

ANNUAL REPORT  
ON ACTIVITIES AND RESULTS



National Bank of Serbia

2020



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2020

**NATIONAL BANK OF SERBIA**

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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.<sup>1</sup>

As stipulated by the Statute of the National Bank of Serbia,<sup>2</sup> 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 in 2020* was reviewed and adopted by the National Bank of Serbia's Executive Board on 10 June 2021.

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

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<sup>1</sup> 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.

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



## *Foreword by the Governor*



*The year behind us will remain remembered as the year of the greatest challenges in recent economic history. We faced a health crisis triggered by the coronavirus pandemic, which engulfed the entire world, profoundly affecting people's health and economies, and radically changing our lives. I am proud to say that even in*

*such an adverse environment, we successfully fulfilled our statutory objectives. We preserved price and financial stability and worked hand in hand with the Government to mitigate the economic fallout from the pandemic. We jointly pursued an economic policy that provided support to businesses and citizens, and helped preserve investment and consumer confidence, production capacities and jobs. The NBS and the Government were able to respond in a timely, strong and adequate manner during the pandemic, without prejudice to macroeconomic stability and the country's fiscal position, owing to the responsible conduct of economic policy in the past eight years. Serbia faced this crisis, unlike the previous ones, in a much better macroeconomic position and much more resilient to potential external shocks, which helped us adopt and implement timely and large-scale measures. The room for response was efficiently used. Owing to the coordinated activities of the Government and the NBS, today Serbia is one of the few economies whose GDP has already reached its pre-crisis level and is continuing to grow. Moreover, even in extraordinary circumstances, the NBS acted as a responsible regulator and innovator, strengthening its institutional capacities and resilience to potential future risks.*

*Speaking of our primary objective – price stability, we must highlight that inflation remained firmly under control even amid the pandemic, averaging 1.6% in 2020. That inflationary pressures were low was also confirmed by core inflation (excluding the prices of food, petroleum products, alcohol and cigarettes), which is under the strongest sway of monetary policy measures, and which also stood at 1.6% on average. As in the previous years, the important factors of price stability in 2020 were the preserved relative stability of the exchange rate and anchored inflation expectations of the financial and corporate sectors, which underpin monetary policy credibility. By keeping inflation low and stable, we preserved the real value of income of businesses and citizens, and maintained investment and consumer confidence, thereby contributing to the certainty of doing business and planning.*

*We maintained relative stability of the exchange rate even amid high uncertainty in the global financial market triggered by the unprecedented crisis. This was made possible largely owing to the NBS's timely and well-calibrated measures, including interventions in the FX market. Moreover, owing to the credibility earned in the past period, we minimised the negative effect of psychological factors on exchange rate volatility. We thus also averted capital outflows from Serbia, which could have occurred in an environment of elevated risk aversion following the outbreak of the pandemic and lockdowns of a number of global economies. An important element of the domestic economy's resilience to external uncertainties are NBS FX reserves, maintained at an adequate level even during the pandemic year. They stood at EUR 13.5 bn at end-2020, covering over six months' worth of goods and services imports, which is twice more than the standard defining the adequacy of FX reserves. In accordance with the principles of safety and liquidity, we placed our FX reserves with top-tier institutions and invested them in highly liquid securities of prime issuers. We also increased the share of gold, as a safe haven, in our FX reserves, from 10% to over 13%.*

*We were also successful in achieving our second objective – preservation and further strengthening of financial stability. We undertook activities in the field of microprudential and macroprudential policies in order to safeguard financial stability. We applied our measures transparently, without diminishing the efficiency of the main monetary policy instrument. We continued to implement activities aimed at reducing the existing and preventing the build-up of new NPLs. At the same time, by changing and easing regulatory requirements, we provided support to citizens and businesses to overcome the negative economic effects of the pandemic. As a result, the NPL share in total loans stayed below the pre-crisis level, at 3.7% at end-2020, and strong positive interaction between the financial and the real sector continued. Our banking sector remained adequately capitalised, liquid, stable and resilient to internal and external shocks, as also confirmed by our regular stress tests.*

*The preserved stability – price, financial and relative stability of the exchange rate, enabled us to be the first central bank in the region and one of the first in the world that responded to the negative effects of the pandemic. In March 2020, we cut the key policy rate by 50 bp, and in April, June and December by 25 bp each – to 1% at end-2020, which is its lowest level in the inflation targeting regime, down by 11.75 pp from May 2013, when the cycle of monetary policy easing began.*

*Although the banking sector continuously recorded excess dinar liquidity, just after the pandemic broke out, the NBS responded swiftly, as a first resort, providing banks with additional dinar and FX liquidity under favourable conditions. This helped soothe the market and prevent potential spreading of panic at the start of the pandemic. Specifically, we ensured additional dinar liquidity through auctions of repo purchase and bilateral outright purchase of dinar securities in the secondary market, and FX liquidity by organising*



*regular and additional FX swap purchase operations and temporarily changing the auction method. We thus encouraged banks to lend to the private sector in an environment of globally higher risk aversion, and made them even more willing to implement measures whereby we supported businesses and households – such as the moratorium on the repayment of credit and financial lease liabilities. To further support dinar corporate lending under the Guarantee Scheme at favourable interest rates, we raised the required reserve remuneration rate relative to the standard rate on the amount of dinar loans approved at rates lower than maximum prescribed rates within the Guarantee Scheme. By changing regulations, we also enabled citizens to more easily access funding, primarily housing loans.*

*A mix of measures yielded the desired effects and ensured continued smooth functioning of the interest rate and credit channels, with the terms of dinar borrowing and loan repayment being the most favourable so far, which contributed to the rise in disposable income. Along with the effects of the moratorium and the approval of loans to micro, small and medium-sized enterprises, the favourable conditions of corporate and household lending helped lending activity to record an almost two-digit growth rate for the third consecutive year, including a more favourable currency structure and relatively well-balanced structure by loan purpose.*

*The NBS contributed to economic recovery also by ensuring that the perception of Serbia as an investment destination remains positive. This was also noted by rating agencies, which – in contrast to close to 60 countries whose ratings were downgraded since the onset of the crisis – affirmed Serbia's rating one step away from investment grade in the pandemic environment (Fitch and Standard & Poor's) or moved it closer to that level (Moody's in March this year). To support their decisions, they cited low and stable inflation, relative stability of the exchange rate, an adequate level of FX reserves, an enhanced monetary policy framework and higher monetary policy credibility, a reduced NPL share and reinforced financial stability. That investors are willing to invest in Serbia is also confirmed by capital inflows, which, despite the crisis, remained relatively high. In 2020, FDIs alone exceeded EUR 3 bn (EUR 2.9 bn net). FDI inflows to Serbia were the highest in the region and, for the sixth year in a row, sufficient to cover, in net amount, the current account deficit. No less importantly, FDIs remained largely channelled to tradable sectors and diversified by geographical area and project. As a result, Serbia's goods exports recorded a significantly smaller decline in 2020 and remained relatively resilient to the negative effects of dented external demand. Significant inflows also came from successful issues of eurobonds in the international financial market, of which a bulk was used for the early repayment of eurobonds issued earlier under less favourable conditions. I take particular pride in the fact that our committed, years-long work to include Serbia's dinar bonds in the J.P. Morgan GBI-EM Global Diversified index paid off. As of 30 June 2021, our dinar bonds will be included in the renowned*

