn)



Source: NBS.

National payment card system – DinaCard

DinaCard is the national payment card of the Republic of Serbia, established with a view to developing cashless payment methods, reducing the volume of cash in money supply, providing cost-efficient card products for citizens and merchants, and curbing the grey economy. With the national card, banks can offer to their clients a payment card which can be used in the entire Serbian acceptance network. Special care was taken that the national card is accessible to citizens and merchants and that multilateral interchange fees are in accordance with the law and conditions in the Serbian market. The DinaCard was modelled upon the national cards of the largest European countries where citizens dominantly use the national cards for reasons of economic prudence, as the preferred choice in terms of costs for the national economy. **The fees of the national card system DinaCard are multiple times lower than in other card systems in the Serbian market, which among other things brings down the costs of acquiring the national payment card for merchants, because the acquiring banks offer merchants a lower merchant fee for DinaCard acquiring service.** Besides, national card systems are also important for the preservation of market competition, faster adjustment to the specific local market needs and financial inclusion.

In 2023, 176 mn transactions were carried out in the national card system (up by 11% from the previous year), with the turnover of RSD 876 bn (up by 16% from the previous year). Of this, 77% of transactions and 33% of turnover were recorded at points-of-sale (payments of goods and services), while the rest were cash withdrawal transactions. Interbank transactions accounted for 59% of total transactions and 31% of total turnover. At end-2023, there were 5.9 mn DinaCard payment cards issued in the market.

Concluding with 2023, 94% of all DinaCards were chip-based. The implementation of contactless technology in the DinaCard system continued in 2023.

Cooperation with the Chinese national card operator – UnionPay International continued in 2023 and the acceptance of UnionPay cards was enabled in over 86% of ATMs and 71% of POS terminals in the acquiring network in the Republic of Serbia. Underway are the activities to issue the joint DinaCard-UnionPay card with the contactless payment function, accepted at all terminals in the country and the global UnionPay acquiring network. Banka Poštanska štedionica was the first to issue such cards. Other banks that make such decision can also issue these cards to their users.

As cooperation with Discover Financial Services (DFS) continued in 2023, activities were implemented to develop a system that will enable the connection and communication between the two card systems through traffic conversion, which is necessary due to the differences in system specifications and protocols. Also, activities began concerning the processors and acquirers who will be certified for accepting the cards from the DFS card system in Serbia.

In 2023, the number of transactions of the “Withdraw dinars” service continued to rise, allowing dinar cash withdrawals at the time of purchase at points-of-sale (the so-called “purchase with cashback” service). This service is available at all petrol stations of NIS Petrol and Gazprom, and in Merkator, Roda, Idea and Maxi stores.

The online shopping network allowing payments with the domestic card continued to expand. At end-2023, the number of online merchants accepting the DinaCard increased by 17% relative to end-2022 and the domestic card was accepted at around 2,100 online points-of-sale.

Interest-free deferred payment in instalments was intensively used by users of DinaCard-PostCard issued by Banka Poštanska štedionica, users of DinaCard Klasik issued by NLB Komercijalna banka, and users of DinaCard debit issued by Banca Intesa, with a constant rise in the number of transactions and the volume of turnover. The number of points-of-sale accepting this card at end-2023 climbed to over 17,000.

Regulatory activities

In 2023, the NBS continued to engage all its resources to ensure stability and security of the payment system and did all it takes to make sure that payment service users continued to use payment services smoothly, efficiently and without any difficulties.

In 2023, the NBS continued to take an active part in the implementation of regulations envisaging the pay-out of financial assistance to mitigate the fallout from the crisis caused by disturbances in the global market.

In this regard, in line with its competences and in cooperation with the Ministry of Finance – Treasury Administration, the NBS took part in the activities concerning the adoption and implementation of the Law on the Temporary Register of Mothers and Other Persons to Whom Financial Assistance is Paid (RS Official Gazette, No 62/2023), based on which RSD 10,000 were paid out for each child with Serbian nationality, born from 21 November 2006 onwards.

In 2023, the NBS launched an initiative for Serbia's access to the Single European Payment Area (SEPA) and took the necessary activities to obtain information about the procedures to be undertaken in terms of meeting accession criteria, thus stating a clear intention to align the Serbian payment infrastructure to SEPA standards in order to advance and strengthen economic cooperation with Western Balkan and EU economies, as Serbia's key economic partner.

In regard to the alignment of Serbia's legal and regulatory framework in the area of payment services with EU regulations, which is important for our accession to the SEPA region, a document drafted by World Bank experts and the Regional Cooperation Council (Assessment and Action Plan for Serbia – Western Balkans Payment Modernization Project), adopted in 2022, stated that Serbia has almost entirely implemented the relevant European directives and regulations regulating the area of payment systems and payment services provision.

In relation to this, activities aimed at further aligning Serbia's legal and regulatory framework with EU regulations relevant for accession to the SEPA region continued in 2023.

Payment system oversight

The NBS oversight activities in 2023 included the monitoring of payment systems and their operators, and the analysis of data and information provided by operators, in accordance with regulations, for the purpose of adequately detecting potential risks and coordinating activities with operators to ensure effective management of these systems.

The NBS maintained a high degree of reliability of all payment systems, in accordance with their operating rules. In systems carrying out netting based on transfer orders, there were no cases of the non-settlement of monetary obligations in respect of net positions of participants at the moment this was expected from them.

Within the payment system oversight function, the NBS assessed the formal and material validity of the submitted documents regarding the applications to include payment institutions and e-money institutions as indirect participants in the NBS IPS system, so as to create a level playing field for the provision of payment services based on instant credit transfers by non-bank providers of payment services.

As part of the established cooperation between central banks related to the participation in the international clearing of foreign exchange payments, in 2023 the NBS implemented activities to include new participants in the system. Based on the applications submitted by the central bank of Bosnia and Herzegovina and the central bank of Montenegro, Banka poštanska štedionica a.d. Banja Luka and Universal Capital Bank AD Podgorica became indirect participants with direct access to the system of international clearing of foreign exchange payments, operated by the NBS.

To ensure safe and sound operations of all NBS-operated payment systems, in 2023 the NBS placed a special focus on monitoring the activities concerning the implementation of bank status changes. After these changes, the accounts of the following banks were closed: RBA banka a.d. Novi Sad, Eurobank a.d. Beograd and

the temporary account of AIK banka a.d. Beograd, while Expobank a.d. Beograd changed its name to Adriatic bank a.d. Beograd. As all procedures in payment systems in which these banks participated, due to their status change, were conducted adequately and in line with the operating rules of those systems, there were no halts in their operation.

The NBS also conducted off-site supervision of payment systems not operated by the NBS, in the part of their operations pertaining to capital maintenance, in line with the provisions of the Law on Payment Services and other by-laws of the NBS.

During 2023 the NBS continued with activities relating to the realisation of the project for Euroclear Bank SA/NV to join and participate in the NBS RTGS system for the purposes of clearing and settlement of government securities denominated in dinars.

Development of instant payments

The NBS continued to develop services based on instant payments and projects of support to the digitalisation process in the Republic of Serbia, closely monitoring these projects within its oversight function in order to assess compliance of various technical and technological solutions with the pre-defined minimum requirements and standards – so that participants in the NBS IPS system could offer them to their payment service consumers.

At end-2023, 16 banks enabled instant payments at merchant points-of-sale and payment of bills/invoices by scanning the IPS QR code through mobile banking applications to retail clients, while five banks also offered these services to legal persons and entrepreneurs. Nine banks offered the “Transfer” service, within which funds are transferred simply by choosing the mobile phone number registered by the payee for this service.

As for the acceptance of instant payments at merchant points-of-sale, in 2023 eight technical-technological solutions developed by banks were assessed as ready to be offered to merchants. At year end, 11 banks were able to offer some technical-technological solution for the acceptance of instant payments at merchant points-of-sale, including online. In 2023, the NBS continued its efforts aimed at expanding the acceptance network and bolstering the use of instant payments at brick-and-mortar and online points-of-sale.

At end-2023, 14 banks enabled their clients to make payments at online points-of-sale using the upgraded IPS Scan method, which also includes the deep-link technology. Five acquiring banks offer to their merchants the service of accepting payments at online points-of-sale by using the deep-link technology solutions.

The result of the expansion of the online acceptance network is the multiple increase in the number of brick-and-mortar points-of-sale and the number of merchants accepting online instant payments in 2023. The number of such transactions also increased many times over.

Payment institutions, e-money institutions and virtual currency services providers

The payment services market continued to develop in 2023, maintaining the upward trend of interest in e-money. Three payment institutions were granted licences for e-money issuance and became e-money institutions.

As at 31 December 2023, nine payment institutions and six e-money institutions operated in Serbia. Of this number, eight payment institutions, four e-money institutions and the public postal operator also rendered their payment services through the network of 6,560 agents (compared to 5,936 in 2022).

In 2023, the NBS passed three decisions on granting the licence for e-money issuance and one decision supplementing the licence for payment services provision. It also passed one decision rejecting the licence application for e-money issuance and one decision rejecting the application for the licence for payment services provision and gave three opinions on the fulfilment of conditions for the acquisition of a qualifying holding in the capital of a payment institution. The NBS also decided to revoke two payment institutions' licences for payment services provision.

As one of the authorities in charge of supervising the implementation of the Law on Digital Assets, in the course of 2023 the NBS undertook activities and prepared a number of letters and opinions about the implementation of this Law, and the relevant secondary legislation pertaining to virtual currencies as a form of digital assets. It participated in workshops, seminars and training sessions relating to the implementation of the Law. During the year, the NBS also passed a decision on granting prior consent to the acquisition of a controlling holding and one decision on granting prior consent for the acquisition of a qualifying holding in the capital of a virtual currency provider. It also passed one decision on granting prior consent to the submitted changes in general acts.

In addition, the NBS assessed the formal and material validity of the documents enclosed in the licensing applications for e-money issuance and applications for supplementing the licence for payment service provision. The NBS also analysed documents submitted with payment institutions' notifications for the purpose of providing opinion on the fulfilment of the prescribed conditions regarding the change of persons with qualifying holding in the capital of payment institutions, documentation submitted regarding the applications for granting prior consent for the acquisition of qualifying and controlling holding in the capital of the virtual currency service provider, as well as regarding the notifications of e-money institutions about changes in circumstances relating to persons with qualifying holding. Analyses also focused on the documentation about the replacement of members of managing and governing bodies, and persons who will be directly managing payment service provision and e-money issuance, as well as documentation concerning the introduction of video-identification and submitted notifications of payment institutions, e-money institutions and virtual currency service providers about the introduction of new business models. The NBS also assessed the documentation about granting prior consent to the submitted changes in the general acts and operating rules submitted by virtual currency service providers,

outsourcing operations to a third person and implementing the exception set out in the Law on the Prevention of Money Laundering and Financing of Terrorism. It analysed the notifications and reports submitted by payment institutions, e-money institutions and the public postal operator about the implementation of activities outsourced by banks.

On-site and off-site supervision of payment services provision, e-money issuance and virtual currency services provision

In 2023, based on the Law on Payment Services and the Decision on Detailed Conditions and Manner of Supervision of Payment Institutions, Electronic Money Institutions and Public Postal Operator, the NBS issued one decision ordering on-site supervision of the operations of an e-money institution and one decision on verifying the compliance with the issued decision to remove irregularities identified in the supervision procedure. It conducted one on-site supervision procedure of the operations of a payment institution and conducted one verification of the compliance with the previously issued decision to remove the identified irregularities. In relation to previously compiled reports on the conducted supervision, i.e. verification of compliance of operations with the Law on Payment Services and regulations arising therefrom, an official note was made regarding the objections submitted by the supervised entity and measures were proposed, based on the supervision reports, in relation to which two decisions were made about issuing orders and measures to remove the irregularities identified during the supervision.

Also, based on the Law on Digital Assets and the Decision on Detailed Conditions and Manner of Supervision over Virtual Currency Service Providers and Virtual Currency Issuers and Holders, two decisions were passed to initiate on-site supervision of operations of virtual currency service providers and one on-site supervision procedure of a provider of these services was conducted.

Off-site supervision of payment service providers, e-money issuers and virtual currency service providers were carried out continuously by monitoring the reports and other available data. In regard to this, the NBS adopted the Decision on Content, Deadlines and Manner of Submitting Data on Virtual Currencies to the National Bank of Serbia.

In 2023, the NBS continuously monitored virtual currency services with a view to detecting unauthorised provision of these services.

V.4 Other activities

V.4.1 Economic analysis and statistics

Economic analysis and research

The objective of **economic analyses** at the NBS is to provide analytical support to the Executive Board and the Council of the Governor in their decision-making. In 2023, global geopolitical and economic circumstances were marred by the continued Ukraine and Middle East conflicts, and persisting uncertainty over the prices of energy, food and other primary commodities. Operating in such challenging times and keeping a close eye on all the developments, the NBS continued to provide consistent, high-quality and reliable macroeconomic projections, which fully materialised in regard to inflation and economic activity.

In the area of inflation analysis and short-term projection, the greatest focus was placed on the analysis of cost-push pressures and imported inflation, which were the main generators of inflationary pressures in 2023 as well. The NBS continued to actively monitor and analyse the price formation chain – from raw material prices through industrial producer to consumer prices. In this regard, meetings were arranged with representatives of the largest retail trade chains in Serbia. At those meetings we agreed to share information relevant for the short-term inflation projection and considered the challenges which the retail trade chains face in their operation, as well as the potential ways in which the NBS can help overcome those challenges, within its scope of authority. After the introduction of new questions relating to three-year ahead inflation expected by the financial, corporate, household and trade union sectors, the **Inflation Expectations Survey** enabled a more reliable assessment of inflation expectations anchoring in the medium run and thus the assessment of monetary policy credibility. The survey methodology was improved further, in order to obtain better quality and more reliable responses.

Short-term inflation projections were made monthly, along with the analysis of factors leading to deviation from medium-term projections. For the needs of inflation projections, expert judgement was used, as well as econometric models developed in the prior years, adjusted to the short-term projection of various indicators of core inflation. Further developed were CLI models for core inflation projection (coincident/leading indicators) and the fruit and vegetable prices based on meteorological data, as well as models for the estimate of services prices. Relative to prior periods, greater emphasis was placed on improving the techniques of **big data collection and processing**. Based on a large number of prices on the internet, the NBS estimated, several times during a month, inflation movements in real time (inflation nowcast), which served as an input for short- and medium-term projections. We also used various textual analysis methods (word counting, thematic classification, sentiment analysis) in order to create inflationary pressure indicators and the overall economic sentiment.

Medium-term inflation projections were made on a quarterly basis, as well as the analyses of the main risks to the projections and their impact on monetary policy. Further efforts were made to improve the main medium-term projection model – the model structure was regularly reviewed and model parameters assessed, and model features were analysed upon inclusion of new variables in order to obtain a more accurate inflation projection, i.e. increase the model reliability. A focus was placed on improving model performances and assessing coefficients in regard to the labour market. Amid heightened uncertainty since the outbreak of the conflicts in Ukraine and the Middle East, an emphasis was also put on the development of alternative medium-term projection scenarios. The selection of scenarios and underlying assumptions were aligned with ECB scenarios, given that supply-side shocks hit almost all European countries in a similar way.

In the **real sector**, the focus was on analyses and projections of the annual and quarterly GDP growth structure, on the production and expenditure side. Similarly to inflation, expert judgement and econometric models were used for GDP projections. When it comes to the **labour market**, we continued to monitor and analyse all available indicators, while placing particular focus on their impact on inflation on the demand side (wages and employment) and the cost component of inflation (productivity and unit labour costs). As inflationary pressures were becoming stronger, special attention was devoted to the analysis of the real pay gap, primarily in the private sector and other fields (e.g. the ICT sector).

In terms of the balance of payments, the NBS continued to perform analyses and projections of current and financial account components. Within the current account, a particular emphasis was placed on foreign trade, i.e. dynamics, structure and growth factors of goods and services imports and exports, and terms of trade. To more accurately estimate export growth, researchers focused on Serbia's key export branches, such as the automobile industry, food production and base metals, while placing emphasis on the importance of FDI in expanding and strengthening the export base. The country's international investment position, i.e. balance of foreign assets and liabilities, was analysed and assessed from the point of view of external debt sustainability and preservation of financial stability.

The NBS **carefully analysed trends in the money, lending and capital markets**, as well as **banking sector liquidity**. Based on this and other macroeconomic indicators, monetary projections were made (of loans and money supply). By monitoring the movement of interest rates in the money, lending and savings market, the **efficiency of the monetary policy transmission mechanism** was assessed.

In terms of fiscal developments, we continuously monitored the execution of the central government and consolidated budget, public debt and the monetary effect of fiscal policy. Special attention was paid to capital investment, particularly the projects planned under the new government investment cycle, from the standpoint of their impact on investment and construction in the short and medium term. The NBS gave its opinion about government's key fiscal documents – the Fiscal Strategy, Budget Law Proposal and a set of laws on the budget system,

as well about a series of other law proposals in terms of their impact on price and financial stability and economic activity.

The analysis of international economic trends in 2023 was particularly important, notably in terms of decisions of leading central banks amid strong inflationary pressures, including movements of indicators pertaining to inflation, economic activity and the labour market. The year was marked by prevailing uncertainty concerning the effects of the Ukraine conflict on global economic trends, and the outbreak of the Middle East conflict. The analyses remained focused on the energy situation, in terms of the impact of intensification of geopolitical conflicts on soaring oil prices and elevated production costs. In this context, particularly analysed were the movements of the prices of energy, primary agricultural commodities and base metals on European and world commodity exchanges, within a special analytical document prepared on a weekly and monthly level. Significant attention was also paid to the macroeconomic projections of the most important international institutions (the IMF, ECB, European Commission), whose changes were more frequent and more important due to current international circumstances. The risk assessment by these institutions was largely used for the development of assumptions underlying the alternative scenarios of our macroeconomic projections.

The analyses and projections of macroeconomic developments were presented to the public on a quarterly basis in the *Inflation Report*, as the most important means of informing the public about economic developments that determine the decisions of the Executive Board. The *Inflation Report* contains information about actual and expected inflation, analyses of underlying macroeconomic trends, explanations of the rationale behind the Executive Board's decisions, and the assessment of monetary policy efficiency in the previous quarter. The *Report* also contains inflation and GDP projections for the following eight quarters, an overview of assumptions behind the projections, and the analysis of main risks to the projection. A novelty was introduced in 2022 – namely, in addition to the baseline scenario, the alternative scenarios of the projection of inflation, GDP and the current account deficit are presented, illustrating possible effects of the materialisation of the most important risks.

As in the previous period, particular attention in the *Inflation Report* was devoted to **current macroeconomic developments, presented in text boxes.** In early 2023, we analysed the signals of the easing of global inflationary pressures, the results of the inflation expectations survey, and conditions in the Serbian labour market. We focused on balance of payments trends in 2022 and the factors behind the outperformance. As the year went by, we presented in detail the balance of payments trends in H1 2023 and the factors behind the improvement. One of the text boxes dealt with the assessment of Serbia's resilience to the hitherto effects of the multidimensional crisis – the pandemic, energy crisis and Ukraine conflict. We also analysed the impact of developments in the Serbian energy sector on macroeconomic trends, and food prices in production and consumption, their dynamics and determinants, comparing them by country and stating expectations going forward. Text boxes were devoted to NBS inflation nowcasting, core inflation factors and

trends at global level, and the business and financial performances of the Serbian economy in 2019–2022. In the *Inflation Report* for Q4 2023 we dealt with the inflation outlook in the world and at home, movement of pig prices in Serbia, factors determining those prices and expectations going forward. We also focused on FX supply and demand factors in the local FX market, the impact of fiscal policy measures on inflation in Serbia, and manufacturing trends in Germany and their impact on Serbian manufacturing production and exports.