*J.P. Morgan index family. This is another strong signal to international investors that Serbia is a safe and desirable investment destination and will remain so in the years to come.*

*In early 2020, economic indicators continued to record positive tendencies, with some of them even above our expectations. GDP growth would have certainly exceeded 4% for the third consecutive year had it not been for the pandemic. In a pandemic environment, the economy contracted by 1% due to downturns in service sectors, which can be associated primarily with measures aimed at preserving citizens' health, which limited the activity of some service sectors. On the other hand, agriculture lent a positive impulse as the agricultural season was above average for the third year in a row. The industry also gave a positive contribution, remaining a powerful driver of economic growth, despite subdued external demand. Owing to investment in export sectors, industrial production and goods exports reached their pre-crisis level even during the summer last year. GDP reached its pre-crisis level already in Q1 this year, a quarter before than we anticipated. International financial institutions agree that such an outcome, which was one of the most favourable in Europe, was largely the result of monetary and fiscal stimuli, and that the economic contraction would have been much sharper and recovery would have lasted for several years had it not been for the undertaken large-scale measures. The labour market remained unscathed, as seen in the continued rise in formal employment and wages, and the unemployment rate staying at a single-digit level.*

*The NBS significantly contributed to the successful conclusion of the economic programme implemented together with the IMF within the Policy Coordination Instrument. Also agreed was the framework of the new arrangement that the IMF is to approve already in late June. The new programme does not envisage any reform objectives for the NBS. Namely, the NBS is expected to continue doing what it has been doing so far – preserving price and financial stability and supporting the Government's economic policy, aimed at advancing economic reforms and enhancing competitiveness. The arrangement with the IMF is of advisory nature and does not involve the use of IMF financial resources – Serbia has no need for them as we have ensured an adequate level of FX reserves. The NBS continued with successful cooperation with other international institutions as well – the World Bank, European Bank for Reconstruction and Development, and particularly the European Central Bank and European Commission. We maintained a regular, high-level dialogue with all these institutions within Serbia's EU accession process, and we exchanged macroeconomic projections and views of the key aspects of Serbia's sustainable growth and development.*

*In 2020, the NBS employed all its resources to ensure the stability and safety of its payment system, and did everything necessary to ensure that citizens continue to use payment services smoothly and to efficiently and effortlessly make payments. In 2020, the instant payment system recorded over*

25 million payments, worth RSD 220.6 bn, and the average time of execution of a transaction was 1.2 seconds. State-of-the-art forms of cashless payments available to citizens and promoted by the NBS – such as instant payments by using e- and m-banking apps, bill payments by scanning the NBS IPS QR code, and payments at merchants' points-of-sale by scanning the IPS QR code – have facilitated access to payment accounts. This also ensured a higher degree of health protection, which proved particularly important during the pandemic. In addition, financial service consumers in Serbia are among the first in Europe who can conclude distance contracts given that video identification is enabled. In December 2020, the Law on Digital Assets was adopted, comprehensively regulating, for the first time in our country, virtual currency transactions, among other things. The NBS took an active part in its drafting.

Dinarisation has remained our strategic objective, which we supported by maintaining low and predictable inflation and relatively stable exchange rate, and by developing the domestic financial market and promoting FX hedging instruments. In this regard, I wish to highlight a measure we adopted last year in order to support the development of the dinar financial market – we included dinar corporate bonds in the list of securities accepted as collateral in monetary operations. Owing to a rise in household dinar savings of close to 17% during the year and more dinar loans granted to corporates, further progress was achieved on the dinarisation front. Measured by the share of dinar deposits and loans in total deposits and loans, the degree of dinarisation came close to 40%, which is the highest level so far. Dinarisation is also boosted by the fact that interest rates on corporate dinar loans are at approximately similar levels as rates on FX-indexed corporate loans.

We also continued to raise the overall level of protection of financial service consumers, by conducting procedures under individual consumer complaints, and procedures of collective protection of consumers' rights (determining unfair business practices and contractual terms). We timely provided statistics needed for decision-making, compilation of reports and analyses. In doing so, we complied with the deadlines of reporting to international institutions. Data coverage and submission method were assessed as highly harmonised with EU regulations. We also implemented numerous educational activities and aimed to timely inform the public about our operations in a transparent and responsible way. We presented to the public numerous reports and expert analyses, in an effort to help market participants, with our explanations and assessments of economic trends, to better understand economic developments at home and abroad. We were particularly active on social networks, aiming to make information on our work available in the simplest and fastest possible way. In September 2020, we launched our new website, facilitating access to our information and data via mobile phones and other electronic devices.

I am confident that all the above stated unambiguously confirms that even in these extraordinary circumstances we have pursued responsible monetary

*and macroprudential policies, adopted timely and adequate measures, which contributed to the preservation of macroeconomic stability and faster and more robust economic recovery, which will, measured by real GDP growth, amount to 6% this year. Our mission and course of action will remain unchanged in the coming period because stability, which brings benefits to all – citizens and businesses, exporters and importers, investors and consumers – is without an alternative.*

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.

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# I KEY RESULTS IN 2020



For the eighth year in a row, **the NBS kept inflation at a low and stable level** (1.6% on average in 2020), despite the consequences of the global health and economic crisis triggered by the coronavirus pandemic. It thereby preserved the real value of income of businesses and citizens.



**The dinar remained broadly unchanged vis-à-vis the euro in 2020**, largely owing to the activities of the NBS, which provided banks with necessary FX liquidity amid heightened, pandemic-induced uncertainty. Our economy's significant resilience to negative effects from the international environment was buttressed by **FX reserves**, which even in 2020 were preserved at an adequate and stable level (EUR 13.5 bn at end-2020).



**The NBS was one of the first institutions in the country and among the first central banks in the world to swiftly respond to the pandemic.** In March, it cut the key policy rate by 50 bp to 1.75%, and until end-2020 by additional 75 bp to 1.0%, in order to provide additional monetary support to businesses and citizens. The key policy rate cuts and monetary policy easing fully translated onto lower interest rates in the interbank money market and, by extension, onto lower rates on dinar loans.

**The NBS also undertook additional measures to support the real sector** – it provided banks with a



significant amount of dinar and FX liquidity through direct repo operations, swap auctions and purchase of dinar securities in the secondary market. It also introduced a moratorium on the repayment of credit and financial lease liabilities, and undertook a number of regulatory activities to support businesses and citizens (measures to facilitate the repayment of loans of debtors hit by the pandemic, more favourable conditions of dinar borrowing to micro, small and medium-sized enterprises and entrepreneurs within the Guarantee Scheme, lower downpayment for first-time home buyers, lower minimum degree of construction of a facility whose purchase can be financed by housing loans etc.).



The NBS monetary policy measures and ensured favourable financing conditions resulted in almost **double-digit growth in domestic loans to the non-monetary sector for the third consecutive year** (9.9% in 2020, excluding the exchange rate effect). Corporate and household loans gave an almost equal contribution to total credit growth. At the same time, as interest rates on dinar corporate loans came closer to rates on euro-indexed loans, dinar loans were used to a greater extent and **further progress was achieved in dinarisation**, which is our important objective and whose fulfilment further buttresses financial stability and increases monetary policy efficiency. **A stable upward trend of dinar household savings recorded in previous years continued** (17% in 2020), which confirms confidence in the domestic currency and the banking system.



**Financial stability was confirmed also in the period of the pandemic-induced crisis**, as also signalled by earlier implemented stress tests. The NPL ratio of 3.7% at end-2020 and the capital adequacy ratio of over 22% suggest that banks' asset quality was preserved during the pandemic.



Even amid globally elevated risk aversion, **FDI inflows to Serbia remained high** (EUR 3.0 bn gross or EUR 2.9 bn net) and diversified by geographical area and project. For the sixth year in a row, FDIs fully covered the current account deficit (146.5%), which equalled 4.3% of GDP, whereby our external position was further strengthened. Portfolio investment inflows amounted to EUR 1.6 bn net, mainly on account of successful eurobond issues in the international financial market. The bulk of these proceeds

was used for the repayment of securities issued earlier under much less favourable conditions.



Owing to the responsible conduct of economic policy in the past period, Serbia faced the crisis in a much better macroeconomic position than the earlier crises. Monetary and fiscal authorities were therefore able to respond vigorously and to mitigate the pandemic's negative effects on businesses and citizens. As result, **the economy contracted by 1% in 2020, which is one of the best outcomes in Europe**. Consumer and investment confidence, and production capacities have been preserved. Moreover, **the labour market remained largely unscathed**, as indicated by the rising number of employed persons in the private sector and the unemployment rate staying at the single-digit level.



**Serbia's credit rating remained one step away from investment grade even during the extraordinary circumstances**, when downgrades were more common than during the global financial crisis of 2008/2009. In the agencies' view, the key factors of resilience and a favourable outlook include low and stable inflation, relative stability of the exchange rate, resilience of the financial sector, narrowed external imbalances, full coverage of the current account deficit by FDI inflows, an adequate level of FX reserves, increased economic diversification, and lower fiscal risks.



**In December 2020, the Law on Digital Assets was adopted. The NBS actively participated in its drafting.** For the first time in our country, the Law regulates, among other things, virtual currency transactions. After successful pilot productions, **in H1 2020 the first instant payments were initiated at points-of-sale**, which banks implemented by using the IPS QR code.



**The national DinaCard system recorded 102.2 mn transactions in 2020**, up by 45% y-o-y. At end-2020, 4.4 mn payment cards were issued in the market. The internet sales network continued to expand and online payments can now be made by the domestic payment card.



In the course of 2020, **cooperation with the IMF** took place through the fourth and fifth (last) reviews of the economic programme supported by the Policy Coordination Instrument. The IMF assessed that the

programme was successfully implemented and that the measures undertaken during the pandemic were well-designed and appropriately aimed at providing lifelines to citizens, preserving jobs, and ensuring sufficient liquidity in the banking system, and relief to borrowers.



**The Progress Report noted Serbia’s continuous progress in EU integration.** As stated in the Report, Serbia is well-equipped when it comes to the development of a functional market economy, which is a better assessment than stated in the previous Report. The **IPA project** “Strengthening institutional capacities of the NBS in the EU accession process” **was successfully completed** in 2020.

## II INSTITUTIONAL FRAMEWORK AND ORGANISATION OF THE NATIONAL BANK OF SERBIA

### 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 Serbia<sup>3</sup> 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.

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3 RS 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.

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.

### *Tasks*

Tasks of the NBS are to:

- determine and implement monetary and foreign exchange policies;
- manage foreign exchange reserves;
- determine and implement, within its scope of authority, 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;
- 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;
- 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 statistical activities).

Based on the Law on Digital Assets<sup>4</sup>, adopted in December 2020, the NBS will – in addition to supervision of virtual currencies in the field of the prevention of money laundering and terrorism financing – undertake in 2021 the tasks of (de)licensing and supervision of virtual currency service providers.

#### *Position of the National Bank of Serbia*

The Law on the National Bank of Serbia regulates in further detail, in compliance with international standards and rules, the constitutional principle of 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. 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.

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<sup>4</sup> RS Official Gazette, No 153/2020.

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 Bodies of the National Bank of Serbia

NBS bodies are:

- Executive Board of the National Bank of Serbia (hereinafter: Executive Board);
- Governor of the National Bank of Serbia (hereinafter: Governor);
- 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 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, voluntary pension fund management companies, payment institutions and electronic money institutions), decides on the licensing and delicensing 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 areas of the protection of rights and interest of financial service consumers. In addition, the Executive Board issues guidelines for the uniform application of regulations falling within the scope of authority of the NBS.

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 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*

#### Governor:

- represents and acts on behalf of the NBS;
- manages operations of the NBS and organises its work;

- implements decisions of the Executive Board and of the Council of the Governor;
- 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 Council of the Governor;
- proposes regulations, general and individual acts to be adopted by the Executive Board and the Council of the Governor, 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 of the Governor:

- 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;

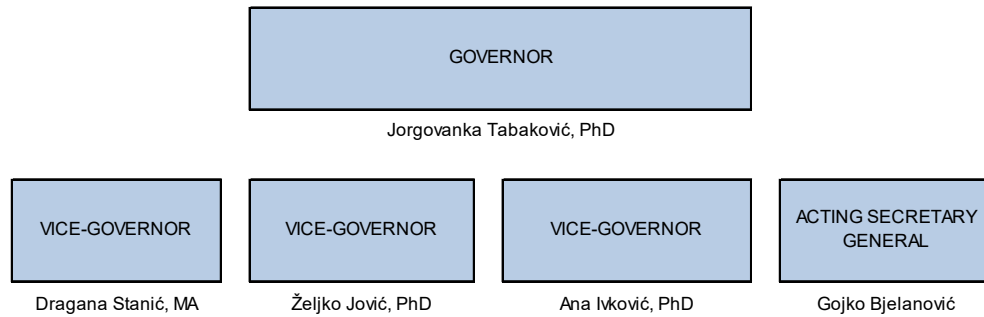
- adopts the FX reserve management strategy, at the proposal of the Executive Board;
- decides on membership in international financial organisations and institutions;
- adopts the NBS financial plan;
- adopts NBS annual financial statements;
- appoints the manager of the NBS’s organisational unit in 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 a 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.