After Executive Board meetings, when *Inflation Reports* (February, May, August and November) were reviewed and adopted, **press conferences** were organised, so that the public would be informed about the current macroeconomic developments and NBS projections, and the factors underlying the Executive Board's decisions. Press conferences were streamed live on the NBS website, and the *Inflation Reports* and the material presented at the conferences were published simultaneously. Public access to this information enables better understanding of the monetary policy pursued by the NBS and its commitment to achieving the main objectives determined by law and to anchoring of inflation expectations.

In 2023, the NBS continued to publish its monthly *Report on the Results of the Inflation Expectations Survey*, which strengthens the credibility and transparency of monetary policy and gains special importance in times of elevated inflation, when confidence in central banks' decisions represents a significant factor of macroeconomic stability. It also continued to carry out the survey on bank lending activity, publishing the results in the quarterly *Report on the Results of the Bank Lending Survey*. The *Trends in Lending* publication was also released on a quarterly basis, giving a detailed overview of lending market trends and conditions of corporate and household borrowing.

NBS macroeconomic analyses and projections were also presented in the documents prepared by the Republic of Serbia for the needs of monitoring progress in EU accession. These documents were discussed in detail at the meetings with the IMF, World Bank, European Commission, ECB, rating agencies, investors etc.

Statistical activities

The NBS produces official statistics in accordance with the Law on Official Statistics and Article 68 of the Law on the National Bank of Serbia and the five-year statistical programme and annual plans. Data are collected, verified, processed and published for different statistical fields (monetary, financial, balance of payments and international investment position statistics). These statistics are published and used by the NBS to prepare reports and analyses, as well as by government institutions, domestic and international financial market participants, domestic and international financial institutions, scientific institutes, the media and the general public.

As part of coordination of statistics development, in 2023 the NBS continued to cooperate with other official statistics producers and government institutions in

preparing the Official Statistics Plan for 2024, and in aligning statistics with EU statistical standards and requirements.

Within the statistical standard e-GDDS, in cooperation with the Statistical Office, the NBS continued to regularly update the National Summary Data Page (NSDP) for the Republic of Serbia. It continued to participate in a project led by the Statistical Office on the calculation of indicators of the UN Sustainable Development Goals and Macroeconomic Imbalances Procedure, providing data and metadata under its remit.

In 2023 the NBS and Statistical Office were involved in the work of the **IMF Technical Mission**, organised on the request of the Ministry of Finance, with the aim of supporting the Treasury Administration in implementing plans to improve monthly reporting on government finance. The NBS was involved in the MB IPA 2019 and MB IPA 2022 projects, to support further development of the government finance statistics and reporting in case of excessive deficit (EDP). In addition, the NBS was involved in a project aimed at developing the capacities of external sector statistics for Western Balkan economies, initiated by the IMF and financed under IPA 2017.

In regard to monetary and financial statistics, in 2023 the NBS was regularly receiving, processing and publishing monetary and financial statistics on its website. It thus continued to inform the domestic and international public according to the predefined calendar of statistical data issues. Standard reports were regularly submitted to international financial institutions such as the IMF, BIS, Eurostat etc. In 2023, to improve data quality, the NBS continued its close cooperation with reporting units in the financial sector. It reported to the ECB about interest rate statistics and all activities concerning further alignment with ECB regulations in the areas of monetary and financial statistics.

In the area of statistics of the balance of payments and the international investment position, in 2023 the NBS regularly produced and published statistical data, and submitted them to international institutions in line with the undertaken reporting obligations. In accordance with the major revision of the national accounts system, the development of the balance of payments continued, according to the BPM6 for the period prior to 2007, as well as the revision of balance of payments data. In line with the agreed dynamics, the data are submitted to the Serbian Statistical Office.

In the field of government finance statistics, the NBS continued to implement activities concerning the broadening of the EDP report, which is submitted, in cooperation with the Statistical Office, to Eurostat in April and October. Owing to its cooperation with relevant republic institutions, the NBS continued to submit to Eurostat data about the Maastricht debt of the Republic of Serbia on a quarterly basis, while the data on debt level according to these criteria are also published by the Ministry of Finance – Public Debt Administration. The data about the Maastricht debt were also calculated for the 2005–2014 period. The NBS continued to submit quarterly data to the World Bank and IMF about the Republic of Serbia budgetary debt under securities and loans.

V.4.2 International cooperation

Relations with international institutions and the European Union

In 2023, the NBS continued to cooperate with international financial institutions, most notably with the IMF, World Bank, EBRD, BIS and the EU.

International Monetary Fund

The year 2023 saw the successful conclusion of two reviews of Serbia's performance under the agreed economic programme within the stand-by arrangement approved to Serbia by the IMF on 19 December 2022.

Within the first review, the IMF delegation visited Belgrade from 23 March until 4 April. At the same time, Article IV consultations were conducted, as is done regularly with all member countries within the IMF's surveillance function. During the mission's visit, the delegations also discussed the implementation and efficiency of economic policy measures against the backdrop of challenges emanating from the international environment, the prospects of the Serbian economy going forward and realisation of objectives of the economic programme supported by the stand-by arrangement.

It was concluded that macroeconomic results within the programme are outstanding and that previous projections have even been exceeded, including a lower-than-expected fiscal deficit, lower-than-anticipated current account deficit and higher FX reserves, as well as robust FDI inflows. The NBS's monetary policy tightening was estimated as adequate and conducive to the declining trajectory of inflation.

On 28 June, the IMF Executive Board adopted the decision on the successful completion of the first review of the results of the economic programme supported by the stand-by arrangement. It also **concluded regular Article IV consultations** with our country.

In the meeting the Board stated that despite external shocks, Serbia recorded impressive economic results reflecting its strong economic policies. It underlined that monetary policy tightening was appropriate in conditions of elevated global inflation. The banking sector remained resilient, but continued monitoring of banks was needed, given the rising rates and risks from global financial turbulence. The Board praised the tighter fiscal policy stance, with an emphasis on the importance of implementing reforms in the energy sector.

The positive assessment of the IMF's Executive Board enabled **Serbia to draw the second tranche within the stand-by arrangement in the amount of SDR 163,700,000.**

Pursuant to the Law on Regulation of the Republic of Serbia's Obligations to the International Monetary Fund in Respect of the Use of Funds under the Stand-by Arrangement Approved to the Republic of Serbia by the Decision of the IMF's Executive Board on 19 December 2022 (RS Official Gazette, No 10/2023), the funds

from the first and second tranches, totalling SDR 949.4 mn (145% of the quota), were used for budget needs.

Talks between Serbian representatives and the IMF mission within the second review were held from 19 to 31 October. Current monetary, fiscal and overall macroeconomic developments and projections were discussed, including the achievement of goals defined by the current economic programme.

In the meeting held on 21 December, the IMF Executive Board decided that the second review of the results of the economic programme supported by the stand-by arrangement **was successfully concluded.** The decision was made without a formal meeting of the Board, which confirms that Serbia is implementing good economic policies and achieving sound macroeconomic results. The IMF Board concluded that the outturns under the programme remain strong, with growth recovering, ongoing disinflation, narrowing current account deficit and rising FX reserves. Considering the strong accumulation of reserves, fiscal buffers and sustainable balance of payment financing, the arrangement will continue to be treated as precautionary in the remaining period. This was decided one review sooner than expected when the arrangement was approved.

The delegation of the Republic of Serbia, headed by NBS Governor and Serbia's Governor to the IMF Jorgovanka Tabaković, took part in the IMF and World Bank Group Spring Meetings from 10 to 16 April in Washington DC. The Spring Meetings focused on global economic movements and prospects, with an emphasis on the challenges of high inflation and public debt, and tightened conditions in international financial markets, as well as on the issue of how multilateral cooperation can help solve these challenges. During the Spring Meetings, the NBS delegation met with the management and other representatives of the IMF and World Bank Group to discuss current global movements and policies implemented in Serbia. They also held meetings with a number of leading global investors to present them the results achieved in Serbia despite global shocks, and thanks to good and coordinated policies, current macroeconomic movements in Serbia, the planned reforms and medium-term macroeconomic projections.

The Annual Meetings of the IMF and World Bank Group were held from 9 to 15 October in Marrakech, Morocco, and the Serbian delegation was headed by NBS Governor and Serbia's Governor to the IMF Jorgovanka Tabaković. The key topics discussed in the Annual Meetings pertained to movements and prospects of the global economy, with a focus on the challenges of elevated inflation, high level of debt and tighter conditions in international financial markets in the context of exacerbated geopolitical tensions. In addition, other topics discussed included the strengthening of international cooperation in a fragmented global economy, creation of conditions for an inclusive digital future and developing the capacities to support the policy of resilience to climate change. During the Annual Meetings, the NBS delegation held a series of meetings with high-level management and other IMF representatives, as well as leading global investors to present them the achieved results and our country's economic potential.

On 15 December 2023, the IMF Executive Board adopted the Sixteenth General Review of Quotas⁴⁷ in order to increase the institution's permanent resources and decrease its reliance on borrowing. The adoption of the Resolution is the first step in the IMF's initiative to raise quotas, and lays down the required procedure regarding member countries' activities and conditions for the proposed quota increase to become effective. As Fund quotas will be increased by 50% and allocated to all members in proportion to their quotas, by accepting the quota increase, member countries would retain their voting power in the IMF. The Republic of Serbia's current quota is SDR 654.8 mn, and after the increase it would measure SDR 982.2 mn. NBS Governor Jorgovanka Tabaković, as Serbia's Governor to the IMF, voted in favour of adopting the review, based on the Government Conclusion on consent for the Republic of Serbia to vote for the adoption of Draft Sixteenth General Review of Quotas of 14 December 2023.

World Bank

In the period from March 2002 until the end of 2023, the World Bank approved to the Republic of Serbia funds for programme and project loans in the amount of EUR 3.71 bn, of which EUR 2.95 bn was used. The implementation of the five-year Country Partnership Framework 2022–2026 (CPF)⁴⁸ is underway.

Within the current cooperation programme, during 2023 the World Bank approved the following loans to Serbia: First Serbia Green Transition Programmatic Development Policy Loan, securing USD 160 mn to support Serbia's efforts to upgrade public sector institutions to achieve more resilient, greener and more inclusive economic growth; Improving Public Financial Management for the Green Transition Operation loan in the amount of USD 75 mn to support the Serbian Government in further advancing public finance management and setting the course to green transition; Catalyzing Long Term Finance through Capital Markets Project loan in the amount of USD 30 mn to support the Serbian Government in implementing the Capital Market Development Strategy, and the Noncommunicable Diseases Prevention and Control Project in the amount of USD 75 mn, whose aim is to support Serbia's efforts to improve the health of its citizens.

In October, Serbia settled the fourth and final instalment under the General Capital Increase and the Selective Capital Increase with the IBRD, in accordance with the IBRD resolutions of 2018, in the amount of around USD 2.88 mn. This settled Serbia's total financial liabilities under the IBRD's General and Selective Capital Increases from 2018 in the amount of around USD 9.6 mn. The funds for the settlement were earmarked in the budget of the Republic.

⁴⁷ Member countries' quotas are the financial participation of countries in the IMF's capital and are a central component of the IMF's financial resources. They are assigned based on the economic indicators that reflect a country's relative position in the global economy and play a key role in its relationship with the IMF. A member country's quota determines its voting power, access to IMF financing and its share in SDR allocation. A review of quotas, i.e. of their volume and structure in total financial needs of the IMF, is carried out every five years.

⁴⁸ In the new framework for CPF cooperation, the fiscal year is counted from 1 January to 31 December. Generally, the World Bank's fiscal year begins on 1 July and ends on 30 June the following year.

European Union

During 2023, the NBS remained committed to the EU integration process, contributing to the fulfilment of all obligations arising from it. Within the negotiating groups chaired or co-chaired by the NBS, and other groups of which the NBS is a member, its representatives were actively engaged in the work and the preparation of documents and materials relevant for further progress in Serbia's EU accession talks, and they also continued to participate in intensive dialogue and communication with EU institutions.

Steady progress in Serbia's EU integration process was confirmed in the **Annual Progress Report for 2023**, published on 8 November as part of the Enlargement Package for 2023. The section of the Report on the economic criteria for EU membership underlined, inter alia, that the macroeconomic policy mix is appropriate, financial stability has been preserved and macroprudential indicators remain sound.

As regards the ability to assume the obligations of membership for Chapter 9 – Financial services, the European Commission underlined that Serbia has largely implemented Basel III standards, and continues to work towards alignment with Solvency II Directive, in accordance with the NBS Strategy, endorsed by EU funds. The European Commission also underlined the importance of adoption of the Law on Digital Assets, noting that the NBS keeps abreast of developments in green finances. In addition, in the part pertaining to Chapter 17 – Economic and monetary policy, the report concluded that the monetary policy legal framework is well developed and that the NBS's main objective – price stability – is fully in line with the ESCB's objectives. In regard to Chapter 4 – Free movement of capital, the European Commission said that Serbia has liberalised most capital transactions and that the NBS has continued with preparatory activities in order to fully align the Law on Payment Services and the relevant bylaws with the Payment Services Directive 2 (PSD2).

This is particularly important as the **new Growth Plan for Western Balkans**, published within the Enlargement Package, identifies access to the Single Euro Payments Area (SEPA) as one of the seven key areas/policies for faster integration of Serbia into the EU's single market.

NBS representatives participated in the work and preparation of materials for meetings of bodies set up to monitor the implementation of the **Stabilisation and Association Agreement** – Subcommittee on Economic and Financial Issues and Statistics and Subcommittee for Internal Market and Protection of Competition, as well as the Stabilisation and Association Committee.

Implementation of the regional IPA project

Phase two of the regional IPA project “Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the European System of Central Banks” is underway. The project is implemented by the Bundesbank, 19 central banks of the ESCB, and the ECB. The

project is scheduled to last three years and to be financed by the Instrument for Pre-Accession Assistance III (IPA III).

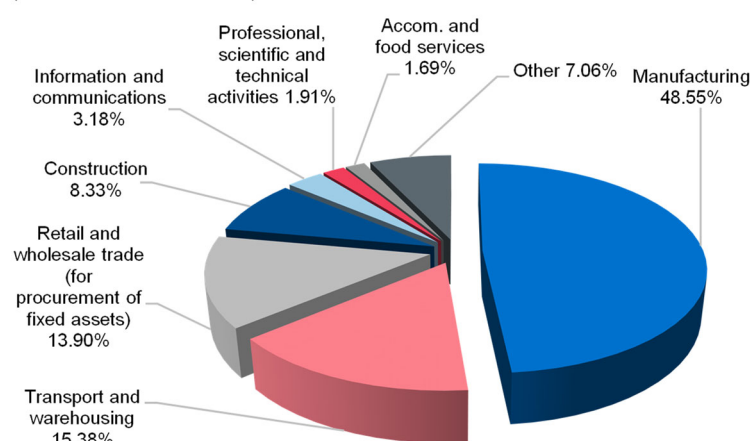
Within the project, eight seminars were held during 2023, covering areas such as the payment systems, cyber resilience and innovation, monetary policy, information technologies, internal audits, bank supervision, prevention of money laundering/terrorism financing, green and sustainable financing and cash management. In November, the first high-level workshop on payment systems was organised by the ECB, in which the NBS Governor also took part.

Revolving Fund of the Republic of Serbia

Funds of the Serbian Revolving Credit Fund (initially EU grant) were used during 2023 to finance small- and medium-sized enterprises and entrepreneurs.

A total of 29 loans worth EUR 3 mn were disbursed in 2023.

Chart V.4.2.1 RS Revolving Credit Fund - classification of activities (as at 31 December 2023)

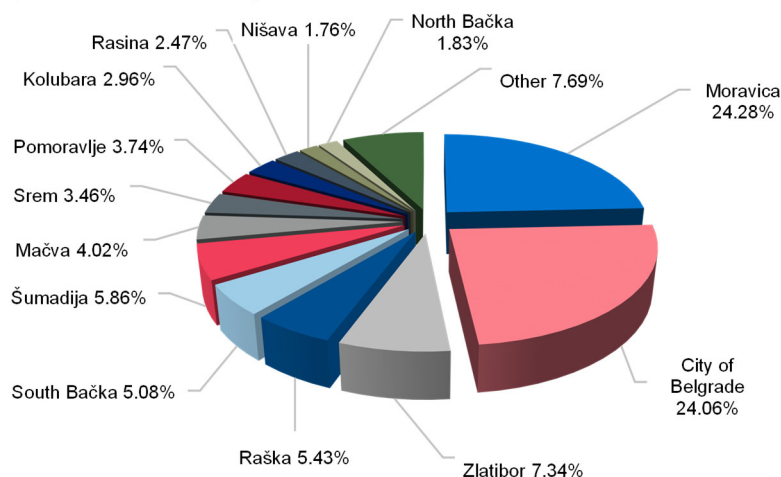


Source: NBS.

A total of 1,415 loans worth EUR 143.9 mn were disbursed so far through 14 intermediary banks. It was envisaged that the loans would create 3,274 jobs.

To check the authorised use of funds under loans approved to final beneficiaries from the Revolving Fund, the supervision procedure was conducted in 2023 for 12 loans disbursed through three intermediary banks. It was determined that all funds were used for the intended purposes.

Chart V.4.2.2 **RS Revolving Credit Fund - territorial breakdown**
(as at 31 December 2023)

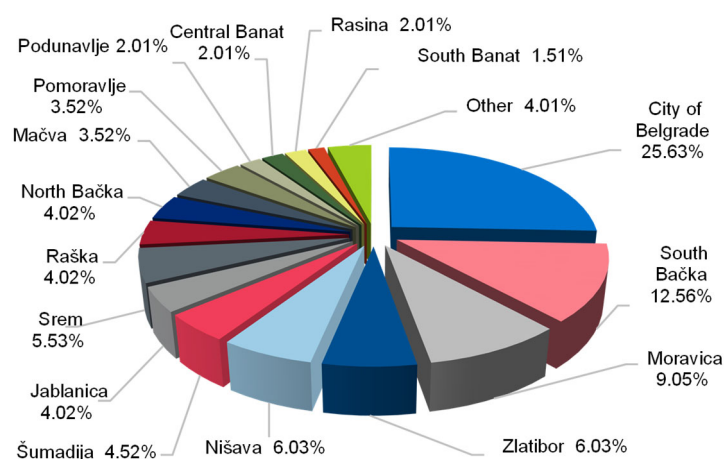


Source: NBS.

European Investment Bank

From 2001 through 2023, the EIB extended EUR 6.69 bn in financial support to Serbia's public and private sectors, of which EUR 5.36 bn was disbursed. Infrastructure was the priority area, and significant support was also provided for the development of SMEs.