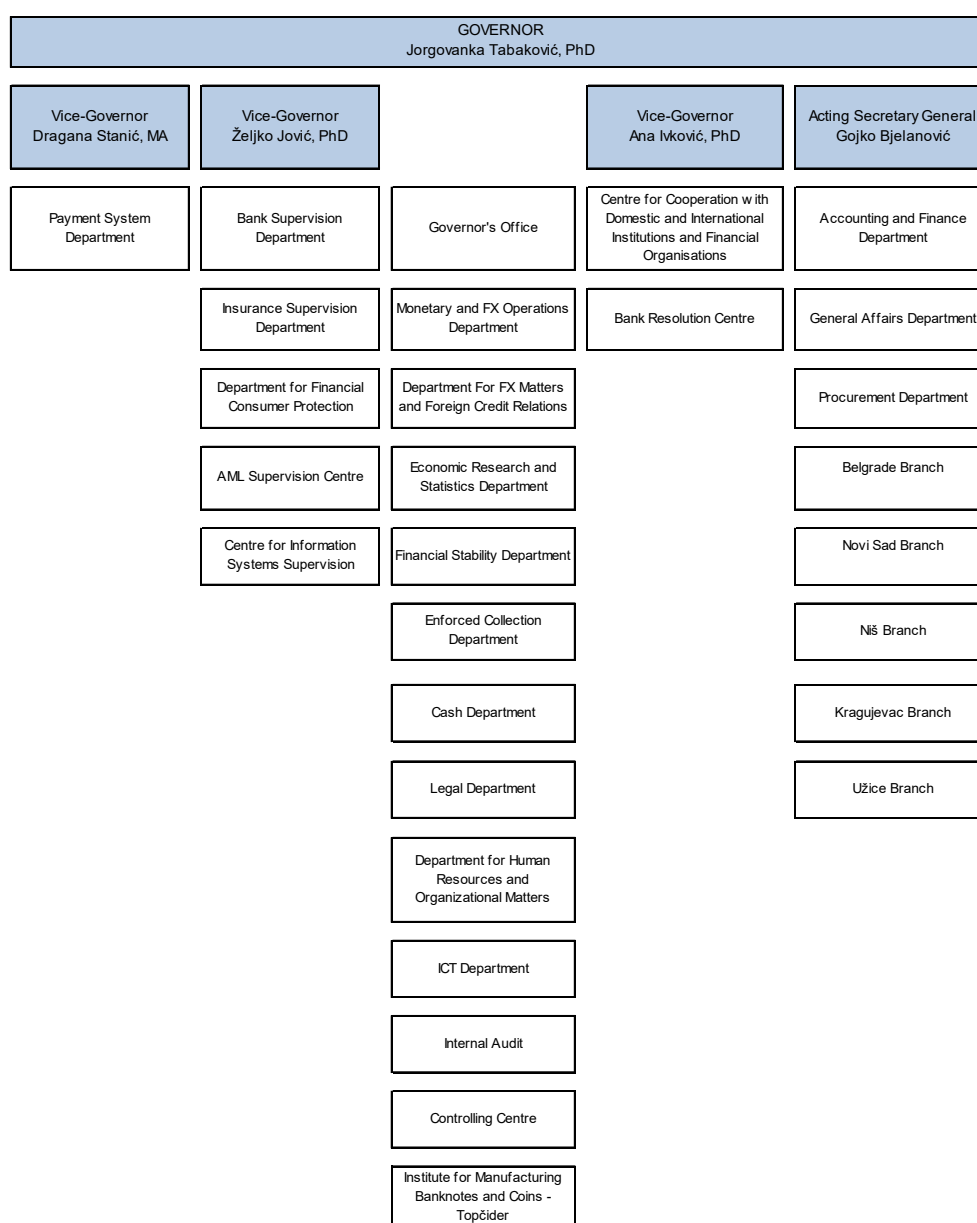
## II.3 Organisation

# MANAGEMENT OF THE NATIONAL BANK OF SERBIA (as at 31 December 2020)



# COORDINATION OF WORK WITHIN THE NATIONAL BANK OF SERBIA

(as at 31 December 2020)



# ORGANISATIONAL CHART OF THE NATIONAL BANK OF SERBIA

(as at 31 December 2020)

NATIONAL BANK OF SERBIA						
Main organisational units	Organisational units					Specialised organisation
	Belgrade Branch	Novi Sad Branch	Niš Branch	Kragujevac Branch	Užice Branch	Institute for Manufacturing Banknotes and Coins - Topčider
Monetary and FX Operations Department	Group for Financial Consumer Education	Group for Financial Consumer Education	Group for Financial Consumer Education	Group for Financial Consumer Education	Treasury and Cash Vault Division	Development and Quality Centre
Department For FX Matters and Foreign Credit Relations	Treasury and Cash Vault Division	Treasury and Cash Vault Division	Treasury and Cash Vault Division	Treasury and Cash Vault Division	General Affairs Unit	Pre-Press Department
Financial Stability Department		General Affairs Unit	General Affairs Unit	General Affairs Unit		Banknote Printing Department
Economic Research and Statistics Department						Coin Production Department
Centre for Cooperation with Domestic and International Institutions and Financial Organisations						Department for Value and Secured Papers
Bank Resolution Centre						Card Production and Personalisation Solutions
Cash Department						Department of Maintenance and Energy
Payment System Department						Sales Department
Enforced Collection Department						Department of Economic Affairs
Governor's Office						General Administrative, Legal and Personnel Department
Internal Audit						
Legal Department						
Accounting and Finance Department						
ICT Department						
Department for Human Resources and Organizational Matters						
General Affairs Department						
Procurement Department						
Controlling Centre						
Bank Supervision Department						
Insurance Supervision Department						
Centre for Information Systems Supervision						
Department for Financial Consumer Protection						
AML Supervision Centre						

# III PRICE AND FINANCIAL STABILITY

## III.1 Monetary policy

### III.1.1 Monetary policy in 2020

During 2020, monetary policy was pursued in accordance with the NBS Monetary Policy Programme in 2020,<sup>5</sup> taking into account the new circumstances caused by the coronavirus pandemic. The Monetary Policy Programme, adopted in December 2019, envisaged that the NBS would aim to achieve the inflation target through consistent and predictable changes in the key policy rate, taking into account the inflation projection, economic developments in the domestic and international environment, and the impact on financial stability. As highlighted in the Programme, vigorous fiscal adjustment, implementation of structural reforms and full coordination of monetary and fiscal policies helped strengthen macroeconomic stability and increase the resilience of the domestic economy to potentially adverse effects from the international environment, making the economic outlook more favourable. In addition, the Programme stipulated that during 2020 the NBS would continue to maintain the necessary caution in making monetary policy decisions in light of uncertainties arising from the international environment.

**In January and February 2020, the key policy rate was kept on hold at 2.25%**, its lowest level in the inflation targeting regime at the time. In making such decision, the NBS Executive Board was aware of the fact that domestic factors still contributed to low and stable inflation, while developments in the international environment warranted caution in the conduct of monetary policy. It was also kept in mind that the full effects of past monetary policy easing in July, August and November 2019 by a total of 75 bp to 2.25% were expected in the period ahead.

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<sup>5</sup>RS Official Gazette, No 88/2019.

The start of 2020 was characterised by favourable macroeconomic conditions for implementing the NBS's monetary policy. For the seventh year in a row, inflation was low, which was expected to continue going forward. According to the projection, y-o-y inflation was expected to move around the lower bound of the target tolerance band by mid-2020, whereafter it would gradually approach the target midpoint. Such movements should be driven by the low base effect from vegetable and administered prices in the short term, and by the rising aggregate demand in the medium term.