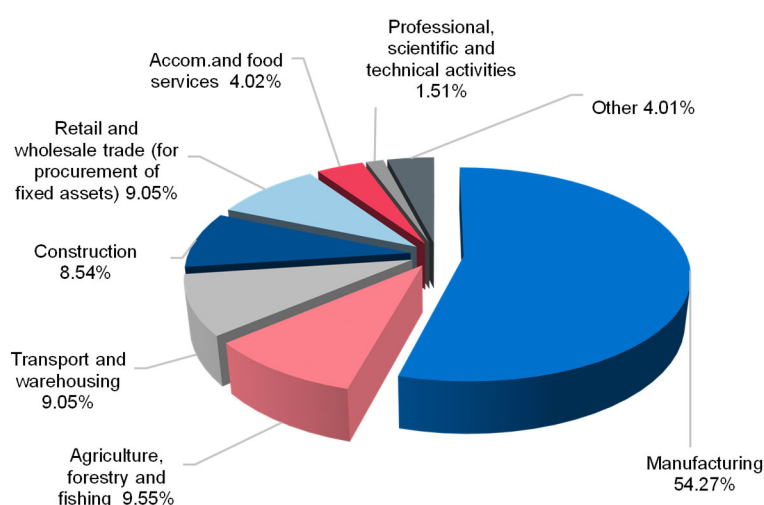
Chart V.4.2.3 **Disbursement of Apex loan IIIB - territorial breakdown**
(as at 31 December 2023)



Source: NBS.

The deadline for drawing the second tranche of the fifth Apex loan for SMEs and other priorities worth EUR 150 mn expired on 15 December 2020. By that date, the loan was realised in 23 tranches by drawing funds for 146 projects (with reallocations) worth EUR 144.3 mn, whereby the creation of 1,374 new jobs was planned.

Chart V.4.2.4 Disbursement of Apex loan IIIB
- classification of activities
(as at 31 December 2023)



Source: NBS.

Ten intermediary banks involved in the realisation of this loan have an opportunity to use the drawn funds for new projects on the grounds of replacement until December 2032. By end-2023, EUR 29.8 mn was replaced through 53 loans, and the creation of 405 jobs was planned.

In 2023, monitoring of the authorised use of funds under 12 EIB Apex loans approved to final beneficiaries was carried out in seven intermediary banks. It was determined that all funds were used for the intended purposes.

European Bank for Reconstruction and Development

The EBRD has been providing assistance to Serbia since 2001. By 31 December 2023 loans worth EUR 9.06 bn were approved, of which EUR 7.30 bn was used. Significant funds were approved for infrastructure projects, support to financial institutions, bolstering economic activity, projects in the energy sector and environmental protection programmes.

On 14 December, the EBRD adopted the new Serbia Country Strategy 2023–2028, based on which it will create initiatives for investments and policies over the next five-year period. The EBRD’s priorities for Serbia within the new Strategy are the following: 1) accelerating green energy transition; 2) enhancing private sector competitiveness, productivity and access to finance; and 3) financing sustainable infrastructure and strengthening regional connectivity.

Bank for International Settlements (BIS)

The NBS is a BIS member and holds 2,920 of the shares of the oldest international financial institution. NBS representatives participate in regular annual meetings of this institution’s Assembly and of its various committees, whose

principal aim is to ensure global monetary and financial stability and to support international cooperation of central banks in these areas.

In June 2023, NBS Governor Jorgovanka Tabaković participated in the BIS 93rd Annual General Meeting, at which the work of the BIS Board of Directors in the previous financial year was presented, and future activities and plans were discussed. Governor Tabaković also took part in bimonthly All Governors' Meetings and in the 22nd BIS Annual Conference.

Operations stemming from the NBS's function as a depositor with the Asian Infrastructure Investment Bank

Serbia has been a member of the Asian Infrastructure Investment Bank (AIIB) since 2019, and the NBS performs tasks relating to its role of a depositor in this bank. In August 2023, using the funds allocated in the budget of the Republic, Serbia paid off the fifth (and last) instalment of its obligations under paid-in shares in the capital of the AIIB, in the amount of USD 200,000.

NBS's membership in the Network for Greening the Financial System

The NBS is a member of a renowned international group of central banks and supervisors within the Network for Greening the Financial System (NGFS), one of the leading movements of financial institutions aimed at greening the global financial system. The network currently has more than 134 members and 21 observers,⁴⁹ including the largest central banks and international financial institutions.

NBS representatives took part in the NGFS annual plenary meetings and in the work of its working bodies and expert networks. In addition, they participated in webinars and themed meetings in the area of green finance, organised by the NGFS and its partner institutions.

NBS's participation in the Working Group of the Vienna Climate Change Initiative as an observer

NBS representatives participated in all themed workshops organised during the year ("Accelerating the Decarbonisation of Electricity Production in the CESEE Region", "Energy Efficiency in the CESEE Region", "Preparing for Decarbonisation of the Industrial Sector in CESEE Countries", "Collecting ESG Data: Client Questionnaires on Exposure to Climate Risks", "Climate Transition Plans and their Role in Supporting Green Transition of Financial Institutions", "European Directives and Client Questionnaires" and "Macroeconomic and Banking Trends in the Western Balkans").

⁴⁹ As at 27 December 2023.

Bilateral financial cooperation

The NBS prepared numerous briefs under its remit, pertaining to various aspects of Serbia's cooperation with individual countries (information on bilateral-financial cooperation, overviews of goods and services trade by year, etc.).

On 6 December 2023, NBS Governor Jorgovanka Tabaković and Governor of the People's Bank of China (PBOC) Pan Gongsheng signed a Memorandum of Understanding, governing the intensive cooperation between the NBS and the PBOC pertaining to transactions in the Chinese yuan executed by banks in Serbia and the designation of a clearing bank for the Chinese yuan.

NBS Governor Jorgovanka Tabaković and Vice Chairman of the Executive Board and President of Bank of China Limited Liu Jin signed a Framework Agreement on Providing Services to Include the National Bank of Serbia in the Chinese Interbank Market.

The NBS actively participated in the conclusion of the **Agreement on Free Trade between the Government of the Republic of Serbia and the Government of the People's Republic of China** from the very start, i.e. since talks about signing this agreement began in April 2023, during two official rounds of negotiations in June and September and during the signing, which took place within the **Third Belt and Road Forum for International Cooperation, on 17 October 2023 in Beijing.**

In December 2023, as an invited keynote speaker, **NBS Governor Jorgovanka Tabaković attended the 20th China International Finance Forum (CIFF) in Shanghai, themed Development of Financial Industry in the Digital Economy Era.**

The NBS actively participated in the preparation of opinions on the Draft Comprehensive Economic Partnership Agreement with the United Arab Emirates, and on the list of Serbia's obligations in relation to negotiations on services trade, as part of negotiations on the conclusion of this Agreement.

The NBS provided information within its remit as part of the preparation of platforms for meetings of mixed committees/commissions for economic cooperation with several countries (Azerbaijan, Switzerland and Kazakhstan), and took part in preparing the opinion about the proposed platforms for talks of the Serbian delegation in these meetings.

Between 4 and 6 December, NBS representatives visited the Swiss National Bank to attend the annual meeting of representatives of the two institutions in charge of international cooperation. The meeting looked into important issues in central banking, as well as the relationship with the IMF within the joint Constituency in the IMF. A special focus was put on the exchange of ideas and proposals for continuation and expansion of bilateral cooperation between the two central banks. During the visit, **a meeting was held with the Governor of the Swiss National Bank Thomas Jordan**, who underlined the importance of the good bilateral cooperation between the two central banks and stressed the outstanding contribution of NBS Governor Jorgovanka Tabaković in meetings which they both attended, as well as in important talks on central banking topics.

V.4.3 Foreign exchange operations and foreign credit relations

Foreign exchange operations

Pursuant to the Decision on Terms and Conditions under Which Residents May Hold Foreign Exchange in Bank Accounts Abroad, **during 2023 a total of 581 decisions were made allowing residents to hold foreign exchange in banks abroad.** Of these, 270 decisions concerned the financing of investment works abroad (EUR 54.4 mn), 289 decisions related to the payment of current spending of representative offices/branches abroad and services in the international goods and passenger transport (EUR 14.4 mn), 14 concerned the return of tax generated abroad (EUR 19.6 mn), two pertained to the settlement of liabilities abroad arising from trade in energy as well as the balance responsibility of a participant in the energy transport system (EUR 150.5 mn), two for research work abroad (EUR 0.7 mn), one pertained to a foreign financial loan intended for payments abroad (EUR 3 mn), one decision concerned the guarantee deposit for sending a bid for share takeover (EUR 3.3 mn), one decision pertained to collection under the return of funds invested in a company founded abroad (EUR 6.1 mn) and one decision for collecting donations and contributions in money from abroad for scientific, cultural and humanitarian purposes (EUR 1 mn).

In the same period, at the request of legal and natural persons, 73 opinions were prepared in relation to the application of regulations in the field of FX operations.

As part of its regulatory activities, the NBS adopted the Decision Amending the Decision on Terms and Conditions Under Which Residents May Hold Foreign Exchange in Bank Accounts Abroad⁵⁰ which allowed residents engaged in energy trade, in accordance with the law governing the energy sector, to hold foreign exchange in an account with a foreign bank in order to settle their obligations abroad arising from the energy trade, based on an excerpt from the regulations of the relevant country envisaging that these obligations may only be settled through an account with a bank in that country and the documents proving this obligation. To further improve the normative framework, the NBS also adopted amendments to the regulations governing the conditions and manner of conducting exchange operations, as well as conditions and manner of supervision of exchange operations. It specified certain actions in foreign exchange dealers' operations (such as carrying out exchange operations at an international airport or port, in the space behind the place where border check of persons is carried out in accordance with the law governing border control, and/or in a regulated space for organising special games of chance, obligations of authorised exchange dealers in terms of video surveillance, etc.), thus ensuring more adequate and efficient supervision of exchange operations by the NBS.

⁵⁰ RS Official Gazette, No 67/2023.

Supervision of foreign exchange operations

During 2023, the procedure of on-site supervision of FX operations was initiated in 87 residents to verify and determine the legality and regularity of FX operations in accordance with the relevant regulations. Eighty-seven reports on on-site supervision of FX operations were compiled, four reports about the inability to perform supervision of FX operations due to the residents not being at the address recorded in the business register kept by the Business Registers Agency, and four decisions ordering the supervised entity to enable the supervision of its FX operations. Eighty-five reports ascertained one or more violations of regulations. During the on-site FX operations supervision procedure, the NBS actively cooperates with the Ministry of the Interior – Criminal Police Directorate, Service for Combating Organised Crime, Prosecutor’s Office for Organised Crime, Public Prosecutor’s Office, Customs Administration and Administration for the Prevention of Money Laundering at the Ministry of Finance. The aim of such cooperation is the exchange of information and joint action directed at the protection of the financial and economic systems from the risk of money laundering and other illegal activities in financial and business operations.

The NBS carried out 288 off-site supervisions of FX operations. In regard to this, it compiled 285 reports ascertaining one or more violations of regulations governing FX operations, as well as three official notes ascertaining – after the collection, analysis, monitoring and verification of the submitted data and reports, and the documents from NBS databases – that the supervised entities reported to the NBS in accordance with regulations.

Supervision of exchange operations

During 2023, the procedure of on-site supervision of exchange operations of authorised exchange dealers was carried out in 249 exchange offices for the purpose of verifying and ascertaining the legality and regularity of exchange operations in accordance with the relevant regulations, including regulations governing the prevention of money laundering and terrorism financing in exchange operations. A total of 239 reports were compiled on the completed on-site supervision of exchange operations with authorised exchange dealers – 161 reports recorded a violation of regulations governing exchange operations and the prevention of money laundering and terrorism financing. Twenty-six decisions were adopted ordering authorised exchange dealers to remove the illegalities or irregularities in their exchange operations. Also, during 2023, due to the identified irregularities or illegalities in exchange operations, in accordance with the Decision on Detailed Conditions and Manner of Conducting Supervision of Exchange Operations, the NBS temporarily revoked the authorisation for performing exchange operations from 27 exchange offices.

The procedure of off-site supervision of exchange operations was carried out in 215 exchange dealers for the purpose of verifying and ascertaining the legality and regularity of exchange operations in accordance with the relevant

regulations, as well as in relation to the request of authorised exchange dealers for permanent cessation of exchange operations. In regard to this, 94 reports were compiled on the completed off-site supervision of exchange operations, where the violation of regulations on exchange operations was ascertained. In addition, 121 official notes were compiled.

Issuance and revocation of authorisations and issuance of certificates for the performance of exchange operations

As at 31 December 2023, the total number of authorised exchange dealers was 2,169, and the number of exchange offices 3,104. In 2023, upon the request of economic entities, 418 decisions were passed on the issuance of authorisations for the performance of exchange operations (161 decision concerns new authorised exchange dealers, 81 new exchange offices, 46 the relocation of the exchange office and 130 decisions pertain to the change of other data) and 239 decisions on the revocation of authorisations (164 decisions were adopted at the request of authorised exchange dealers for permanent cessation of exchange operations and 75 decisions on the revocation of authorisations *ex officio*).

Based on the Decision on the Procedure and Conditions for Obtaining a Certificate for the Performance of Exchange Operations, Single Training Programme for the Performance of Exchange Operations and Eligibility Requirements for Trainers, during 2023 the NBS organised 12 training cycles and testing of candidates who applied for the certificate. The testing committee checked the tests of candidates and based on that, the NBS issued 1,038 certificates on training completed in the field of exchange operations.

Procedures before competent judicial bodies, complaints against decisions of misdemeanour courts, and application of foreign exchange regulations

In 2023, 593 requests for the initiation of misdemeanour procedures were filed with competent misdemeanour courts – 359 requests in respect of irregularities determined in the supervision of FX operations and 234 requests in respect of irregularities determined in the supervision of exchange operations (209 requests concerning the violation of the Law on FX Operations and 20 requests concerning the violation of the Law on FX Operations and the Law on the Prevention of Money Laundering and the Financing of Terrorism, and five requests concerning the violation of the Law on the Prevention of Money Laundering and the Financing of Terrorism). A total of five agreements on admission of guilt concerning misdemeanours were concluded. Together with a proposed sanction-reprimand, they were submitted to the relevant misdemeanour courts for further handling.

A total of 10 criminal charges were filed with the competent public prosecutors' offices due to the violation of: Article 58 of the Law on FX Operations, i.e. reasonable suspicion that legal persons and their responsible persons made collections/payments abroad in the amount exceeding EUR 100,000 based on false documents (two charges); Article 237 of the Criminal Code, i.e. reasonable suspicion

that the supervised entity did not enable the performance of the supervision (five charges); and Article 57 of the Law on FX Operations, i.e. reasonable suspicion that the resident bought/sold foreign cash from/to natural persons without an authorisation of the NBS (three charges). Also, 12 charges were filed to the relevant public prosecutors' offices for violations of the Law on the Prevention of Money Laundering and the Financing of Terrorism.

A total of 536 complaints were filed against the decisions of misdemeanour courts due to an inadequate misdemeanour sanction, violation of valid regulations and material violations of the provisions of misdemeanour procedures, and the incompletely or inaccurately ascertained factual state.

Orders for enforcement of final court decisions

The NBS conducted the procedure to execute 191 final and enforceable court decisions in respect of foreign exchange that was temporarily seized pursuant to the Law on FX Operations, based on which 205 orders for enforcement were issued, namely: 176 orders for the enforcement of the protective measure of seizing the object of misdemeanour, based on which EUR 2,829,346.00 in the equivalent dinar value was paid to the Republic of Serbia's budget in accordance with Article 66 of the Law on FX Operations, and 29 orders for the refund of temporarily seized assets, based on which EUR 545,247.00 was returned to natural persons. In accordance with orders to execute the protective measure of seizing the object of misdemeanour – foreign cash which was entrusted to the NBS for safekeeping, after the foreign cash was delivered to a foreign bank, a total of EUR 23,455.00 in dinar countervalue was paid to the Serbian budget. Also, 14 orders were issued for the enforcement of a protective measure of seizing the object of misdemeanour – foreign cash, which was entrusted to the NBS for safekeeping, and which will be executed after the sale of the foreign cash to a foreign bank by depositing the dinar countervalue of the permanently seized funds to the Serbian budget, in line with Article 66 of the Law on FX Operations.

Documentary control and foreign payment transactions

In 2023 as part of regular activities, documentary control and foreign payment transactions were carried out for the needs of budget beneficiaries through the consolidated treasury account system for FX funds and through other special purpose FX accounts, these operations being assigned to the NBS by law.

In addition, other activities were fully implemented, namely the ones concerning the provision of cover for foreign payment orders for budget beneficiaries and for the needs of the NBS, which relate to the collection of payments and payments under foreign loans, transfers based on the FX required reserves of banks and transactions of the Central Securities Depository and Clearing House, purchase of foreign currency assets from banks in line with special laws governing temporary payment operations with AP Kosovo and Metohija, and transfers in respect of donations. Also, activities on the realisation of letters of credit for the needs of the import of goods

were performed, as well as payment of services for budget beneficiaries. In this context, letters of credit worth EUR 355.01 mn were opened in 2023, while total payments made amounted to EUR 67.53 mn.

In 2023, 81 cross currency swap transactions were executed to settle credit liabilities and payments under issued bonds. These transactions were concluded in prior years by the Republic of Serbia with foreign banks to hedge public debt against the foreign exchange (currency) risk and the interest rate risk. Collections made in this respect amounted to EUR 1,920 mn and payments to around EUR 1,863 mn.

In March 2023, SWIFT began implementing a new ISO 20022 standard in the exchange of messages for international payments by introducing new MX messages. These will be used in parallel with the existing MT messages until November 2025, when the MX messages will become the only valid standard for the execution of payments in the SWIFT system. As of the first day, the NBS has had the capacity to accept both message formats, to process them successfully in the existing apps and transfer all data from these messages to payees.

Also, all preparatory activities for the inclusion of banks from Montenegro in the international clearing of FX payments were completed successfully in terms of net settlement and execution of payments and collections with central banks included in the international FX clearing. The notification system for realised transactions during central bank settlement was also enhanced. All implemented changes have functioned successfully since 11 December 2023.

In addition to the above, at the request of Serbian Government ministries, activities were conducted to open 33 special purpose FX accounts in line with the Protocol on the Manner and Conditions of Maintaining Bank Accounts Opened with the NBS for the Purpose of 2021–2027 IPA Programme Management (IPA III), concluded with the Ministry of Finance in August 2023, as well as to implement budget assistance projects to support the judiciary and energy sectors, and public administration reform, and non-refundable aid of the Council of Europe Development Bank (CEB) within the activities to support the implementation of a CEB loan for the construction of the new University Children's Clinic Tiršova 2. At the request of the Infrastructure of the Serbian Railways, a special purpose FX account was opened for the realisation of an investment grant within the EU's development aid, while two accounts were opened for the Science Fund and the Innovation Fund in order to receive non-refundable funds from the IBRD for additional financing of the Serbia Accelerating Innovation and Entrepreneurship Project.

The said operations which the NBS performs for the Republic of Serbia in accordance with the law were conducted in a timely manner and with adherence to local regulations, as well as international banking standards and practices.

Foreign credit transactions

In 2023, a total of 1,093 borrowing transactions of domestic persons abroad were recorded in the amount of EUR 6.69 bn, at the average interest rate of 5.48%

and the average repayment period of four years and six months. Of the total contracted amount, company borrowing amounted to EUR 5.09 bn, of which EUR 2.70 bn were intended for conversion into dinars, EUR 1.19 bn for the repayment of previously disbursed loans from abroad, EUR 1.03 bn for the import of goods and services, and the remaining EUR 170 mn for other purposes. Bank borrowing amounted to EUR 1.59 bn. By activity, most debtors were from the financial sector and insurance (33%), followed by the manufacturing industry (21%) and information and communications (14%).