As in previous projections, growth in domestic demand was the main factor that was to contribute to inflation approaching the target midpoint over the medium-term. The Executive Board estimated that such growth was to fully compensate for the negative effects of the anticipated weaker external demand in 2020. Available monthly indicators of economic activity during the first two months of 2020 suggested strong growth of GDP on the back of investments, spending and export. The Executive Board expected GDP growth in 2020 to measure around 4% and maintain a similar dynamics in the medium term as well.

Unlike favourable macroeconomic conditions at home, the developments in the international environment still mandated caution in the conduct of monetary policy. Though tensions surrounding the trade policies of leading world economies somewhat subsided, uncertainty largely stemmed from geopolitical tensions. Monetary policies of leading central banks provided support to the global economy, which was supposed to continue to have a favourable effect on conditions in the international financial market and capital flows to emerging markets, Serbia included. However, it remained uncertain as to what extent the monetary policies of leading central banks would differ from market expectations in the coming period, which could affect capital flows towards emerging economies. Monetary policy decisions of the Executive Board also called for caution over the uncertain pace of the global prices of oil and primary agricultural commodities, considering the intricate impact of numerous factors on both the supply and demand side.

However, because of the unprecedented crisis in recent history – caused by the coronavirus pandemic, **the NBS significantly eased its monetary policy from March to June. Namely, on 11 March 2020 the World Health Organisation declared a global pandemic of the coronavirus, and on the very same day, in an unscheduled meeting, the NBS Executive Board reacted by trimming the key policy rate by 50 bp.** In addition to cutting the key policy rate, in the March meeting the Executive Board also decided **to narrow the interest rate corridor from  $\pm 1.25$  pp to  $\pm 1$  pp** relative to the key policy rate. In terms of the promptness of its reaction to the effects of the pandemic, the NBS was among the first institutions in the country and among the first central banks in the world. **In its April and June meetings, the Executive Board again trimmed the key policy rate by 25 bp each time, to 1.25%**, in light of the fact that the scale of the pandemic-induced crisis in the world required additional monetary policy support to mitigate the adverse effects of the pandemic and trigger economic recovery. Key



policy rate cuts translated onto a further decline in interest rates in the interbank money and dinar loan markets, which enabled the continuation of lending growth.

In the period March–June, the NBS also passed decisions about **additional measures of support to the real sector**. By way of direct repo operations, swap auctions and bilateral purchase of dinar government securities from banks, a significant amount of dinar and FX liquidity was ensured. Also, dinar corporate bonds were included in the list of securities which banks may use in monetary operations, after which the NBS purchased a portion of issued bonds from banks in the secondary market. Besides ensuring additional dinar liquidity to the banking sector, this provided a boost to the development of the corporate bond market. In addition, a **moratorium on the repayment of liabilities under loans and financial leasing** was prescribed for all debtors who wanted it, first for 90 days and then for an additional 60 days, whereby the burden on households and corporates was relieved.

Moreover, in July the Executive Board introduced **stimulus measures within the Serbian Government’s Guarantee Scheme, which contribute to even better conditions of dinar corporate lending**, and in turn to the rise in the degree of dinarisation and additional strengthening of financial stability. Namely, banks that approve dinar loans to their clients under the Guarantee Scheme at interest rates lower by at least 50 bp than the maximum rate (which is one-month BELIBOR + 2.5 pp), have a 50 bp higher remuneration rate on the amount of reserve requirements in dinars, specifically on the amount of loans approved under more favourable conditions. These, as well as other measures adopted by the NBS because of the pandemic, have considerably mitigated the impact of the first wave of the crisis on banks, corporates and households and ensured faster economic recovery from its consequences.

In a situation of global uncertainty caused by the pandemic, in July the NBS set up a **precautionary repo line with the ECB**, which, if the need should arise, could enable additional euro liquidity to the domestic financial system. At the same time, it must be noted that neither dinar nor FX liquidity of the domestic banking sector were threatened in any moment, and the high level of Serbia’s FX reserves was more than sufficient to respond to any disturbances in FX liquidity. Establishing the precautionary repo line with the ECB should be seen as another form of security which indicates that the NBS is taking all the necessary activities within its remit and acting pro-actively in order to support the domestic economy and maintain macroeconomic stability in conditions of elevated global uncertainty due to the pandemic.

The NBS was in a position to react with the above-mentioned measures and, in coordination with the Serbian Government, contribute to the alleviation of the negative effects of the pandemic and offer full support to the country’s economic recovery owing to the responsible economic policy conduct over the past eight years. **Serbia entered this crisis in a much better macroeconomic position than previous crises** – with a 4.3% economic growth rate on average in the past two years, low and stable inflation for the seventh year straight, a strong banking sector,

decreased public debt, eliminated fiscal imbalance and significantly narrowed external imbalance, as well as record high FX reserves. Such position of Serbia enabled a **strong response of the monetary and fiscal authorities in accordance with the best international practice, in a way that does not threaten macroeconomic stability and the country's fiscal position.**

To minimise the negative effects of the pandemic, the Serbian Government reacted during 2020 by adopting two comprehensive packages of fiscal measures,<sup>6</sup> which contributed to the preservation of business and consumer confidence, production capacities and jobs in the majority of economic sectors. With rising costs of healthcare provision, this led to a temporary increase in the consolidated fiscal deficit to 8.1% of GDP in 2020. Particularly important is the continued rise in government capital expenditures, which speeds up the implementation of infrastructure projects and boosts potential output. Though the share of public debt in GDP also temporarily increased in 2020 (by 5.3 pp to 58.2% of GDP), it remained below the Maastricht criterion of 60%. Also, its increase was among the smallest in Europe, thanks to the secured favourable financing conditions of the government on the one hand, and the fall in economic activity of only 1% on the other.

The timely and well-coordinated measures of the Government and the NBS prevented a major fall in economic activity at the onset of the pandemic. As in most European countries, it was certain that the greatest effects of the crisis in Serbia would be felt in April, but also that there would be a recovery in the following months, driven by the implemented monetary and fiscal policy measures aimed at stimulating growth and preserving the country's encouraging medium-term prospects by enabling favourable financing conditions for corporates and households.

Decisions to lower the key policy rate were determined by the fact that it was becoming increasingly evident that the opening of the global economy would be gradual, and thus its recovery as well, which drastically reduced economic growth projections for many advanced, as well as emerging countries, and the fact that the global oil price dropped to its historic minimum. The subdued economic activity was under the impact of hampered operations in many service activities – a complete halt, and in some cases a disruption to global value chains, as well as the fall in consumer and business confidence. In such conditions, uncertainty in the international commodity and financial markets increased, and investors preferred investing in safe assets, which resulted in a fall in indices in world stock exchange markets and a rise in the price of gold and the prices of government securities of advanced countries.