In 2023, 198 lending transactions of domestic persons abroad were recorded in the amount of EUR 315.22 mn, at the average interest rate of 5.5% and the average collection period of three years and seven months. Companies approved EUR 158.56 mn to non-residents and banks approved EUR 156.66 mn. Creditors from the financial sector and insurance made up the largest share (50%), while creditors in the area of information and communications accounted for 16% of total lending transactions.

Total liabilities arising from defaults in foreign trade operations not completed within a period longer than one year amounted to EUR 865.30 mn at end-2023. Of this, EUR 599.40 mn related to the unpaid import of goods and services and EUR 265.90 mn to advance payments for which export was not carried out. Total receivables arising from defaults in foreign trade operations not completed within a period longer than one year amounted to EUR 667.90 mn at end-2023. Of this, EUR 372.40 mn related to the unpaid export of goods and services and EUR 295.50 mn to advance payments for which import was not carried out.

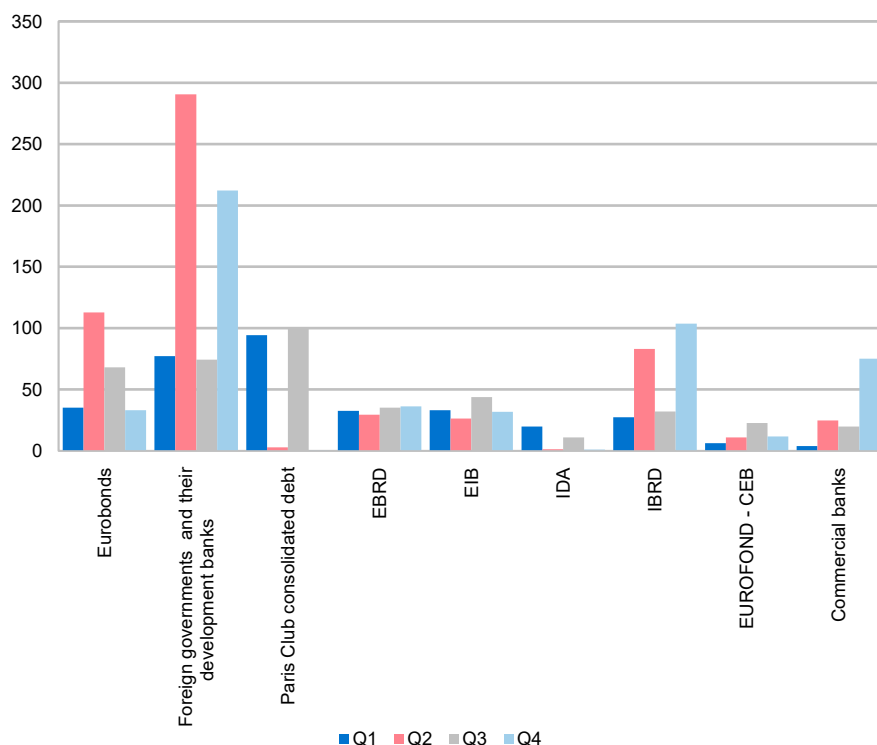
During 2023, 11 opinions were prepared concerning the implementation of regulations in the field of foreign credit operations, or 8.33% less than in 2022, 21.43% less than in 2021, 38.89% less than in 2020 and 60.71% less than in 2019, which is a result of increased transparency thanks to the publication of the NBS's opinions.

Performance of foreign credit liabilities of the Republic of Serbia with the NBS as the agent

In 2023, liabilities under all foreign loans in respect of which the Republic of Serbia is the debtor or guarantor and the NBS is the agent were serviced on time. During the year, in the capacity of the Republic of Serbia's agent, the NBS paid a total of EUR 1,822.52 mn (EUR 1,108.89 mn was the principal and EUR 713.63 mn interest and other expenses). Based on engagement costs, around EUR 12.64 mn was paid in respect of unused funds under approved loans.

In 2023, loans worth EUR 2,466.76 mn, granted by international financial organisations, commercial banks, governments and their agencies, were disbursed. Of this, EUR 1,300.62 mn (52.73%) was used through special purpose FX accounts of the Republic of Serbia with the NBS.

Chart V.4.3.1 **Settled foreign credit liabilities in 2023 with NBS as the agent, – by creditor and quarter**
(in EUR bn)



Source: NBS.

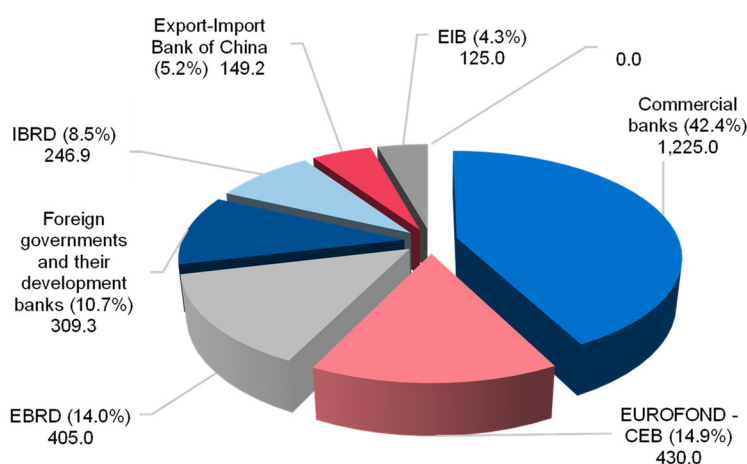
In 2023, the Republic of Serbia borrowed EUR 2,890.38 mn under 19 new agreements, namely:

- Syndicated loans from foreign commercial banks in the total amount of EUR 1,225.00 mn for: financing works on the E-761 highway corridor, section Pojate–Preljina (Morava Corridor) worth EUR 700 mn, securing funds for the implementation of projects envisaged by the Budget Law for 2023 (EUR 300 mn) and for financing current liquidity of PE Srbijagas (EUR 225 mn);
- CEB in the total amount of EUR 430 mn for financing public health (EUR 200 mn), the construction of the BIO4 campus (EUR 200 mn) and constructing prison facilities in Kruševac and Sremska Mitrovica (EUR 30 mn);
- EBRD in the total amount of EUR 405 mn for financing liquidity of EPS (EUR 300 mn), financing the science project (EUR 80 mn) and for financing the Srbijavoz Regional Depots project (EUR 25 mn);
- IBRD in the total amount of EUR 246.9 mn for financing green growth policy (EUR 149.9 mn), improvement of public finance management for green transition (EUR 69.3 mn) and for the capital market development project (EUR 27.7 mn);

- French Development Agency (AFD) in the total amount of EUR 204.3 mn for financing the Green Agenda Programmatic Development Policy (EUR 135 mn) and Programme for Improving Public Financial Management for the Green Transition (EUR 69.3 mn);
- Export-Import Bank of China in the amount of EUR 149.18 mn for financing the Novi Sad Ring Road Construction and Danube Bridge Project;
- EIB in the total amount of EUR 125 mn for financing B road rehabilitation and safety (EUR 85 mn) and additional financing of school modernisation programmes (EUR 40 mn);
- KfW in the amount of EUR 105 mn for financing the reform of the energy and environmental protection sectors in Serbia.

In 2023, total debt under all listed obligations decreased by 30.40% relative to 2022.

Chart V.4.3.2 **Loans approved in 2023 with NBS as the agent**
(in EUR mn)



Source: NBS.

V.4.4 Legislative activities

Current legislative activity

In the course of 2023, the NBS took part in preparing and giving opinion on the following drafts and proposals:

- Draft Law Amending the Law on the Settlement of Public Debt of the Federal Republic of Yugoslavia Arising from Citizens' FX Savings,
- Draft Law on Official Statistics,
- Draft Law Amending the Law on the Prevention of Money Laundering and the Financing of Terrorism,

- Draft Law on the Central Records of Beneficial Owners,
- Draft Law Amending the Law on Electronic Invoicing,
- Draft Law on the Budget,
- Draft Law Amending the Law on the Budget System,
- Draft Law Amending the Law on the Budget,
- Draft Law on Crowd Funding,
- Draft Law on the Temporary Registry of Mothers and Other Persons Receiving Financial Aid.

In 2023, the NBS enacted 29 by-laws, published in the RS Official Gazette – of which 28 decisions and one guideline. These regulations cover the following functions and activities of the NBS:

- **monetary policy operations** (determining the 2024 NBS Monetary Policy Programme, determining the interest rates which the NBS applies in its monetary policy conduct, the manner of calculating, collecting and paying NBS interest rates, determining the terms, manner and deadlines of banks' reserve requirement allocations with the NBS),
- **financial stability** (temporary measures for banks to facilitate natural persons' access to financing),
- **FX operations and international relations** (conditions and manner in which residents may hold FX in bank accounts abroad),
- **bank supervision** (capital adequacy of banks, temporary measure pertaining to the calculation of a bank's capital, temporary measure for banks for the purpose of housing loans to natural persons, temporary measure for banks for the purpose of adequate management of credit risk in the portfolio of agricultural loans in conditions of aggravated agricultural production, bank risk management, bank liquidity risk management, management of risks arising from outsourced activities, bank reporting, closer conditions and manner of conducting bank supervision and special bank audit),
- **insurance supervision** (Chart of Accounts and the contents of the Chart of Accounts for insurance undertakings, contents and form of financial statement forms for insurance undertakings),
- **protection of financial services consumers** (procedure upon objection and complaint from financial services consumers),
- **money issuance and cash flow management** (issuing and main features of numismatic money with the portrait of Nikola Tesla, sale of numismatic money with the portrait of Nikola Tesla),
- **bank resolution** (minimum capital requirements and eligible liabilities of the bank, information and data submitted to the NBS for the purpose of drafting and updating bank and banking group resolution plans),

- **supervision of financial institutions' information systems** (conditions for and manner of outsourcing activities pertaining to the financial institution's information system),
- **supervision of virtual currency services** (contents, terms and manner of submitting virtual currency data to the NBS),
- **single tariff** used by the NBS to charge fees for the services provided.

Court representation

In the course of 2023, 43 administrative proceedings were conducted before the Administrative Court. Proceedings conducted before commercial courts included six litigations and seven enforcement proceedings, of which three were disposed, 39 were bankruptcy proceedings, two liquidation proceedings and 17 economic offence proceedings. A total of 39 litigations, seven non-litigious proceedings, 17 enforcement and five criminal proceedings were conducted before general jurisdiction courts, seven of them being finally disposed. Thirty-one proceedings were conducted before misdemeanour courts. Three litigations, three enforcement and one bankruptcy proceeding were conducted before foreign courts, two of which were finally disposed.

Compliance

In 2023, 33 general internal acts were adopted by the NBS in the area of work of the NBS's bodies, labour relations, office administration, internal organisation and job classification, treasury guidelines, defence, protection and internal order, grant allocation, work safety and health, accounting and finance and use of property.

The necessary activities were undertaken to ensure regular annual reporting of organisational units on identified and assessed compliance risks. In the period under review, the NBS continued examining the compliance of certain segments of its operations in order to identify compliance risks and formulate the relevant mitigating measures.

It continuously undertook activities to improve ethical and professional standards of employee conduct, as well as activities aimed at ensuring that the NBS fulfils obligations under the Anti-Corruption Law. The third cycle of drafting the NBS integrity plan continued. The third cycle comprises four phases. The first one (preparation phase) and the second (risk assessment) were concluded in 2022 by passing a decision on the adoption of the NBS integrity plan in the third cycle. Currently, the third phase of the current cycle is underway, and it includes the implementation of measures contained in the adopted integrity plan.

Activities regarding the implementation of the Law on Free Access to Information of Public Importance

In 2023, the NBS received 84 requests for access to information of public importance, of which 77 were granted or partially granted, none were rejected and seven were denied. The majority of requests were submitted by citizens (54), the media (5), NGOs and other civic organisations (4), government authorities (4) and others (17). A total of 12 complaints were filed in relation to the above requests, 11 for not addressing the request and one for being denied.

In accordance with Article 43 of the Law on Free Access to Information of Public Importance, the NBS submitted to the Commissioner for Information of Public Importance and Personal Data Protection the annual report, outlining activities and measures undertaken in 2023 for the purposes of implementing the said Law.

V.4.5 Enforced collection

Since 2003, the NBS performs enforced collection pursuant to Article 48 of the Law on Payment Transactions.

In 2023, the NBS received, checked and recorded 401,540 execution titles issued by Tax Administration units, customs, courts, public bailiffs and other competent bodies, which is an increase of 3.79% from the previous year. Also, 25,631 decisions were returned to the issuing bodies due to their inadequacy, which is 18.65% more than the year before.

Around three-fifths of the received execution titles (58.37%) were submitted by commercial, basic and misdemeanour courts, and public bailiffs. Observed by type of the court decision received, a significant proportion related to the termination and suspension of enforcement (15,940 in total). Of the decisions received from state-level tax administration, a large number pertains to the prohibition of the disposal of assets in the account due to the Tax Identification Number (TIN) being revoked from the taxpayer (a total of 9,348).

In addition to the said decisions, the NBS also enforces commercial court decisions on the institution, suspension and closing of bankruptcy proceedings against debtors. In 2023, the NBS received 404 decisions on instituting bankruptcy proceedings, 336 decisions on closing, 17 decisions on suspension and 45 decisions on suspension of the proceedings because of the sale of the bankruptcy debtor. In addition, it received 51 decisions on instituting a preliminary bankruptcy procedure with security measures, and 14 decisions on the adoption of the pre-pack reorganisation plan.

Pursuant to the Law on Companies, in 2023 the NBS submitted 4,724 initiatives to the Business Registers Agency to strike off from the register the entrepreneurs whose accounts have been blocked for more than two years.

As of October 2015, the NBS has kept the Single Register of Accounts of Natural Persons – Consumers in accordance with the Law on Payment Services. Based on

60,837 requests received from authorised persons and bodies in 2023, signed by the qualified electronic signature of authorised persons and bodies (public bailiffs, Interior Ministry, Tax Administration, Administration for the Prevention of Money Laundering), the NBS submitted account data for 183,567 natural persons. At the same time, through the Judicial Information System, the NBS provided the users of this platform (Ministry of Justice, courts, public prosecutors' offices, public notaries and other authorised bodies) with data about the accounts of 192,495 natural persons in response to 240,265 requests received. In parallel, the NBS received 654 written requests from authorised persons and bodies regarding data on natural persons' accounts, which is 6.57% less than a year before.

Pursuant to the Law on the National Bank of Serbia and regulations on the prevention of money laundering and terrorism financing, as of mid-2020 the NBS has set up and kept the Single Register of Safe-deposit Boxes and the Single Register of Money Remittance Beneficiaries.

V.4.6 Public debt administration

On behalf of and for the account of the Republic of Serbia, the NBS administers public debt under frozen FX savings, FX deposits placed with the Dofiment banka a.d. Beograd and Banka privatne privrede Crne Gore DD Podgorica – Jugoskandik, as well as under the economic development loan.

In 2023, payments of matured bonds of the A2002–A2016 series issued based on frozen FX savings continued, with an evident downward trend.

Between 26 August 2002 and 31 December 2023, the total amount of FX savings converted to bonds was EUR 3,722.0 mn (of which EUR 0.4 mn in 2023). Bonds in the A2002–A2016 series were paid (upon or before maturity) in the nominal amount of EUR 3,664.6 mn. In 2023, EUR 261.8 mn was secured from the budget for the payment of matured bonds in the amount of EUR 2.2 mn.

In 2023, the NBS provided expert, administrative and technical assistance to the Committee for issuing certificates based on which the entitlement to the payment of due liabilities is determined to the depositors with the Dofiment banka a.d. Beograd and citizens who deposited their FX assets with Banka privatne privrede Crne Gore d.d. Podgorica, based on the Contract on Business and Technical Cooperation with Jugoskandik d.d. Beograd. Based on the requests/complaints of depositors, data/calculations and available documents were supplied to the said Committee for consideration, while the conclusions adopted by the Committee were implemented in the prescribed manner. Also, there was daily communication with citizens of the Republic of Serbia, former SFRY republics and other countries about the possibility of exercising their rights in respect of frozen FX savings deposited with banks with headquarters in the Republic of Serbia and branches in the former SFRY republics.

V.4.7 Communication with the public

The NBS informs the public about its operations in intensive cooperation with the media, by publishing information on the official website and its subdomains, as well as on social media.

By issuing press releases, answering journalist queries, engaging in interviews, television and radio appearances, organising press conferences and posting information on social media, the central bank informs the general public about its activities in a responsible, consistent and timely manner. **In 2023, 90 press releases were issued and 263 answers provided to journalist queries.** As many as 64 statements and eight interviews were given for both print and electronic media, while 62 television and radio appearances were made by the Governor, Vice-Governors and other members of NBS staff. The NBS recorded and released 12 short videos in the *It's good to know* category in which NBS staff explained decisions and measures within the NBS's competence. These videos are posted on all NBS communication channels. The NBS published more than 800 posts on the X platform (formerly Twitter) and more than 800 posts on its Facebook account. To further improve the current framework for communication with the professional and broader public, in 2023 the NBS launched its official LinkedIn account, in addition to the existing X and Facebook pages.

In 2023 the NBS held four public presentations of the *Inflation Report*, one press conference of the Governor and Minister of Finance regarding the conclusion of the talks within the second review of the results of the Stand-By Arrangement with the IMF, and recorded the beginning of the plenary meeting with the IMF mission during its two visits to Serbia. The media coverage of cultural, humanitarian and other socially responsible activities carried out by the NBS was also provided.

In 2023, the NBS used its website, regular publications, statistical bulletins and press releases **to transparently inform the public about the instruments and measures for implementing monetary policy, as well as instruments and measures applied to preserve and strengthen financial stability.** It also presented its activities in the field of supervision of financial institutions, payment services providers and electronic money institutions. The NBS website live streamed press conferences presenting *Inflation Reports*. It also published the *Annual Report on Activities and Results*, *Annual Financial Stability Report*, *Annual Monetary Policy Report* and *Semi-Annual Monetary Policy Report*, monthly issues of the *Statistical Bulletin*, quarterly reports on the banking sector, financial leasing supervision, supervision of the insurance sector and voluntary pension funds sector, as well as activities in the field of financial consumer protection. Quarterly publications included the *Report on Dinarisation of the Financial System* and the *Inflation Report*. Also available to the public were the following quarterly reports: *Trends in Lending*, *Counterfeit Currency Report*, *Report on the Results of the Bank Lending Survey*, and the monthly *Report on Inflation Expectations*. Printed and electronic materials intended for the public are available in both Serbian and English.

At the Governor's initiative, the *NBS Working Papers Bulletin* was prepared and published both in print and electronically, on a semi-annual basis. It contains staff

papers on the current topics, including macroeconomic, monetary and fiscal analyses, as well as different tasks performed by the NBS.

At the DinaCard subdomain, the NBS continued to publish all information about the domestic payment card – DinaCard, information about the DinaCard system, as well as the list of all acceptors. The Instant Payments subdomain continued to provide all the relevant information about instant payment advantages and methods.

On other subdomains – Your Money and Visitor Centre – the NBS continued to inform the public about its activities in the field of financial consumer protection and education, exhibitions and cultural events, and educational programmes for pupils and students.