To mitigate the negative effects of the crisis, numerous central banks across the world responded by significantly easing their monetary policies and by a number of unconventional measures. Thus, the Fed narrowed its federal funds target range to almost zero and adopted a quantitative easing programme which represents the

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<sup>6</sup>Additional, third package of fiscal measures will be implemented during 2021 and it should total around EUR 2.0 bn.

largest central bank intervention in its history. Monetary measures in the USA were accompanied by extremely strong fiscal measures. Recovery of the euro area, which is of particular importance to us, was triggered by the ECB's expansionary measures, as well as the gradual loosening of containment measures which, after the initial stage of the pandemic, started from May onwards. In addition, governments of many countries reacted by comprehensive packages of fiscal aid, and measures were taken at the EU level as well. In making the decision on monetary policy easing, the NBS Executive Board was aware that coordinated activities of the monetary and fiscal policies in the largest world economies should contribute to favourable financing conditions in the international market in the newly-emerged situation. Also, the Executive Board bore in mind that due to the sluggish global growth outlook, the prices of primary commodities in the global market were expected to stay relatively low going forward, notably oil prices.

**After the initial strong and comprehensive response to the ongoing global crisis caused by the pandemic, the Executive Board kept the key policy rate on hold until December.** In making such decision, the Board was primarily guided by the achieved and anticipated effects of past monetary and fiscal policy measures aimed at mitigating the adverse effects of the pandemic and bolstering economic growth. The results in the majority of production and service activities exceeded expectations. When data for the majority of economic indicators for August were published in late September, it became completely certain that at the level of 2020 GDP growth rate would be higher than the originally estimated -1.5%, therefore the NBS revised its projection to -1%. The Executive Board took this into account when deciding about the key policy rate in October. The Board underlined that the pre-crisis level in industry and retail trade had already been reached, that export was on the path to normalisation, and that the current GDP projection for 2020 also reflected better results in agriculture. The favourable outlook was also mirrored in the FDI inflow, which remained solid despite the pandemic and the contracted economic activity of our major foreign trade partners, and which still fully covered the current account deficit.

Though global economic activity recovered gradually, partly thanks to fiscal stimuli, as well as monetary policies of leading central banks, prospects were for the most part dependent on the course of the pandemic. The recovery of the euro area, our key foreign trade and financial partner, was better than previously expected, owing to the ECB's stimulus measures, which increased liquidity and supported lending and economic activity. When making the decision to keep the key policy rate unchanged, the Executive Board also bore in mind the developments in the international commodity and financial markets, which were volatile largely due to the uncertainty as to the course of the pandemic.

Though the Executive Board did not change the key policy rate in the November meeting, apprehension over the accelerated spread of the virus as of October drove it to make a decision about the **possibility for banks to use additional cheap dinar liquidity** – via additional FX purchase swap auctions and auctions of repo purchase of securities. By organising swap and repo auctions on a

regular weekly basis (Mondays – swap, and Thursdays – repo auctions), the NBS gave an opportunity to banks to obtain the needed dinar liquidity for a three-month period under favourable conditions, using FX and dinar securities as collateral. In this manner, the NBS sought to make sure that the level of available and cheap liquidity in the banking, and in turn in the corporate sector, is maintained high enough to ensure the continuation of the stimulative effect on economic activity.

**The December decision of the Executive Board to trim the key policy rate by an additional 25 bp to 1.0%** was primarily motivated by the assessment that low inflationary pressures allowed for additional support to the domestic economy amid a deteriorating epidemiological situation and slackening economic recovery at the global level, particularly in the euro area, where containment measures were tightened. Though vaccine-related news was encouraging, there was still uncertainty present as to the pace of vaccine production and rollout, as well as the course of vaccination globally.

The December cut brought the key policy rate to its new low in the inflation targeting regime and made it 1.25 pp lower than before the global crisis caused by the pandemic. At the same time, the NBS decided to **narrow the corridor of its main interest rates** from  $\pm 1.0$  pp to  $\pm 0.9$  pp relative to the key policy rate. The deposit facility rate was thus lowered by 15 bp to 0.1%, and the lending facility rate by 35 bp to 1.9%. Also, in its December meeting, the Executive Board adopted a decision on **loan repayment facilities for borrowers** unable to settle their liabilities due to the circumstances caused by the pandemic.<sup>7</sup>

Strong NBS support to businesses and households during the pandemic is owed to the responsible conduct of economic policy in the prior period, which improved the capacity of the Serbian monetary and fiscal authorities to fight the ongoing crisis without jeopardising the achieved macroeconomic stability. The NBS implemented an accommodative monetary policy in an environment of maintained price and financial stability, underpinned primarily by the relative stability of the exchange rate and fully supplied markets even in times of crisis, as well as by the anchored inflation expectations which confirm the credibility of monetary policy. As in the past seven years, inflation was firmly under control and averaged 1.6% in 2020. Average core inflation in 2020 was at the same level, which suggests that demand-side pressures remained relatively low despite the continuing rise in wages and employment in the majority of sectors.

The measures taken by the NBS and the Government are largely to be credited for the better economic outcome than what was hoped for at the start of the pandemic. According to the SORS estimate, GDP growth rate in 2020 came at -1%, which is one of the best outcomes in Europe and better than forecast at the onset of the pandemic. A better result reflects primarily the preserved production capacities and employment during the pandemic, but also a fast recovery of investment, most notably the accelerated implementation of infrastructure projects,

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<sup>7</sup>The facilities include loan rescheduling and refinancing, with the approval of a six-month grace period and an appropriate extension of the repayment term, so that the borrower's monthly liabilities are not higher than those envisaged by the initial repayment schedule.

more favourable financing conditions and FDI inflow that remained relatively high and project-diversified. Labour market data on the rising employment rate and the maintained single-digit unemployment rate attest to the significance of the package of economic measures, which helped sustain favourable trends despite the challenges imposed by the pandemic. The Executive Board underlined that the country's maintained favourable medium-term prospects and the measures taken by the Government and the NBS will contribute to the recovery of domestic demand. This, along with the gradual normalisation of external demand, will result in a more than complete recovery of our economy in 2021.

The Executive Board stressed that our economy's significant resilience to shocks from the international environment was also secured by FX reserves, which were kept at an adequate and stable level during 2020 as well (EUR 13.5 bn at year-end). Such FX reserves cover more than six months' worth of the import of goods and services, which is double the standard on the adequate coverage of FX reserves by the import of goods and services.

The Government and NBS's success in preserving macroeconomic and financial stability of the country during the pandemic, as well as a favourable economic outlook, is illustrated by the fact that Serbia managed to maintain its credit rating even during these extraordinary circumstances, when rating downgrades were more widespread than during the global financial crisis of 2008/2009.<sup>8</sup> This success found its way into figures in November 2020, when Serbia achieved the lowest price of financing in the international financial market thus far. Also, in January 2021, the IMF Executive Board made a decision on the successful completion of the fifth, last review of Serbia's economic programme.<sup>9</sup> The IMF assessed that the programme was successfully implemented throughout its duration and that the measures taken during the pandemic were well-designed and appropriately aimed at providing lifelines to households, preserving jobs, boosting healthcare spending, and providing sufficient liquidity to the banking system and relief to borrowers.

Looking ahead, full coordination of monetary and fiscal policy measures will be maintained, easing potential further negative effects from the international environment, and ensuring vibrant growth of the Serbian economy. Along with one of the most successful vaccination strategies in the world carried out in Serbia, the Executive Board emphasized the importance of monetary and fiscal policy support to the economy, which will continue into 2021, including a new, third package of fiscal measures to corporates and households, and further growth in capital investments. The NBS will continue to carefully monitor developments at home and abroad, continuously assessing all the measures taken so far in order to support further economic recovery, without prejudice to price and financial stability.