On its YouTube channel, the NBS published recordings of conferences for the press and professionals presenting the *Inflation Report* and the *Annual Financial Stability Report*, NBS Governor’s addresses to the public, videos in the *It’s Good to Know* category, as well as recordings about the history of the Bank, financial education and money, and other relevant content.

In the course of 2023, exhibitions, educational and cultural programmes of the NBS intended for the public recorded a turnout of 3,239 visitors – the exhibition and educational space in Kralja Petra 12 was visited by 205 guests, and the gallery hall at Slavija Square by 520 visitors. Educational workshops were attended by 2,514 students.

The NBS pays special attention to the financial education of children and youth. Financial education programmes focus on raising awareness of young people about the importance of money, its role, value and benefits of financial product management. In cooperation with educational institutions, the NBS organised workshops, lectures and tournaments in educational games across Serbia. In 2023, the first state-level tournament for final year students of secondary schools of economics in Serbia was held on the topic of “Distinguished Persons Featured on Dinar Banknotes”.

The NBS hosted the following exhibitions in its exhibition and educational hall at Nemanjina 17: “Little Pierre”, “Architecture of Banks and Savings Banks in Belgrade 1918–1941”, “Serbian Money from 13th to 21st Century” and “150 Years of the Serbian Dinar.”

The NBS took part in observing the *Global Money Week*, *Global Savings Week*, *International Day of Francophonie*, *Museums for 10* and the *European Heritage Days*, by preparing video content and presenting it to the public on those occasions.

V.4.8 Social responsibility

Cultivating philanthropy, in 2023 the NBS organised humanitarian activities in the head and branch offices and provided different forms of assistance to those in need. Employees were actively engaged in humanitarian campaigns to collect funds, food and clothing for socially vulnerable groups, children with developmental challenges, children without parental care and the elderly. They also took part in

volunteer campaigns, striving to contribute to solving existing social issues and help those in need.

Thanks to cooperation with charity organisations, centres, associations and schools for children with developmental challenges, the humanitarian and voluntary campaigns organised by the NBS are extremely successful. **The total cash value of the humanitarian activities of NBS employees in 2023 amounted to RSD 1,114,295.**

In a humanitarian campaign in Niš, employees of the Niš Branch collected money and donated it to a two-year old boy from their town for further medical treatment. In a humanitarian campaign in Užice, employees of the Užice Branch collected money to purchase personal hygiene products, sweets and snacks for beneficiaries of the Zabučje Home for Adults and the Elderly. Employees of the Novi Sad Branch collected money to buy school stationery supplies for beneficiaries of the Drop-in Shelter for Children and Youth in Novi Sad. Employees of the Kragujevac Branch collected money to buy equipment for the motor skills room of the elementary and secondary school Vukašin Petrović in Kragujevac.

Engagement of NBS volunteers showed how important and useful these socially responsible activities are. Fifty-five volunteers from Belgrade and Novi Sad participated in the voluntary campaign “Good Deeds Lead to Good Values” carried out in June at the property of the Evo Ruka Association in Zemun Polje. The volunteers made strawberry preserves, jam and syrup, as well as badges and wool objects. In September, almost NBS 40 volunteers successfully implemented a renovation project in the Lela Popović elementary school in the village of Miljkovac, near Niš. Volunteers from Niš, supported by NBS employees from the head office, painted doors, benches and tables, classroom walls and halls, lamp posts in the yard and poles in the sports fields, as well as goal posts and basketball hoops.

In early September, an inclusive sports tournament was held at the sports courts of the Topčider Business and Recreational Centre. Participants were representatives of the Bottle Cap for Handicap Association, beneficiaries of the Home for Children and Youth with Hearing Impairment and children of NBS employees. Besides the sports tournament, another goal of the event was to dismiss prejudice towards persons with impairments.

NBS employees participated in a traditional socially responsible campaign to collect food for beneficiaries of the soup kitchen of the Serbian Orthodox Church, thus observing the International Day for the Eradication of Poverty. They collected 730 kilograms of food and hygiene products, as well as more than 100 packages of second-hand clothing.

Traditional Easter and New Year humanitarian exhibitions of craftwork by children and youth with developmental disabilities and elderly persons were held at the NBS head office in Belgrade and in the Novi Sad branch. This way, we collected funds for the realisation of programmes that encourage the development of these persons.

In a traditional humanitarian campaign “A Present for an Unknown Friend”, employees donated 410 New Year’s gift parcels and more than 80 packages of

second-hand clothing and toys to children and youth with developmental challenges who are beneficiaries of Neven day care from Pančevo, Home for Disabled Children and Youth Veternik from Novi Sad and Kolevka from Subotica, as well as beneficiaries residing in the guest house of St Petka monastery near Paraćin and children from socially vulnerable families in Kragujevac.

Through the collection and sale of secondary raw materials (paper and PET packaging), which NBS employees sorted in their offices, an income of RSD 249,754 was generated and donated to non-profit organisations, associations, educational and health institutions. This year the funds went to the Evo Ruka Association from Zemun Polje to purchase a pin badge making machine (badge maker) and intermediate goods.

In an environmental and humanitarian campaign “Bottle Cap for Handicap”, NBS employees collected 1,800 kilograms of plastic bottle caps during 2023, thus securing funds for the procurement of two orthopaedic tricycles for children aged 7–14.

During 2023, the NBS donated RSD 2.5 mn as financial donations. The Institute for Manufacturing Banknotes and Coins – Topčider produced and donated plaquettes to the Dositej Obradović Foundation.

This year, the NBS continued its responsible conduct towards the community and the environment. The Institute for Manufacturing Banknotes and Coins – Topčider, as a responsible entity, has successfully implemented environmental protection measures over the years, which are increasingly demanding due to the need to align our legislation in this area with the corresponding EU regulations.

The concept of responsible and efficient waste management implemented in the Institute means that all waste created in the business process is classified and characterised by origin and contents, carefully labelled, collected, sorted and stored in a manner that is not harmful to human health or the environment. The Institute continuously monitors and aligns its operations with applicable regulations.

As part of the final disposal of non-hazardous waste, it is important to note that for years already the Institute has maintained a 100% recyclability of wastepaper and waste metal, and during the past two years it has fully recycled polycarbonates and polyvinylchlorides generated when manufacturing card products.

Aware of the importance of natural resource potential, the Institute’s top management have continuously educated their staff about the importance of reducing the consumption of non-renewable resources. Employees’ awareness of the significance of environmental protection is continually improved in lectures and trainings. A training session themed “Main Principles of Ecology and Environmental Protection” was posted on the internal platform in 2023.

External communication and years-long practice with the Ministry for Environmental Protection and inspection authorities is reflected in the submission of reports on the quantities of hazardous and non-hazardous waste delivered to operators for final handling, the quantities of imported hazardous chemicals and the

quarterly calculation and payment of fees for products imported by the NBS which will create special flows of waste once they have been used.

In 2023, a total of 156 tonnes of non-hazardous and 22 tonnes of hazardous waste have been delivered to operators for recycling or final handling.

V.5 Management

V.5.1 Human resource management

Number of staff, their qualifications and age structure

In 2023, the NBS employed 2,351 persons, of which 92.26% are employed for an indefinite term.

Table V.5.1.1 **A comparative overview of the number of employees**

Organisational unit	31 December 2022			31 December 2023			Change (in %)
	Indefinite term	Definite term	Total	Indefinite term	Definite term	Total	
1	2	3	4 (2+3)	5	6	7 (5+6)	8
Main organisational units	1,430	129	1,559	1,440	121	1,561	0.13
Belgrade Branch	79	13	92	82	13	95	3.26
Novi Sad Branch	97	11	108	95	6	101	-6.48
Niš Branch	46	11	57	48	6	54	-5.26
Kragujevac Branch	45	1	46	42	3	45	-2.17
Užice Branch	38	4	42	36	3	39	-7.14
Institute for Manufacturing Banknotes and Coins	444	0	444	426	30	456	2.70
Total in NBS:	2,179	169	2,348	2,169	182	2,351	0.13

Source: NBS.

In terms of the staff qualification structure, as at 31 December 2023, the employees with an MSc/MA degree (41.22%) and employees with secondary education (38.31%) accounted for the dominant share of NBS employees, while employees with a PhD degree accounted for 1.06%.

Table V.5.1.2 **Qualification structure of staff employed for an indefinite period**

Organisational unit	31 December 2023			Secondary education	Primary education	Total
	Higher education					
	PhD	MSc/MA	BSc/BA			
Main organisational units	20	750	227	389	54	1,440
Belgrade Branch	2	7	21	52	0	82
Novi Sad Branch	0	14	11	66	4	95
Niš Branch	0	12	4	29	3	48
Kragujevac Branch	0	9	9	23	1	42
Užice Branch	0	10	8	15	3	36
Institute for Manufacturing Banknotes and Coins	1	92	66	257	10	426
Total in NBS:	23	894	346	831	75	2,169

Source: NBS.

As for the gender structure, women (56.89%) continued to outnumber their male colleagues (43.11%).

Table V.5.1.3 Staff gender structure by organisational unit

Organisational unit	31 December 2023			
	Men		Women	
	No of staff	%	No of staff	%
Main organisational units	567	39.38	873	60.62
Belgrade Branch	27	32.93	55	67.07
Novi Sad Branch	38	40.00	57	60.00
Niš Branch	22	45.83	26	54.17
Kragujevac Branch	21	50.00	21	50.00
Užice Branch	8	22.22	89	77.78
Institute for Manufacturing Banknotes and Coins	252	59.15	174	40.85
Total in NBS:	935	43.11	1,234	56.89

Source: NBS.

In terms of the age structure, as in the past several years, the two most prevalent age groups in 2023 were employees aged 50–60 (35.92%) and 40–50 (27.52%). The average age was 48.81 years.

Table V.5.1.4 Age structure of staff employed for an indefinite period

Organisational unit	31 December 2023							Average age
	Below 20	20–30	30–40	40–50	50–60	Over 60	Total	
Main organisational units	0	142	208	435	463	192	1,440	47.88
Belgrade Branch	0	6	9	17	24	26	82	51.22
Novi Sad Branch	0	3	15	21	41	15	95	50.42
Niš Branch	0	1	10	9	20	8	48	50.35
Kragujevac Branch	0	1	6	15	9	11	42	50.19
Užice Branch	0	0	13	11	7	5	36	46.06
Institute for Manufacturing Banknotes and Coins	0	5	76	89	215	41	426	50.53
Total in NBS:	0	158	337	597	779	298	2,169	48.71
In %	0	7.28	15.54	27.52	35.92	13.74	100.00	

Source: NBS.

Education, professional training and development

The operations of the Serbian central bank is immensely dependent on the quality of human resources, i.e. the expertise and the rich experience of its staff, which is evident in the capacity to make timely and adequate decisions. Thus, it is the NBS's long-term goal to take care of its employees and to strive that its team is comprised of highly professional and satisfied employees, committed to organisational values and motivated to achieve the best results.

One of the NBS's strategic priorities includes the commitment to achieving and developing personal and professional staff competencies, therefore the NBS enabled

employees to attend studies at higher education institutions, training courses aimed at acquiring various professional titles, certificates and licences, and to participate in seminars, courses, workshops, counselling sessions, conferences and other similar forms of professional development.

In 2023, the NBS covered the costs of education at higher education institutions in the Republic of Serbia for 28 employees, enabling them to acquire a higher level of education by attending graduate, master, specialist and doctoral studies, while 33 employees had the opportunity to acquire various licences and certificates.

Seminars, conferences, specialised courses and workshops on various central banking topics enabled employees to advance their skills and knowledge and were tailored to current and future challenges central banks are faced with when performing their legal mandates. The lecturers were experts from central banks, the IMF, World Bank, BIS, ECB, national insurance supervision agencies, Official Monetary and Financial Institutions Forum (OMFIF), the European Money and Finance Forum (SUERF), Center of Excellence in Finance (CEF), etc.

V.5.1.5 Education, professional training and development

2023	
Form of education, professional training and development	No of employees
Education	
BA/BSc – graduate studies	6
BA/BSc – specialist applied studies	2
MA/MSc – master studies	9
MA/MSc – master applied studies	5
PhD – doctoral studies	6
Professional training	33
Professional development	
Seminars, workshops, counselling, conferences and online training in the country	111
Seminars, workshops and conferences abroad – in-person	110
Online training courses organised by central banks and international institutions	151
Online training courses within bilateral cooperation	20
Student internship	
Internship for university students from Serbia, Republic of Srpska and abroad	81

Source: NBS.

The NBS organised internship for 81 university students providing them with an opportunity to supplement their theoretical knowledge acquired at university with practical work experience, thus obtaining recommendations for further career development.

V.5.2 Internal audit and risk management

The regulatory framework for internal audit in the NBS is established by the Law on the National Bank of Serbia, Statute of the National Bank of Serbia and internal general acts which regulate in more detail the internal audit and its performance.

Internal audit is carried out in accordance with the Annual Plan adopted by the Council of the Governor. Reports on conducted internal audits are submitted to managers of the audited units and to the Governor. The Council of the Governor is also informed about internal audit activities on a quarterly basis through the Audit Committee.

A total of 17 audits were conducted in 2023 in the following fields: NBS asset management, monetary policy implementation, supervision of financial and other entities, transactions with cash and other valuables, payment systems, finance and accounting, procurement, IT system management and economic statistics.

A follow-up on **22 recommendations** from prior years was also carried out.

The results of the audits and the follow-up indicate that the **operating risk is continuously lessening and that internal controls have strengthened.**

V.5.3 Information and communications technologies

We carefully monitor the operation of all components of the NBS information system, as its stable functioning is an important precondition for the smooth performance of key business processes. We also successfully maintain the required level of information system security, despite heightened malicious activity caused, inter alia, by the new geopolitical situation in the world. For this reason, we constantly upgrade the applied hardware and software solutions and conduct staff training.

Six applicative and infrastructural ICT projects were implemented in 2023 for the needs of the NBS and external users. Important activities were carried out with regard to the payment of one-off assistance to Serbian citizens in close cooperation with the Treasury Administration and the Tax Administration of the Serbian Ministry of Finance.

In 2023, the security of the infrastructure systems and the entire NBS computer network was enhanced through regular check-ups of applied security controls, identification and analysis of vulnerabilities and migration to the latest versions of all hardware and software security solutions.

We worked continuously to further upgrade the ICT infrastructure, network infrastructure, primary data centres and disaster recovery locations for key NBS processes. The Oracle Datawarehouse solution was also upgraded to the latest version, enabling the use of new functionalities, enhanced security and performances.

The receipt of all necessary message types in the MX format (ISO 20022) was enabled through the SWIFT network. We also checked and verified the alignment of the SWIFT service with the requirements of SWIFT Customer Security. There were no disruptions or incidents in the work of the SWIFT system for international payments.

In 2023, the NBS implemented new and upgraded existing application solutions for supporting business processes, in line with legal regulations and

amended internal work regulations and procedures. Business sectors submitted 290 requests for change and upgrade of applications and three requests for launching new IT projects in 2023. In addition, the focus of application development was on applications' transitioning to a higher technological level.

In 2023, technical support recorded and responded to 1,370 simpler requests, 5,576 more complex requests and 1,207 incidents reported by internal and external users in connection with the installation, use and maintenance of software for exchange transactions.

Fees were charged in 2,925 cases for the installation and use of the standard desktop and network versions of software for exchange transactions, as well as for using commercial banks' applications for exchange transactions in 2023.

In addition to regular managing of the NBS information system, plans for 2024 also include continued implementation of infrastructure and application development projects and improvement of management functions in accordance with the ESCB's⁵¹ good practices and experience, including through improved management and use of the disaster recovery location for key business processes. Staff training in ICT system security will continue in line with the requirements of the ISO 27001 standard,⁵² SWIFT requirements on mandatory security controls and other specific needs of the NBS information system.

⁵¹ ESCB – European System of Central Banks.

⁵² Information security management system.

VI FINANCIAL STATEMENTS

VI.1 Financial position and result of the National Bank of Serbia

The NBS is a non-profit institution mandated to achieve the legally defined objectives of ensuring price and financial stability in a sustainable manner, at the lowest possible cost to all economic agents. **The success of the NBS, like the success of any other central bank in the world, is therefore not measured by the financial result achieved in a given year, but by whether it has delivered on its legally defined objectives and ensured favourable conditions for doing business and investing.**

The statement of financial position of the NBS as at 31 December 2023 (Balance Sheet) discloses the assets – property of the Republic of Serbia used by the NBS for the purpose of meeting its objectives and exercising its functions, and liabilities – total liabilities and capital of the NBS, in the total amount of RSD 3,196.9 bn. In 2023, total assets of the NBS increased by 22.9%, i.e. by RSD 595.8 bn relative to 2022.

The most important balance sheet positions in total NBS assets as at 31 December 2023 are:

- cash and current accounts held with banks in the amount of RSD 709.5 bn, down by 11.6% from 2022;
- gold and other precious metals in the amount of RSD 281.5 bn, up by 13.5% from 2022;
- deposits in the amount of RSD 474.0 bn, up by 93.2% from 2022;
- securities in the amount of RSD 1,605.3 bn, up by 40.1% from 2022.

Table VI.1.1 **Balance sheet**

(RSD thousand)

	31 December 2023	31 December 2022
ASSETS		
Cash and current accounts held with banks	709,492,176	802,350,411
Gold and other precious metals	281,548,953	248,108,348
Deposits	474,039,603	245,333,709
Derivative receivables	18,764	12,770
Securities	1,605,342,085	1,145,772,007
Loans and placements	846,133	32,126,330
IMF membership quota and SDR holdings	94,385,689	97,489,469
Intangible assets	1,425,830	1,108,822
Property, plant and equipment	22,088,073	22,064,119
Investment property	484,208	484,208
Other assets	7,204,533	6,190,770
TOTAL ASSETS	3,196,876,047	2,601,040,963
LIABILITIES		
Liabilities		
Derivative liabilities	18,764	12,770
Deposits and other liabilities to banks and other financial organisations	1,461,704,093	1,038,485,496
Deposits and other liabilities to the government and other depositors	807,399,400	619,868,392
Liabilities to the IMF	94,463,082	212,833,439
Provisions	1,897,053	1,654,549
Current tax liabilities	416,934	483,977
Currency in circulation	369,368,005	310,873,399
Other liabilities	3,146,922	14,546,238
Total liabilities	2,738,414,253	2,198,758,260
Capital		
State-owned capital	216,507,798	204,260,998
Reserves	215,941,487	158,496,702
Retained earnings	26,012,509	39,525,003
Total capital	458,461,794	402,282,703
TOTAL LIABILITIES	3,196,876,047	2,601,040,963

Source: NBS.

Liabilities measured RSD 2,738.4 bn and capital RSD 458.5 bn. As at 31 December 2023, NBS liabilities related primarily to:

- liabilities to banks and other financial organisations, arising mainly from the conduct of monetary policy (i.e. determining bank required reserves and implementing open market operations) in the amount of RSD 1,461.7 bn or 40.8% more than a year earlier;

- liabilities to the government and other depositors in respect of transaction and other deposits in dinars and foreign currency in the amount of RSD 807.4 bn, up by 30.3% from a year earlier;
- liabilities to the IMF in the amount of RSD 94.5 bn or 55.6% less than in 2022;
- liabilities to transactors for currency in circulation in the amount of RSD 369.4 bn or 18.8% more than a year earlier.