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<sup>8</sup>Moreover, Moody's raised Serbia's credit rating in March 2021.

<sup>9</sup>The programme supported by the Policy Coordination Instrument (PCI), approved to Serbia in July 2018 for a period of 30 months, was advisory in nature and did not involve any disbursement of funds.

### III.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 this main instrument, the NBS also uses other instruments of monetary regulation, notably **reserve requirements and operations in the FX market**.

#### Open market operations

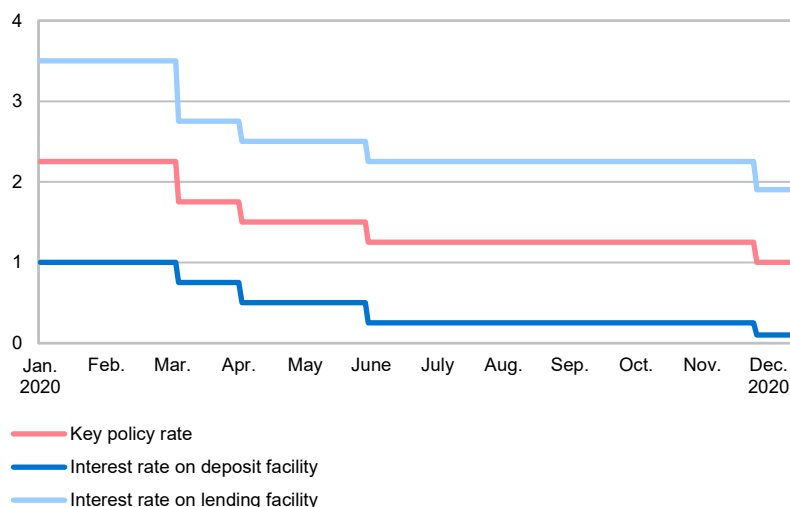
One-week reverse repo transactions, i.e. repo sale of securities (liquidity absorbing) remained the main open market operations of the NBS in 2020.

The NBS implemented repo transactions through own securities. For the purposes of repo sale, in 2020 the NBS issued one series of T-bills in the nominal amount of RSD 500.0 bn. The issuance of one series of T-bills of high nominal value is consistent with practice from earlier years which enables more adequate management of securities within the same series and facilitates liquidity management for banks.

In 2020, 52 repo sale auctions were organised. They were held once a week, after the model of the variable multiple interest rate. The volume of securities sale in 2020 (RSD 1,748.5 bn) was lower than in 2019 (RSD 2,521.0 bn).

The stock of NBS bills in banks' portfolios averaged RSD 34.4 bn in 2020, down by RSD 12.5 bn from 2019. Relative to end-2019, the stock of these securities decreased by RSD 40.0 bn, to RSD 30.0 bn at end-2020.

Chart III.1.2.1 **Key policy rate and interest rate corridor**  
(daily data, p.a., in %)



Source: NBS.

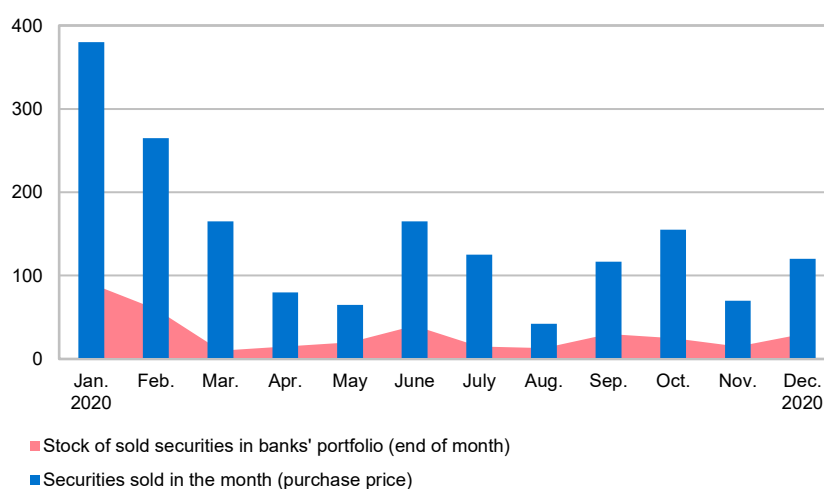
To support the domestic financial system and overall economic flows in recovering from the pandemic-induced crisis, the NBS ensured additional dinar

liquidity to the banking system by way of direct repo operations (one-week and three-month maturity), under very favourable interest rates equal to the current deposit facility rate. At end-March and during November and December 2020, the NBS provided the banking sector with additional dinar liquidity in the total amount of RSD 41.6 bn, by way of auctions of repo purchase of government and corporate securities.

Still, the increase in liquidity was for the most part achieved via transactions of bilateral purchase of dinar government securities from banks, which helped finance the government and ensured the normal functioning of the secondary market of dinar government securities (maintaining interest rates at the current level). In April and May 2020, the NBS purchased dinar government bonds in the secondary market, thus ensuring additional liquidity to the banking sector in the amount of RSD 97.0 bn.

To extend additional support to the development of the market of corporate bonds and speed up the recovery of the economy from the consequences of the coronavirus pandemic, in May 2020 the NBS decided to include dinar corporate bonds issued by domestic companies in its monetary operations, provided that they meet the solvency requirements (the lowest solvency rating according to the methodology of the Business Registers Agency – “acceptable solvency (DD)”, issued before the end of 2020, with the longest original maturity of ten years). The NBS purchased a part of issued bonds from banks in the secondary market. Besides ensuring additional dinar liquidity to the banking sector, more importantly it gave an incentive to the development of the corporate bond market.

Chart III.1.2.2 **Repo sale and stock of sold securities**  
(RSD bn)



Source: NBS.

## Deposit and lending facilities

In 2020, banks continued to place overnight deposits with the NBS (deposit facilities). The average daily stock of bank deposits with the NBS in 2020 came at

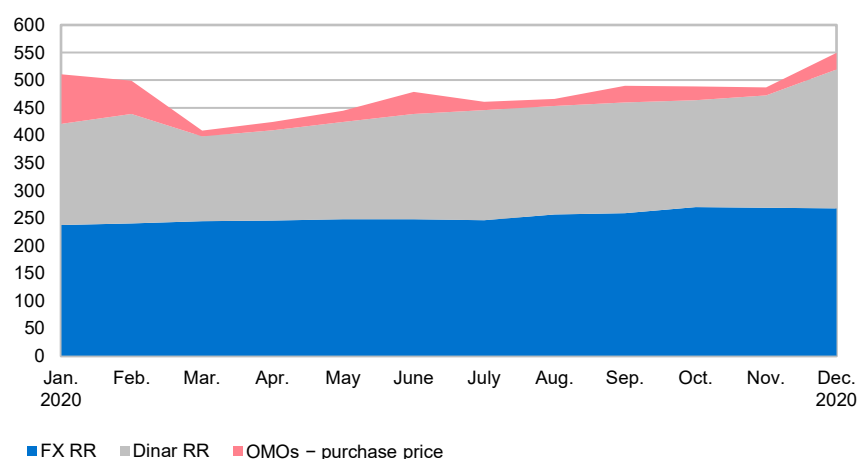
RSD 134.5 bn, which is RSD 94.9 bn more than in 2019. The highest average monthly stock of deposited assets was recorded in June (RSD 209.4 bn) and the lowest in March (RSD 75.7 bn).