The NBS Income Statement for 2023 discloses profit of RSD 26.0 bn. Operating profit (not originating from exchange rate gains/losses and revaluation reserves), measuring a total of RSD 17.6 bn, was distributed under Article 77 of the Law on the National Bank of Serbia so that 70%, or RSD 12.3 bn, was allocated to the budget of the Republic of Serbia. Of the remainder, 10% was allocated to core capital and 20% to the special reserves of the NBS.

Interest income and expenses were the most significant income and expenses generated by the NBS in 2023 while carrying out its legal mandate as stipulated in the Law on the National Bank of Serbia. Interest income came at RSD 71.1 bn and interest expenses at RSD 50.5 bn. In 2023, net interest income amounted to RSD 20.6 bn, up by RSD 11.5 bn relative to 2022.

The NBS also recorded substantial fee and commission income in the total amount of RSD 5.6 bn, mostly from the payment of fees and commissions laid down in the Decision on Uniform Fees Charged for Services Provided by the NBS, and fee and commission expenses totalling RSD 0.7 bn. Of total other operating income of the NBS in the amount of RSD 6.8 bn, income from business operations of the Institute for Manufacturing Banknotes and Coins – Topčider accounted for RSD 6.4 bn.

In 2023, the NBS recorded a RSD 2.5 bn net loss from derecognition of financial assets measured at fair value through other comprehensive income. Net income of RSD 8.4 bn was recorded in respect of exchange rate gains/losses and currency clause effects. Other operating expenses recorded by the NBS include: salaries, compensations and other employee-related expenses (RSD 6.4 bn), depreciation expenses (RSD 1.7 bn) and other expenses (RSD 5.0 bn), largely comprising production expenses of the Institute for Manufacturing Banknotes and Coins – Topčider.

Table VI.1.2 **Income statement**

(RSD thousand, 1 January – 31 December)

	2023	2022
Interest income	71,116,721	16,133,998
Interest expenses	(50,495,981)	(7,001,796)
Net interest income	20,620,740	9,132,202
Fee and commission income	5,593,498	6,462,663
Fee and commission expenses	(661,267)	(1,735,903)
Net fee and commission income	4,932,231	4,726,760
Net gains from financial instruments measured at fair value through profit and loss	-	118,861
Net loss from derecognition of financial assets measured at fair value through other comprehensive income	(2,499,552)	(9,735,974)
Net loss from derecognition of financial assets valued at amortised cost	(3,251)	-
Net exchange rate gains and gains from currency clause effects	8,379,971	35,597,853
Net loss from depreciation of financial assets	(97,151)	(134,794)
Other operating income	6,817,032	6,907,739
Salaries, compensations and other employee-related expenses	(6,431,201)	(5,500,595)
Depreciation expenses	(1,709,766)	(1,654,309)
Other income	1,406,044	5,091,863
Other expenses	(4,985,654)	(4,540,626)
PROFIT BEFORE TAX	26,429,443	40,008,980
Profit tax	(416,934)	(483,977)
PROFIT AFTER TAX	26,012,509	39,525,003

Source: NBS.

VI.2 Accounting principles and standards

The accounting principles and standards applied by the NBS in preparing, presenting and disclosing financial statements are defined by the accounting policy of the NBS, in line with the International Accounting Standards and International Financial Reporting Standards.

The goal of the accounting policy of the NBS is to ensure that the property status, success of operations and change in the financial position of the NBS are disclosed fairly and objectively in its financial statements. Accounting policy refers to the estimation of assets, liabilities and capital, calculation of operating results and disclosure of these items in financial statements.

The accounting policy applied in recognition, valuing and disclosure of the most significant items in the balance sheet and income statement for 2023 is presented below.

Interest income and expenses

Interest income and expenses, including default interest and other income and expenses arising from interest-bearing assets and/or interest-bearing liabilities, are calculated according to the matching principle. In calculating interest income or expenses under a financial asset or financial liability, the effective interest rate is applied to the gross carrying amount of the asset or the amortised cost of the liability. Interest income from a credit-impaired financial asset (impairment stage 3) is calculated by applying the effective interest rate to the amortised cost of the financial asset, i.e. the carrying amount adjusted for the impairment allowance.

Fee and commission income and expenses

Fee and commission income and expenses are recognised in the period when realised.

Conversion of FX-denominated assets and liabilities

Transactions performed in foreign currencies whose exchange rates are officially published by the NBS are converted into dinars using the official middle exchange rates effective as at the transaction date, whereas for currencies whose exchange rates are not officially published by the NBS, conversion is performed using corresponding cross-exchange rates of the NBS effective as at the transaction date.

Monetary assets and liabilities denominated in foreign currency are converted into dinars using the official middle exchange rate valid on the balance sheet date (if the currency rate is published by the NBS in the official exchange rate list) or the corresponding exchange rate of the NBS (for currency rates not published in the official exchange rate list).

Exchange rate gains or losses arising from the conversion of transactions in a foreign currency and the recalculation of monetary balance sheet items denominated in foreign currency are credited or charged to the income statement as gains/losses from exchange rate and currency clause effects.

Financial instruments

Classification of financial assets and liabilities

The management determines the classification of financial assets and liabilities at initial recognition. Any subsequent reclassifications are carried out only if the business model within which they are held is changed, in which case the reclassification is mandatory.

The classification depends on the business model within which financial assets are held and the characteristics of the cash flows arising from such assets.

The NBS classifies its financial assets in the following categories:

- financial assets at amortised cost,
- financial assets at fair value through other comprehensive income, and
- financial assets at fair value through profit and loss.

Financial liabilities are classified as financial liabilities valued at amortised cost and financial liabilities valued at fair value through profit and loss.

Measurement of financial assets and liabilities

At initial recognition, financial assets are carried at fair value, in accordance with the IFRS 9. The fair value of financial assets is the price that would be received to sell them in an orderly transaction. Depending on the classification category, after initial recognition, financial assets are measured:

- at amortised cost,
- at fair value through other comprehensive income, and
- at fair value through profit and loss.

At initial recognition, financial liabilities are carried at fair value, in accordance with the IFRS 9, and at subsequent measurement they are measured at amortised cost, except for financial liabilities held for trading and financial liabilities carried at fair value through profit and loss based on the decision issued by the Governor or a person authorised by the Governor.

Modification of financial assets

Modification of a financial asset is the change in the established (contracted, prescribed or otherwise determined in accordance with regulations) cash flows on the financial asset, through renegotiation or otherwise. If the modified financial asset results in contractual cash flows that are not significantly different from the benchmark cash flow, recognition of that financial asset is continued at a modified value, and the difference between the carrying amount and the modified value is recognised in the income statement. If the modified financial asset results in contractual cash flows that are significantly different from the benchmark cash flow, the modification results in the derecognition of that financial asset and the recognition of a new financial asset.

Impairment of financial assets

Loss allowance is recognised (recognition of impairment, that is loss allowances) for expected credit losses on a financial asset measured at amortised cost, on a financial asset measured at fair value through other comprehensive income and on other receivables in accordance with IFRS 9 requirements.

Expected credit losses on a financial asset are estimated for an individual financial asset or a group of financial assets with the same characteristics, taking into

account all the relevant and available quantitative and qualitative information, pertaining to the past, current and future events.

Financial assets are classified under *impairment stage 1* if it is estimated that they have low credit risk or if the credit risk did not increase significantly since the date of initial recognition of those financial assets. For these financial assets, 12-month expected credit losses are estimated.

Financial assets are classified under *impairment stage 2* if it is estimated that the credit risk increased significantly since the initial recognition. Lifetime expected credit losses are determined for these financial assets.

Financial assets are classified under *impairment stage 3* if it is estimated that the credit risk increased significantly so that the value of these financial assets may be considered credit-impaired. Lifetime expected credit losses are determined for these financial assets.

Financial assets that are credit-impaired at acquisition are obligatorily classified under *impairment stage 3* and remain there for their lifetime.

Derecognition

A financial asset or a part thereof should be derecognised when the right to all or some cash flows from the financial asset expires, or when a financial asset or a part thereof is transferred. A financial liability or a part thereof should be derecognised when it is fully or partially discharged or expires. The difference between the carrying amount of the derecognised financial asset and liability or a part thereof measured at the date of derecognition and the consideration received (if any) is recognised in the income statement.

VI.3 Risk exposure and management

The key financial risks to which the NBS is exposed in its daily operations are the following:

- **credit risk,**
- **liquidity risk,**
- **interest rate risk, and**
- **currency risk.**

Given that the primary objective of the NBS is to preserve price and financial stability, its financial risk management framework differs from that of commercial financial institutions. The majority of financial risks in the NBS's operations arise from FX reserve management and financial market operations.

FX reserve management is based on the Strategic Guidelines for the Management of FX Reserves, determined by the NBS Executive Board. The Guidelines define the criteria for investment of FX reserves, purposes for which the reserves are used, global investment framework and other. Based on these

Guidelines, the NBS's Investment Committee prepares the proposal of Tactical Guidelines for FX Reserve Management and submits them to the Executive Board for adoption.

Credit risk

Credit risk is the risk of default on obligations, i.e. the possibility of funds not being timely and/or fully repaid or not collected according to the planned/agreed timeframe. The NBS's exposure to credit risk is primarily in the domain of FX reserve management. When investing FX reserves, the NBS is guided by the principles of liquidity and safety. The analysis and measurement of the credit risk inherent in the NBS portfolio is performed in accordance with generally accepted methods, including minimum credit rating requirements.

Table VI.3.1 **Concentration of credit risk of financial assets by country and region**

(RSD thousand, as at 31 December 2023)

	Serbia	Europe	USA and Canada	Other	Total
Cash and current accounts held with banks	13,493,586	505,665,378	3,452,682	355,753	522,967,399
Deposits	5,927	393,508,630	80,525,046	-	474,039,603
Securities	129,238,893	1,120,409,748	260,251,285	82,842,713	1,592,742,639
Loans and placements	846,133	-	-	-	846,133
IMF membership quota and SDR holdings	-	-	8,032,482	-	8,032,482
Other assets	1,189,904	1,617	2,133	-	1,193,654
Total 31 December 2023	144,774,443	2,019,585,373	352,263,628	83,198,466	2,599,821,910
Total 31 December 2022	190,892,563	1,464,884,752	239,875,621	67,224,614	1,962,877,550

Source: NBS.

The securities in which investment is made must have a composite credit rating of at least A- for government bonds, A+ for public sector bonds and AA for covered bonds, as assigned by Standard & Poor's, Moody's and Fitch. In addition, commercial banks maintaining non-collateralised deposits of the NBS must have a minimum composite credit rating of AA-. A credit limit for each bank is determined based on the bank's credit rating, prior experience in operations with that bank and an analysis of its business performance. A credit limit for each bank is set in the List of Authorised Issuers of Securities and Banks in Which it is Permissible to Place FX Reserve Funds of the NBS, which is adopted by the Executive Board. There are no limitations to investments with central banks and international financial institutions. An exception to the above are funds held in regular current accounts of the NBS with banks not having the required credit rating and used for the performance of foreign payment transactions.

Liquidity risk

Liquidity risk refers to the (in)ability to ensure regular payment of obligations and regular collection of receivables within agreed timelines. As part of its strategy of liquidity risk management, the NBS holds a portfolio of liquid assets, including funds held in accounts with foreign banks and bonds of the most developed countries, international financial institutions, federal units of the most developed countries and financial institutions supported by these countries, as well as prime covered bonds, in line with the guidelines for managing FX reserves.

Table VI.3.2 Exposure to liquidity risk – financial assets and liabilities with maturity date
(RSD thousand, as at 31 December 2023)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Cash and current accounts held with banks	709,492,176	-	-	-	-	709,492,176
Deposits	276,785,421	196,692,994	-	5,892	-	473,484,307
Securities	48,483,941	98,108,104	274,687,722	1,115,673,992	55,788,880	1,592,742,639
Loans and placements	4,885	-	-	1,061	309,728	315,674
IMF membership quota and SDR holdings	8,032,482	-	-	-	-	8,032,482
Other assets	494,341	-	-	-	-	494,341
	1,043,293,246	294,801,098	274,687,722	1,115,680,945	56,098,608	2,784,561,619
Deposits and other liabilities to banks and other financial organisations	1,114,807,348	-	-	-	-	1,114,807,348
Deposits and other liabilities to the government and other depositors	499,000,176	136,402,307	-	-	-	635,402,483
Liabilities to the IMF	55,921	-	-	-	-	55,921
Other liabilities	2,347,297	-	-	283,897	-	2,631,194
	1,616,210,742	136,402,307	-	283,897	-	1,752,896,946
Maturity mismatch as at 31 December 2023	-572,917,496	158,398,791	274,687,722	1,115,397,048	56,098,608	1,031,664,673
Cumulative mismatch as at 31 December 2023	-572,917,496	-414,518,705	-139,830,983	975,566,065	1,031,664,673	-
Maturity mismatch as at 31 December 2022	-98,495,714	98,925,661	488,569,022	450,533,608	24,201,480	127,791,034
Cumulative mismatch as at 31 December 2022	-98,495,714	429,947	488,998,969	939,532,577	963,734,057	-

Source: NBS.

Table VI.3.3 Exposure to liquidity risk – financial assets and liabilities without maturity date

(RSD thousand, as at 31 December 2023)

	Without maturity date
Deposits	555,296
Derivative receivables	18,764
Securities	12,599,446
Loans and placements	530,459
IMF membership quota and SDR holdings	86,353,207
Other assets	699,313
	100,756,485
Derivative liabilities	18,764
Deposits and other liabilities to banks and other financial organisations	346,896,745
Deposits and other liabilities to the government and other depositors	171,996,917
Liabilities to the IMF	94,407,161
Currency in circulation	369,368,005
Other liabilities	213,914
	982,901,506
Total as at 31 December 2023	(882,145,021)
Total as at 31 December 2022	(835,943,023)

Source: NBS.

Interest rate risk

Interest rate risk is the risk of reduction of the net result or net value of the Bank's assets due to changes in the level of interest rates. The exposure to the interest rate risk depends on the relation between interest-sensitive assets and liabilities of the Bank.

The NBS sets the key policy rate and the interest rates at which, in the conduct of monetary policy, it charges interest on loans and other placements (and other receivables) and pays interest on bank assets held with the NBS in order to meet its legally defined objectives – price and financial stability, and to support, without prejudice to its legally defined objectives, the economic policy of the Government of the Republic of Serbia.

However, interest-bearing assets, mostly kept abroad, are exposed to substantial risk of changes in market interest rates. As all this can induce a change in the financial position, the NBS's rules for investment, primarily of FX reserves, aim to limit potential losses arising from market risks. The two main methods the Bank uses to quantify market risks relating to financial assets include: Value-at-Risk (VaR) and stress test methods. The first method is used to anticipate the highest possible loss in normal market circumstances, while the other is used to anticipate losses in extreme market circumstances.

When VaR (95%) is calculated at a monthly level, for the entire portfolio which includes coupon and discount securities and time deposits included in the investment portfolio in a foreign currency, calculated in euros as at 31 December 2023, in only 5% of the cases can we anticipate loss exceeding 0.77% or RSD 12,937.15 mn (EUR 110.41 mn). In case of extreme market conditions, the VaR analysis is supplemented by the stress test model which, based on portfolio duration and convexity, anticipates

the possible effect of interest rate change and other adverse scenarios on portfolio value.

Table VI.3.4 **Exposure to interest rate risk**

(RSD thousand, as at 31 December 2023)

	Interest-bearing items	Non-interest-bearing items	Total
Financial assets			
Cash and current accounts held with banks	507,698,160	201,794,016	709,492,176
Deposits	472,150,545	1,889,058	474,039,603
Derivative receivables	-	18,764	18,764
Securities	1,592,907,996	12,434,089	1,605,342,085
Loans and placements	353,680	492,453	846,133
IMF membership quota and SDR holdings	7,996,791	86,388,898	94,385,689
Other assets	-	1,193,654	1,193,654
	2,581,107,172	304,210,932	2,885,318,104
Financial liabilities			
Derivative liabilities	-	18,764	18,764
Deposits and other liabilities to banks and other financial organisations	1,015,536,187	446,167,906	1,461,704,093
Deposits and other liabilities to the government and other depositors	328,932,471	478,466,929	807,399,400
Liabilities to the IMF	8,048,594	86,414,488	94,463,082
Currency in circulation	-	369,368,005	369,368,005
Other liabilities	-	2,845,108	2,845,108
	1,352,517,252	1,383,281,200	2,735,798,452
Net exposure as at			
31 December 2023	1,228,589,920	-1,079,070,268	149,519,652
31 December 2022	1,068,583,261	-940,792,227	127,791,034

Source: NBS.

The most important scenario for the Bank is a potential unexpected increase in interest rates (decline in the prices of securities), so calculation is made of what would happen to the entire portfolio if interest rates went up by 100 bp. If interest rates had gone up by 100 bp as at 31 December 2023, the portfolio in euros would have lost RSD 16,940 mn (EUR 144.57 mn), the US dollar portfolio – RSD 5,094 mn (USD 48.12 mn), the GBP portfolio – RSD 316 mn (GBP 2.34 mn), and the CAD portfolio – RSD 379 mn (CAD 4.74 mn).

Currency risk

The NBS is exposed to the currency risk because of changes in exchange rates. Most of the assets and liabilities in the NBS balance sheet are denominated in a foreign currency, which enables the NBS to respond, as needed, to requirements regarding the maintenance of the country's external liquidity and to moderate short-term volatility of the dinar exchange rate.

In order to minimise medium-term risks, the NBS makes efforts to match the currency structure of assets with the expected FX liabilities. In the short term, this can lead to exchange rate gains/losses, recorded in the income statement.

Table VI.3.5 Currency risk exposure of financial assets and liabilities

(RSD thousand, as at 31 December 2023)

	EUR	USD	SDR	Other currencies	Total foreign currencies	RSD	Total
Financial assets							
Cash and current accounts held with banks	655,101,237	17,530,244	-	23,367,041	695,998,522	13,493,654	709,492,176
Deposits	319,734,828	146,108,851	-	8,189,997	474,033,676	5,927	474,039,603
Derivative receivables	-	-	-	-	-	18,764	18,764
Securities	1,068,046,726	338,401,016	12,598,537	57,056,913	1,476,103,192	129,238,893	1,605,342,085
Loans and placements	-	-	-	-	-	846,133	846,133
IMF membership quota and SDR holdings	-	-	94,385,689	-	94,385,689	-	94,385,689
Other assets	31,202	572,355	-	567	604,124	589,530	1,193,654
	2,042,913,993	502,612,466	106,984,226	88,614,518	2,741,125,203	144,192,901	2,885,318,104
Financial liabilities							
Derivative liabilities	-	-	-	-	-	18,764	18,764
Deposits and other liabilities to banks and other financial organisations	346,358,828	1,498	-	5,955	346,366,281	1,115,337,812	1,461,704,093
Deposits and other liabilities to the government and other depositors	390,269,893	87,334,215	187,634	2,087,269	479,879,011	327,520,389	807,399,400
Liabilities to the IMF	-	-	94,463,082	-	94,463,082	-	94,463,082
Currency in circulation	-	-	-	-	-	369,368,005	369,368,005
Other liabilities	984,333	309,346	-	253,887	1,547,566	1,297,542	2,845,108
	737,613,054	87,645,059	94,650,716	2,347,111	922,255,940	1,813,542,512	2,735,798,452
Net exposure as at:							
31 December 2023	1,305,300,939	414,967,407	12,333,510	86,267,407	818,869,263	1,669,349,611	149,519,652
31 December 2022	960,967,749	342,987,611	-103,995,895	62,179,768	1,262,139,233	1,134,348,199	127,791,034

Source: NBS.

VI.4 Independent auditor's report



Ernst & Young d.o.o. Beograd
Vladimira Popovića 8a
11070 Beograd

Tel: +381 11 2095 800
Fax: +381 11 2095 890
ey.com/rs

INDEPENDENT AUDITORS' REPORT

TO THE COUNCIL OF GOVERNORS OF NARODNA BANKA SRBIJE

Opinion

We have audited the financial statements of **Narodna banka Srbije** (the Bank), which comprise the balance sheet as at **31 December 2023**, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of material accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Standards on Auditing applicable in the Republic of Serbia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards applicable in Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Auditor's responsibilities for the audit of the financial statements (continued)**

As part of an audit in accordance with Auditing Standards applicable in Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Belgrade, 28 March 2024

Nikola Ribar
Authorized Auditor
Ernst & Young d.o.o. Beograd



A member firm of Ernst & Young Global Limited

VI.5 Annual financial statements

Balance sheet

NATIONAL BANK OF SERBIA

BALANCE SHEET As at December 31, 2023 (in thousands of RSD)

	Note	December 31, 2023	December 31, 2022
ASSETS			
Cash and current accounts held with banks	16, 3.4	709,492,176	802,350,411
Gold and other precious metal	17, 3.5	281,548,953	248,108,348
Deposits	18, 3.3	474,039,603	245,333,709
Derivative receivables	3.3	18,764	12,770
Securities	19, 3.3	1,605,342,085	1,145,772,007
Loans and placements	20, 3.3	846,133	32,126,330
IMF membership quota and SDR holdings	21, 3.3	94,385,689	97,489,469
Intangible assets	22, 3.7	1,425,830	1,108,822
Property, plant and equipment	22, 3.7	22,088,073	22,064,119
Investment property	22, 3.7	484,208	484,208
Other assets	23	7,204,533	6,190,770
TOTAL ASSETS		3,196,876,047	2,601,040,963
LIABILITIES AND EQUITY			
Liabilities			
Derivative liabilities	3.3	18,764	12,770
Deposits and other liabilities to Government and financial organisations	24	1,461,704,093	1,038,485,496
Deposits and other liabilities to Government and other depositors	25	807,399,400	619,868,392
Liabilities to the IMF	26, 3.3	94,463,082	212,833,439
Provisions	27, 3.11	1,897,053	1,654,549
Current tax liabilities	28, 3.9	416,934	483,977
Cash in circulation	29	369,368,005	310,873,399
Other liabilities	30	3,146,922	14,546,238
Total liabilities		2,738,414,253	2,198,758,260
Equity			
State-owned capital		216,507,798	204,260,998
Reserves		215,941,487	158,496,702
Retained earnings		26,012,509	39,525,003
Total equity	31	458,461,794	402,282,703
TOTAL LIABILITIES AND EQUITY		3,196,876,047	2,601,040,963

Notes on the following pages form an integral part of these financial statements.

These financial statements were approved by the Governor:

Jorgovanka Tabakovic, PhD
Governor

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Income statement

NATIONAL BANK OF SERBIA

INCOME STATEMENT For the period from January 1 to December 31, 2023 (in thousands of RSD)

	Note	2023	2022
Interest income		71,116,721	16,133,998
Interest expenses		<u>(50,495,981)</u>	<u>(7,001,796)</u>
Net interest income	4, 3.1	20,620,740	9,132,202
Fee and commission income		5,593,498	6,462,663
Fee and commission expenses		<u>(661,267)</u>	<u>(1,735,903)</u>
Net fee and commission income	5, 3.1	4,932,231	4,726,760
Net gains from financial instruments measured at fair value through profit and loss	6, 3.3	-	118,861
Net losses from derecognition of financial instruments measured at fair value through other comprehensive income	7, 3.3	(2,499,552)	(9,735,974)
Net losses from derecognition of financial instruments measured at amortized cost	3.3	(3,251)	-
Net exchange rate gains and gains from contractual currency clause	8, 3.2	8,379,971	35,597,853
Net (expense) of impairment/Net income from impairment of financial assets	9, 3.3, 32	(97,151)	(134,794)
Other operating income	10	6,817,032	6,907,739
Salaries, salary compensations and other personal expenses	11, 3.10	(6,431,201)	(5,500,595)
Depreciation costs	12, 3.7	(1,709,766)	(1,654,309)
Other income	13	1,406,044	5,091,863
Other expenses	14	<u>(4,985,654)</u>	<u>(4,540,626)</u>
PROFIT BEFORE TAX		26,429,443	40,008,980
Income tax	28, 3.9	<u>(416,934)</u>	<u>(483,977)</u>
PROFIT AFTER TAX	31	26,012,509	39,525,003

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Statement of other comprehensive income

NATIONAL BANK OF SERBIA

STATEMENT OF OTHER COMPREHENSIVE INCOME In the period from January 1 to December 31, 2023 (in thousands of RSD)

	<u>2023</u>	<u>2022</u>
Profit for the period	26,012,509	39,525,003
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase in revaluation reserves based on intangible assets and fixed assets	-	3,045,304
(Negative)/Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	467,957	(3,219)
Actuarial gains/(losses)	(105,954)	242,353
Components of other comprehensive income that may be reclassified to profit or loss:		
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	<u>32,553,584</u>	<u>(22,999,971)</u>
Other comprehensive income for the period	<u>32,915,587</u>	<u>(19,715,533)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>58,928,096</u>	<u>19,809,470</u>

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Statement of changes in equity

NATIONAL BANK OF SERBIA

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2023
(in thousands of RSD)

	State owned capital	Special reserves	Revaluation reserves	Fair Value Reserves	Actuarial gains (losses)	Retained earnings (losses)	Total
Balance as at January 1, 2022	187,698,256	129,587,624	13,985,827	1,718,877	(252,826)	55,537,819	388,275,577
Distribution of profit from previous year (Note 31)	16,562,742	33,172,733	-	-	-	(55,537,819)	(5,802,344)
Increase in revaluation reserves based on intangible assets and fixed assets	-	-	3,045,304	-	-	-	3,045,304
Decrease in fair value reserve of equity instruments measured at fair value through other comprehensive income	-	-	-	(3,219)	-	-	(3,219)
Actuarial gains	-	-	-	-	242,353	-	242,353
Decrease in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	(22,999,971)	-	-	(22,999,971)
Net loss for the current year	-	-	-	-	-	39,525,003	39,525,003
Balance as of December 31, 2022	204,260,998	162,760,357	17,031,131	(21,284,313)	(10,473)	39,525,003	402,282,703
Balance as at January 1, 2023	204,260,998	162,760,357	17,031,131	(21,284,313)	(10,473)	39,525,003	402,282,703
Distribution of profit from previous year (Note 31)	12,246,800	24,529,198	-	-	-	(39,525,003)	(2,749,005)
Increase in fair value reserve of equity instruments measured at fair value through other comprehensive income	-	-	-	467,957	-	-	467,957
Actuarial losses	-	-	-	-	(105,954)	-	(105,954)
Increase in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	32,553,584	-	-	32,553,584
Net loss for the current year	-	-	-	-	-	26,012,509	26,012,509
Balance as at December 31, 2023	216,507,798	187,289,555	17,031,131	11,737,228	(116,427)	26,012,509	458,461,794

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Statement of cash flows

NATIONAL BANK OF SERBIA

CASH FLOW STATEMENT
In the period from January 1 to December 31, 2023
(in thousands of RSD)

	<u>2023</u>	<u>2022</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Interest	51,824,589	14,921,412
Fee and commission	5,654,585	6,533,328
Inflows from sales of products and services (Institute for Manufacturing Banknotes and Coins)	7,578,569	7,653,893
Inflows from other operating activities	2,201,963	5,442,395
Cash inflow from dividends and profit sharing	119,743	120,466
<i>Cash inflow from operating activities</i>	<i>67,379,449</i>	<i>34,671,494</i>
Interest payments	(46,550,375)	(7,476,838)
Fee and commission payments	(683,826)	(1,737,404)
Payments for operating expenses	(13,383,768)	(11,400,200)
<i>Cash outflow from operating activities</i>	<i>(60,617,969)</i>	<i>(20,614,442)</i>
Net inflow in deposits received	546,870,409	385,010,711
Net (outflow)/inflow in loans and placements	(193,833,314)	(181,401,444)
Net outflow in securities and other financial assets not held for investing	(431,152,325)	(197,967,669)
<i>Net increase from operating activities before income tax</i>	<i>(71,353,750)</i>	<i>19,698,650</i>
Payment of the distributed result-transfer to the budget of the Republic of Serbia	(483,977)	(5,802,344)
Income tax paid	(2,749,004)	(478,486)
Net cash inflow from operating activities	(74,586,731)	13,417,820
CASH FLOW FROM INVESTING ACTIVITIES		
Outflow for purchase of intangible assets, property, plant and equipment	(1,828,944)	(1,460,525)
Net cash outflow from investing activities	(1,828,944)	(1,460,525)
CASH FLOW FROM FINANCING ACTIVITIES		
Net outflow from short-term borrowings	-	(23)
Other outflows from financing activities	(145,081)	-
Net cash outflow from financing activity	(145,081)	(23)
Net increase in cash and cash equivalents	(76,560,756)	11,957,272
Cash and cash equivalents at the beginning of the period	809,980,556	774,808,087
Foreign exchange, net	(17,319,107)	23,215,197
CASH AND CASH EQUIVALENTS AT THE PERIOD END (Note 2f)	<u>716,100,693</u>	<u>809,980,556</u>

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Jorgovanka Tabakovic, PhD
Governor

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VI.6 Institute for Manufacturing Banknotes and Coins – Topčider

Total income of the Institute for Manufacturing Banknotes and Coins – Topčider (ZIN) in 2023 amounted to RSD 7,328.4 mn, and total expenses to RSD 4,668.5 mn.

Despite specific and difficult business circumstances, ZIN posted a positive financial result in 2023 which measured RSD 2,659.9 mn, recording a continuous increase in operating income (3% rise from 2022) and in total income (3.3% increase from 2022).

Table VI.6.1 **Total income and expenses of ZIN**

(RSD mn)

	2022	2023	Index 2023/2022
Total income of ZIN	7,096.1	7,328.4	103.3
Operating income:	6,959.4	7,168.7	103.0
Products for the NBS	489.8	873.9	178.4
Products for the domestic market	6,455.6	6,268.6	97.1
Export products	14.1	26.2	185.9
Other (financial) income	136.7	159.7	116.8
Total expenses of ZIN	4,174.2	4,668.5	111.8
Income-to-expense ratio	170.0	157.0	-

Source: NBS.

Thanks to maximum efforts made to optimise processes and harmonise the rules and standards of intermediate goods consumption, significant progress was again achieved in planning and organising production, making savings as well as ensuring adequate levels of inventories, particularly of strategic products.

The stability and continuity in achieving a positive financial result in the past several years, resulting from ZIN's main activity and its diversified portfolio, enable ZIN to continue its prosperous technological development and affirm its market position and recognisability.

The conversion of working capital in the most liquid (cash) form has been set as the primary operational objective. Hence, it is important to note that the dynamics of collection relative to the realised sale did not experience oscillations and was unusually high (the percentage of uncollected claims was below 1%).

On this account, the indicators of business efficiency (average inventory turnover, gross profit margin and return on assets) exceeded the average for Serbian companies.

In 2023, ZIN posted a positive financial result of RSD 1,786 mn, excluding income from products manufactured for the NBS, which are included in the internal reporting segment for the purposes of a comprehensive overview of ZIN's operations. The calculation of this result (excluding income from products manufactured for the NBS) does not exclude the costs of production, i.e. manufacturing of banknotes and circulating coins, reports, catalogues, posters, business cards, internal payment cards, etc.

Structure of income

ZIN recorded most of its income (RSD 6,268.6 mn or 85.5% of total income) in the domestic market. Income from exports measured RSD 26.2 mn or 0.4% of total income.

Operating income generated in the domestic and foreign market is dominated by income from the manufacturing and personalisation of payment cards, and from products with security features.

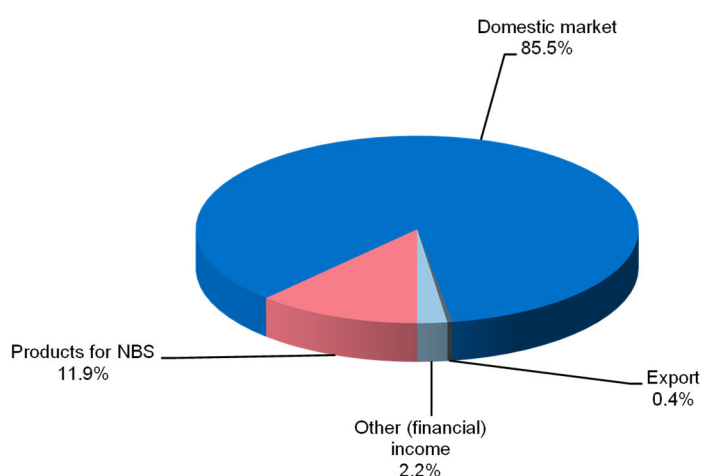
Table VI.6.2 **Structure of total income**

(RSD mn)

	2022	2023	Index 2023/2022
Total income of ZIN	7,096.1	7,328.4	103.3
Operating income	6,959.4	7,168.7	103.0
Products for the NBS	489.8	873.9	178.4
Banknotes	236.4	556.2	235.3
Circulating coins	219.5	298.1	135.8
Commemorative coins	-	-	-
Other products and services for the NBS	33.9	19.7	58.1
Domestic market and exports	6,469.7	6,294.8	97.3
Pre-production services	0.2	6.8	2,935.9
Banknotes and other products	0.4	7.0	1,764.1
Circulating and commemorative coins	3.8	4.5	118.8
Other coined products and services	563.2	517.3	91.9
Valuables	973.2	1,077.3	110.7
Products with security features	2,245.8	1,806.2	80.4
Books, publications and promotional material	12.9	11.5	89.6
Other products	933.4	965.0	103.4
Personalisation	1,736.8	1,921.9	110.7
Other (financial) income	136.7	159.7	116.8

Source: NBS.

Chart VI.6.1 **Composition of ZIN's income in 2023**



Source: NBS.

Income from products manufactured for the NBS measured RSD 873.9 mn or 11.9% of total income and is aligned with the Cash Department.

Income generated in the foreign market measured RSD 26.2 mn, which is much higher than a year earlier (85.9% increase relative to 2022).

The percentage of receivables collection is very high. Receivables past due comprised less than 1% of the total invoiced value in 2023.

Structure of expenses

Operating expenses were dominant within total expenses, most notably basic material and energy (49.1%), gross wages and other employee-related expenses (24.4%) and depreciation (11.5%).

The share of these expenses in total income is continuously stable.

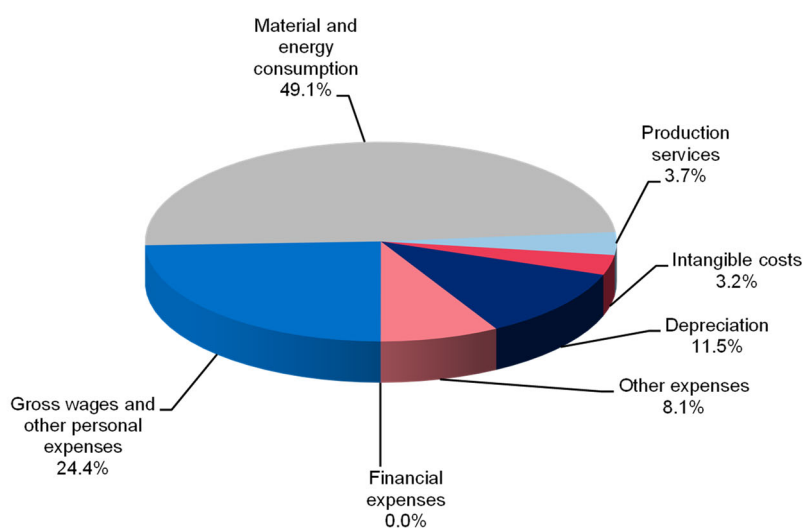
Table VI.6.3 **Structure of total expenses**

(RSD mn)

	2022	2023	Index 2023/2022
Total expenses	4,174.2	4,668.5	111.8
Financial expenses	0.7	0.6	87.9
Gross wages and other employee-related expenses	1,059.1	1,138.0	107.5
Material and energy consumption	1,995.8	2,292.0	114.8
Production services	225.4	172.8	76.7
Intangible costs	146.8	151.4	103.1
Depreciation	548.6	534.8	97.5
Other expenses	197.9	378.9	191.5

Source: NBS.

Chart VI.6.2 **Composition of ZIN's expenses in 2023**



Source: NBS.

VII MAIN PLANS FOR THE FUTURE PERIOD

Going forward, maintenance of price and financial stability in the medium term, together with support to the fastest possible economic growth and a further rise in employment and living standard, will remain our monetary policy priority.

The NBS pursues the inflation targeting strategy and implements a responsible and consistent monetary policy. It plans its activities in line with its legally mandated objectives and will remain committed to their achievement in the future period as well. The main principles of future monetary policy implementation are laid down in the 2024 Monetary Policy Programme of the National Bank of Serbia.

In 2024 as well, the NBS's monetary policy will remain flexible with regard to the degree of its response and the use of the tools available in the inflation-targeting regime. Monetary policy decisions will be taken in a **consistent and well-timed manner, taking into account the anticipated movement in factors at home and abroad and their impact on inflation projection and the speed of inflation's slowdown, as well as the efficiency of the monetary policy transmission mechanism**, while at the same time considering the impact on financial stability and sustainable economic growth.

Without prejudice to its own independence, **the NBS will coordinate its monetary policy with the fiscal policy and structural policies of the Government** as their joint objective is medium-term price stability, preservation of financial stability and sustainability of public finances and, by extension, economic growth sustainable over the long term. This will help raise resilience to potential negative effects of the factors from the international environment, which is particularly important in periods of heightened global uncertainty and pronounced risks.

The NBS will continue to implement activities aimed at increasing the use of the dinar in the financial system.

Amid extreme uncertainty and challenges from the international environment, **the regulatory and prudential measures taken by the NBS, along with the preserved macroeconomic stability and relative stability of the dinar exchange rate against the euro, have increased the level of dinarisation**, which is one of the NBS's strategic objectives.

With its required reserve policy so far (more stimulating required reserve ratios for dinar sources of funding and higher remuneration for allocated dinar required reserves) and other macroprudential policy measures, the NBS has encouraged banks to make greater use of dinar sources of funding and will continue to do so. Also, to support further financial market development, the NBS will continue to implement measures and activities aimed at upgrading the domestic money and capital markets, with particular emphasis on further development of FX risk hedging instruments.

In order to maintain its FX reserves at an adequate level and ensure a high degree of their liquidity and safety, the NBS will remain committed to keeping the risk of its investment portfolio at a very low level.

Adequate FX reserves, in terms of both their volume and composition, are an important warranty of safety, particularly in times of crises. At the same time, they serve as proof that, through its measures and activities, the NBS has contributed to increasing the resilience of the domestic economy to any negative impacts from the international environment. During 2024 as well, the NBS will remain consistent in keeping its FX reserves at an adequate level, and will be guided in their management by the principles of safety and liquidity. To further upgrade the process of FX reserves management, new financial instruments and operations are planned to be introduced in 2024 to achieve more efficient and flexible management of the FX reserves portfolio, and to hedge against currency changes, while at the same time providing application support by developing additional functionalities.

The NBS will continue to carefully monitor the financial system and, as needed, enact regulations aimed at preserving asset quality and financial stability.

All regulatory activities of the NBS will remain geared at preventing the materialisation of any risks that could negatively affect financial system stability in the coming period, and at continuously upgrading the regulatory framework for banks, in line with international standards and the best comparative practice, as well as the needs and specificities of the local market, in order to maintain and further strengthen banking sector resilience.

In February 2024, the NBS adopted the Decision Amending the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items and Guidelines Amending Guidelines for the Identification of Default.⁵³ Subject to these guidelines, the absolute materiality threshold was raised from 1,000 to 10,000 dinars for natural persons and from 10,000 to 50,000 dinars for legal persons, to have deferred effect from 30 June 2024. Absolute materiality thresholds were raised in

⁵³ RS Official Gazette, No 10/2024 of 9 February 2024.

order to help more active NPL management and produced an additional positive effect by creating room for higher lending activity.

Plans for **banking supervision in 2024 include the implementation of the supervisory activities plan for 2024. On-site supervision of the solvency and legality of bank operations has been planned in line with the above plan.** Within **off-site supervision, plans include further monitoring of banks' liquidity and NPL ratios, solvency and banking sector profitability.** Further, banks' operations will be continuously monitored and off-site supervision of the solvency and legality of their operations carried out.

In the area of **financial lessors' supervision**, activities in 2024 will focus on **continuous monitoring and analysis of operations of financial lessors and taking of appropriate measures** to improve these operations in a manner that would maintain and upgrade this financial market segment.

Since the **insurance sector** has an important role in providing protection to insurance holders against risks that may affect, first and foremost, the quality of life of natural persons and threaten the continuity and stability of operations of legal persons, **the NBS's activities in 2024 will be directed at preserving insurance sector stability and improving the on-site and off-site supervision function**, with the aim of protecting insurance holders, insurance beneficiaries and third damaged parties. In the area of **voluntary pension fund supervision, activities in 2024 will focus on ongoing off-site supervision of VPFs and VPF management companies, licensing operations and on-site supervision in line with the plan of on-site supervision assignments for 2024.** Given the current circumstances, the NBS will continue to focus on VPF's investment activities in order to protect the interests of fund members and preserve VPF sector stability.

The NBS plan for 2024 is to continuously monitor the ways in which **financial institutions assess and manage information system risks**, as well as the operations of virtual currency service providers. Further, in line with changes in the standards on the information-communications system and its security, the NBS will take activities to amend current regulations in the area of supervision of financial institutions' information systems.

To preserve and reinforce financial stability, the NBS plans the following activities for 2024: analysis and review of the requirement to maintain the systemic risk buffer; review of systemically important banks in the Republic of Serbia and capital buffer rates for those banks; quarterly setting of the countercyclical buffer rate for the Republic of Serbia to limit the cyclical systemic risk; continued cooperation with experts from the National Bank of Austria under the IPAREG project aimed at improving the process of identification, evaluation and quantification of climate risks and assessment of their impact on the Serbian banking sector in line with the existing methodology for macroprudential stress tests; improvement of the quality of data and macroprudential tools for monitoring trends in the real estate market, including continued enhancement of cooperation with other competent domestic institutions for the purpose of exchange of data, setting up of cooperation with Banque de France under the IPAREG project for the purpose of

analysing and exchanging experiences with regard to macroprudential policy measures and instruments applied by this central bank to mitigate and contain systemic risks.

In the field of bank resolution, the NBS will continue to act preventatively, enhancing opportunities for bank resolution by intensifying the dialogue with banks and issuing relevant guidelines.

In 2024, **updates of resolution plans for banks and banking groups will be prepared and adopted and new MREs defined** as part of the regular annual cycle of updating resolution plans, which also includes the dialogue with banks.

As part of capacity building within phase two of the regional IPA Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the European System of Central Banks, a series of trainings on bank resolution has been planned in 2024.

As part of its pre-emptive and supervisory function, in 2024 the NBS will continue to monitor the implementation of regulations on foreign exchange operations, and supervise foreign exchange and exchange transactions in order to verify and establish their legality and regularity, with a view to protecting the financial and economic system from illegal activities.

In 2024, the NBS will continue to **improve the efficiency of monitoring the implementation of foreign exchange regulations and of reporting about the effects of measures taken in the field of foreign exchange operations**, so as to timely remove or mitigate potential risks to macroeconomic and financial stability of the country, particularly amid instability of international financial flows. At the same time, the NBS will continue to **supervise foreign exchange and exchange operations in order to verify and establish their legality and regularity in line with regulations governing foreign exchange operations**, with a view to protecting the financial and economic system from illegal activities.

The NBS will continue to upgrade operations relating to the **issuance and revocation of authorisations to perform exchange transactions, implementation of training programmes and issuance of certificates to perform exchange transactions, as well as maintaining registers in this area.**

In addition, the NBS will continue to implement the procedure of enforcement of final and enforceable court decisions on temporarily seized assets, foreign cash and cheques (orders for enforcement of safeguard measure of seizing and/or returning the above assets, temporarily seized under the Law on Foreign Exchange Operations).

As part of the financial service consumer protection function, the mechanism of collective protection will be upgraded.

In addition to regular activities of acting upon complaints concerning protection of individual rights and interests of financial service consumers, the NBS's priority is to make the greatest possible **use of the supervision procedure mechanisms.**

Moreover, the NBS plans to **exchange information and experiences with competent authorities of other countries, in order to improve cooperation in the area of financial service consumer protection**, primarily in order to raise the standards of banks' market conduct. Taking into account current trends of development of the financial services consumer function, the NBS plans to set up the best market practices in the financial market by issuing orders and other instructions binding for all banks.

The NBS will continue to maintain the stability and safety of payment systems, developing them further and implementing instant payments-based services.

Going forward, the NBS will ensure stable and secure operation of payment and card systems as their operator. In this regard, it will ensure adequate management of those systems, and proper work of the hardware and software platforms used in their operation.

The NBS plans to further **improve the operation of the international and interbank clearing of FX payments**, primarily by including new participants with head office in the Republic of Serbia, as well as to analyse the possibility of including the Republic of North Macedonia in international clearing of FX payments.

Plans for 2024 include **migration from the current MT format under the ISO 15022 standard to the MX format under the ISO 20022 standard** in the NBS RTGS, clearing, international and interbank clearing of FX payments systems.

In order to maintain safe and sound payment system operation as part of its oversight function, in 2024 the NBS will develop processes of permanent supervision of operators as far as management of the operation of those systems is concerned. It will also proceed with **continuous monitoring and maintenance of security and a high degree of availability of payment systems where the NBS is the operator**. Oversight of the further course of implementation of instant-payments-based services will also continue, with emphasis on pre-emptive action, in order to ensure financial infrastructure stability and diminish the risk of disruptions in the payments market.

In 2024, the NBS will continue its activities within the project of modernisation of payment systems in the Western Balkan region aimed at enabling cost-efficient payments between economies of the region, as well as with EU countries.

To maintain and improve safe and sound operation of payment systems and the oversight function, in 2024 the NBS will continue its regulatory activities aimed at improving regulations and internal acts governing stable and secure operation of payment systems and reporting to the NBS.

In 2024, the NBS will continue the drafting of laws and secondary legislation to further the process of payment system modernisation and harmonisation of national legislation with EU regulations, in order to align domestic regulations with the legal and regulatory EU requirements for joining the SEPA region. It will also engage in drafting the official document which will represent the application for joining the SEPA region.

The NBS will be active in the area of anti-money laundering – as both the regulator and the supervisor.

As under the law on ML/TF prevention the national risk assessment is updated every three years and the updating of national risk assessments is one of the activities planned under the Action Plan for the Prevention of Money Laundering and Terrorism Financing for 2022-2024, **plans for 2024 include the implementation of the national risk assessment including the assessment of the risk of money laundering, terrorism financing, financing of proliferation of weapons of mass destruction, and the assessment of the risk of money laundering and terrorism financing in the digital assets sector.** The NBS has taken active part in implementing the relevant activities from this action plan to improve the AML/CFT system in Serbia. Trends in the global financial market will continue to be monitored, as will the best global AML/CFT practices.

The NBS is in the process of drawing up new lists of indicators for recognising grounds for suspicion of money laundering or terrorism financing for banks, lessors, VPF management companies and life insurance providers, in line with the relevant resolutions of the UN Security Council. Within its scope of competence, the NBS plans to adopt a list of indicators for recognising grounds for suspicion of financing of proliferation of weapons of mass destruction for its supervised entities.

In the area of ML/TF prevention, the NBS will work on further upgrading its supervisory activities and timely monitoring the ML/TF risk exposure in entities under its supervision. It will also implement the plan of on-site supervision of ML/TF risk management for 2024 and continuously track international standards in this area.

The NBS will continue to adjust the legal regulations under its remit to ensure efficient functioning of the entire system.

Work will continue on creating legal and other grounds for enabling the use of e-bills of exchange in legal and business transactions in the Republic of Serbia, for the purpose of further digitalisation of operations, improvement of conditions and creation of new opportunities for economic development.

Plans also include drawing up laws and other regulations under the remit of the NBS in line with the needs of the practice, development tendencies and the resulting observance of EU regulations, international standards and the best practice. Representation of the NBS before courts and operational compliance activities will continue. The application of standards of business conduct in the NBS will be continuously analysed and improved to respond to the development of employees' tasks in the modern-day environment.

On the international plane, the NBS plans to continue successful cooperation with the IMF and other international financial institutions, as well as its activities in the process of European integration and rich bilateral financial cooperation.

Two regular performance reviews under the agreed economic programme, supported by the IMF's stand-by arrangement, are expected to take place during the year.

In 2024, **key activities in the process of European integration will focus on deepening and accelerating regional integration**, in order to facilitate Serbia's access to some segments of the single EU market, as well as on meeting the conditions for opening Cluster 2 – Internal market and Cluster 3 – Competitiveness and inclusive growth.

Implementation of phase two of the regional IPA Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the European System of Central Banks will continue.

Supervision of the authorised use of loans approved to final beneficiaries by intermediate banks under Apex loan to SMEs and other priorities III/A, III/B and reinvested funds, as well as loans approved to final beneficiaries by intermediate banks from the Revolving Credit Fund of the Republic of Serbia, will also continue in 2024.

The NBS will continue to upgrade its analytical framework, as a supporting tool in monetary and macroprudential policy decision-making.

In 2024, the NBS will continue to improve its macroeconomic and macroprudential analyses and the production of official statistics, given the importance of high-quality and timely data and analyses for successful economic policy pursuit.

In statistics, the plan is to proceed with the alignment of the methodology with EU regulations in the areas of monetary, financial and balance of payments statistics.

Our inflation nowcasting model will continue to be enhanced. Using this model, we download and process around 30 thousand prices of products and services from around 130 websites in real time, and we also develop AI-reliant techniques. We will also continue upgrading our mass data collection and processing techniques.

We will further enhance our medium-term inflation projection model, particularly with regard to the evaluation of coefficients in the model and the analysis of all relevant macroeconomic developments not directly included in the model.

The publication of the NBS Working Papers Bulletin is expected to continue. This publication was launched in 2021 in order to bring our institution's scientific and research work closer to the general public and to make a contribution to the discussion within the academic and wider community.

In order to preserve a high level of credibility and transparency of the central bank, responsible and timely communication will remain a priority.

Central bank communication on macroeconomic developments and outlook and the measures and activities it implements based on them increases the predictability and understanding of the central bank's role and the results achieved in its work. For this reason, the **NBS aims at clear and active communication not only with the professional community but also with the public at large and it will continue to inform the public in a responsible and timely manner about its operations and activities** using different communication channels – its webpage, social networks, answers to media and general public queries in electronic form, participation of NBS

representatives in radio and television shows, etc. As so far, the NBS will regularly inform the public about its monetary policy decisions by issuing press releases after monthly Executive Board meetings, as well as present the Inflation Report on a quarterly basis to the professional community and the wider public with projections of key macroeconomic variables for the period ahead. The Financial Stability Report will also be presented to the public, in order to provide information about the situation and risks in the financial system, as well as to timely indicate potential systemic risks. In 2024, the NBS will continue to develop its internet domain and subdomains and implement exhibition and educational activities.

Plans of the Institute for Manufacturing Banknotes and Coins include further technological development of production processes, along with optimisation of operating costs.

As so far, the **Institute for Manufacturing Banknotes and Coins – Topčider (ZIN)** is motivated and ready to strive towards further progress and achievement of even higher-quality and better results by finding new ways to employ human and technological potentials. ZIN's progress is also reflected in the innovations and business ideas, as well as in its ability to manage complex production processes through adequate planning, organisation and control.

ZIN's vision of progress is evident, as is its firm commitment to making intensive and extensive use of its capacities. The adoption of new models is also evident, as are the technological and applicative enhancements including identification of the right approach to raising employees' awareness.

ZIN has become a modern business unit which, in step with large global players in this area, is moving towards further development and global positioning.

Adequate level and composition of cash in circulation will be sustained.

To meet strategic and operational objectives relating to the provision of an adequate volume, quality and denominational structure of cash in circulation, as well as in order to replenish stocks in the NBS's vaults, plans for 2024 include the production of additional 70.0 mn pieces of banknotes in denominations of 10, 100 and 1000 dinars and 60.0 mn pieces of coins in denominations of 1, 2 and 5 dinars. Based on the Framework Agreement on Cooperation between the NBS and Mish International Monetary Inc from February 2018 and July 2023, it has been planned to produce 500 pieces each of the seventh, eighth and ninth design of numismatic coins with the portrait of Nikola Tesla for the needs of the numismatic market in the Republic of Serbia. The remaining 230 pieces of the sixth design of numismatic coins with the portrait of Nikola Tesla, not produced in 2023, will be manufactured this year.

To improve and increase the efficiency of overall business processes, the NBS's staff engage in ongoing education and development of their competencies.

The NBS continues to invest in staff professional capacities with constant innovations and adoption of the best central banking practices.

Going forward, the commitment to preserving comprehensive professional experience and the culture of permanent professional development will remain an integral part of the strategic orientation of the policy of managing human resources and institutional capacities in the NBS.

As so far, the NBS will be **socially responsible** and committed to numerous activities contributing to the welfare of the broader community.

List of charts and tables

Charts

III.1	Real GDP growth	26
III.2	Headline and core inflation – world and the euro area	26
III.3	Contributions to y-o-y GDP growth rate, expenditure side	27
III.4	Labour market indicators according to the Labour Force Survey	28
IV.1.2.1	Repo sale and stock of sold securities	36
IV.1.2.2	Volume of sterilisation by monetary policy instruments	36
IV.1.2.3	Movement in the key policy rate and average repo rate	38
IV.1.3.1	Y-o-y inflation at the end of 2022 and 2023	40
IV.1.3.2	Headline and core inflation	40
IV.2.2.1	Movement of total premium cumulatively by quarter	55
IV.2.2.2	Total premium by type of insurance	56
IV.2.3.1	Composition of VPF assets	62
IV.2.4.1	Composition of lessors' assets	64
IV.2.4.2	Composition of lessors' liabilities	65
IV.4.2.1	Key macroeconomic risks	78
IV.4.2.2	Financial soundness of the Serbian banking sector compared to regional average	79
IV.4.2.3	Systemic Stress Indicator	79
V.1.1	Coverage of imports by FX reserves	83
V.1.2	Sovereign bond indices in local currency	85
V.1.3	Portfolio and benchmark return in original currency in 2023	86
V.1.4	Total portfolio and benchmark return recalculated in RSD, by quarter	86
V.1.5	Composition of investment portfolio	87
V.3.1	Turnover in interbank and international clearing	109
V.4.2.1	RS Revolving Credit Fund – classification of activities	115
V.4.2.2	RS Revolving Credit Fund – territorial breakdown	116
V.4.2.3	Disbursement of Apex loan IIIB – territorial breakdown	116
V.4.2.4	Disbursement of Apex loan IIIB – classification of activities	117

V.4.3.1	Settled foreign credit liabilities in 2023 with NBS as the agent – by creditor and quarter	126
V.4.3.2	Loans approved in 2023 with NBS as the agent	127
VI.6.1	Composition of ZIN’s total income in 2023	161
VI.6.2	Composition of ZIN’s expenses in 2023	162
Tables		
IV.2.1.1	Financial system structure	42
IV.2.1.2	Ownership structure of the banking sector in 2023	42
IV.2.1.3	HHI concentration – the shares of top banks in banking sector balance sheet assets, loans and deposits	43
IV.2.1.4	Structure of banks’ net assets as at 31 December 2023	44
IV.2.1.5	Structure of banks’ liabilities as at 31 December 2023	44
IV.2.1.6	Structure of bank capital	45
IV.2.1.7	Banks’ exposure to FX risk as at 31 December 2023	45
IV.2.1.8	NPL composition	46
IV.2.1.9	Classification of bank assets	47
IV.2.1.10	Banks’ performance indicators	48
IV.2.1.11	Banks’ financial result	48
IV.2.1.12	Banking sector profitability indicators	48
IV.2.1.13	Overview of on-site examinations in 2023	53
IV.2.6.1	Number of complaints by financial service provider in 2023	70
IV.2.6.2	Number of mediation procedures in 2023	70
V.1.1	Value-at-Risk (VaR) as at 31 December 2023	87
V.1.2	Stress test as at 31 December 2023	88
V.2.1.1	Denominational structure of currency in circulation	89
V.2.1.2	Overview of detected banknote counterfeits (in pieces)	90
V.2.1.3	Overview of detected banknote counterfeits (in RSD thousand)	90
V.2.2.1	Cash management and foreign cash operations – Belgrade Branch	92
V.2.2.2	Cash management and foreign cash operations – Novi Sad Branch	93

V.2.2.3	Cash management and foreign cash operations – Niš Branch	94
V.2.2.4	Cash management and foreign cash operations – Kragujevac Branch	95
V.2.2.5	Cash management and foreign cash operations – Užice Branch	95
V.3.1.1	Value of turnover and number of payments in RTGS	97
V.3.1.2	Value of turnover and number of payments in the clearing system	97
V.3.1.3	Value of turnover and number of payments in the NBS IPS system	98
V.3.1.4	Value of turnover and number of payments in interbank and international clearing	99
V.5.1.1	Comparative overview of the number of employees	136
V.5.1.2	Qualification structure of staff employed for an indefinite period	136
V.5.1.3	Staff gender structure by organisational unit	137
V.5.1.4	Age structure of staff employed for an indefinite period	137
V.5.1.5	Education, professional training and development	138
VI.1.1	Balance sheet	142
VI.1.2	Income statement	144
VI.3.1	Concentration of credit risk of financial assets by country and region	148
VI.3.2	Exposure to liquidity risk – financial assets and liabilities with maturity date	149
VI.3.3	Exposure to liquidity risk – financial assets and liabilities without maturity date	150
VI.3.4	Exposure to interest rate risk	151
VI.3.5	Currency risk exposure of financial assets and liabilities	152
VII.6.1	Total income and expenses of ZIN	160
VII.6.2	Structure of total income	161
VII.6.3	Structure of total expenses	162

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