The Decision on the Conditions and Manner of Extending Daily Liquidity Loans to Banks against the Collateral of Securities, which regulates NBS lending facilities, was amended in May and July 2020. Thanks to amendments to the Decision, the list of securities that may serve as collateral has been expanded to include securities of prescribed maturity, issued by a domestic company with adequate solvency rating (corporate bonds). This way, the NBS provided support to the domestic financial and economic system amid the coronavirus pandemic, and encouraged the development of the corporate bond market in Serbia.

## Required reserves

At end-2020, the calculated reserve requirements allocated in dinars increased by RSD 28.9 bn relative to end-2019 and equalled RSD 220.4 bn. This increase reflects growth in the purely dinar required reserves (by RSD 14.9 bn) and in FX required reserves allocated in dinars (by RSD 14.0 bn).

Chart III.1.2.3 **Volume of sterilisation by monetary policy instruments**  
(RSD bn)



Source: NBS.

In the same period, the amount of calculated reserve requirements allocated in foreign currency increased by EUR 201.7 mn, standing at EUR 2.2 bn. This was driven by the EUR 1.6 bn increase in the FX base, of which EUR 1.4 bn relates to FX liabilities with the maturity of up to two years and EUR 0.2 bn to liabilities with the maturity of over two years. Looking at the FX base composition, most of the increase relates to FX deposits of corporates (EUR 0.6 bn) and FX savings (EUR 0.6 bn).



## Interest rates

In 2020, the NBS Executive Board **trimmed the key policy rate four times** – by 50 bp in an unscheduled meeting in March, and by 25 bp in each regular meeting in April, June and December, therefore **the rate equalled 1.0% at end-2020**.

In addition, amendments to the Decision on Interest Rates Applied by the National Bank of Serbia in the Implementation of Monetary Policy **narrowed the interest rate corridor** on two occasions– from  $\pm 1.25$  pp at the start of the year to  $\pm 1$  pp in March 2020 and then to  $\pm 0.90$  pp in December, relative to the key policy rate, whereby **rates on deposit and lending facilities were also trimmed to 0.10% and 1.90%**.

In H1 2020, there was a gradual decrease in the interest rate at which the NBS calculates and pays interest on the amount of realised daily stock of the dinar reserve requirements, from 0.75%, where it stood in January 2020, to 0.50% in March, and then to 0.25% in April and 0.10% in June that year.

To support the anti-crisis measures and encourage dinar lending, the NBS amended the Decision in July 2020 and established that, by way of exception, banks that meet the prescribed conditions will be paid interest at the rate established by the Decision, increased by 0.50 pp annually, on the part of the amount of the realised average daily stock of dinar reserve requirements.

## Foreign exchange market operations

Under the 2020 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.

**At end-2020, relative to end-2019, the value of the dinar vis-à-vis the euro was almost unchanged. During 2020, in conditions of heightened depreciation pressures amid the global coronavirus pandemic, thanks to its timely and well-measured response, and with a moderate use of FX reserves, the NBS preserved the relative stability of the FX market which, just like the stability of the overall financial system, was not threatened at any point.** A contribution to the preservation of the relative stability in the FX market came from the adequate and timely measures which the Government and the NBS implemented to mitigate the negative effects of the pandemic on the Serbian economy. **After depreciation pressures were caused by the effect of temporary seasonal factors, which is usual for the start of the year – stepped-up FX demand of energy importers, due to the increasing uncertainty in international financial markets, depreciation pressures increased in Q2, when they were the most pronounced as well. During Q3 and Q4 they subsided gradually, and November and December saw a change in the trend, when appreciation**

**pressures prevailed.** Depreciation pressures weakened and turned into appreciation pressures in Q4 due mainly to the reduced net FX purchases (in October and November), and the net sale by domestic companies (in December), net FX sale by non-residents (primarily in order to invest in long-term dinar government securities) and net purchase of foreign cash by citizens and exchange dealers after two consecutive quarters of net sale.

In 2020, the NBS net sold EUR 1,450.0 mn in the IFEM (selling EUR 1,950.0 mn and buying EUR 500.0 mn).

Quarter-wise, the dinar rose nominally against the euro by 0.1% in Q1, and the NBS net sold EUR 185.0 mn in the IFEM. In Q2, the dinar weakened against the euro by 0.1% nominally and the NBS, in order to maintain the relative stability in the local FX market, which is of particular importance in conditions of heightened uncertainty caused by the coronavirus pandemic, net sold EUR 845.0 mn in the IFEM in Q2. The value of the dinar vis-à-vis the euro remained almost unchanged in Q3, and the NBS net sold EUR 605.0 mn in the IFEM. In Q4, the dinar again remained almost unchanged relative to the euro. In the last quarter, against the backdrop of the prevailing appreciation pressures, the NBS net bought EUR 185.0 mn in the IFEM.

## FX swap auctions of the National Bank of Serbia

In 2020, the NBS continued to hold its **regular three-month and two-week auctions of FX swap purchase and sale (EUR/RSD)** in order to encourage the development of interbank swap trading and facilitate more efficient liquidity management for banks. During 2020, 102 regular three-month swap auctions were held, at which the NBS swap sold a total of EUR 429.0 mn and bought a total of EUR 387.0 mn, as well as 100 regular two-week swap auctions, at which it swap sold a total of EUR 371.5 mn and bought a total of EUR 235.0 mn. The largest performance in 2020 was recorded in April, when the NBS swap sold EUR 218.5 mn and bought EUR 131.0 mn. At end-2020, the stock of FX receivables and FX liabilities of the NBS in respect of regular three-month swap auctions equalled EUR 55.0 mn each, while in respect of two-week swap auctions the NBS had no FX receivables or liabilities to banks.

**Within measures to facilitate dinar and FX liquidity management for banks** in extraordinary conditions in Serbia caused by the coronavirus pandemic, **from 31 March until 31 May 2020 the NBS held regular three-month and two-week swap FX auctions at fixed swap points** under favourable rates on euros and dinars (0% on euros, while for dinars – the deposit facility rate plus 10 bp), instead at variable multiple swap points. Also, **the execution principle was changed**, so that swap purchase and sale of foreign currency did not have to be identical in terms of the executed amount. This way, the NBS's role was not solely mediating, but it also involved **the provision of the sufficient amount of dinar and FX liquidity to banks, at favourable interest rates**, in order to prevent potential disturbances in the domestic money and financial markets. Since June, after the

abolition of the state of emergency in our country and the assessment that there was no longer a need to apply the altered practice when it comes to regular FX swap auctions, the NBS went back to organising these auctions according to the method of variable multiple swap points, based on the application of the usual principle of identical executed amounts at FX swap purchase and sale auctions.

Also, in order to support the domestic financial system and economy, **on 23 March 2020, the NBS organised an additional swap auction of FX purchase (euros) for dinars, providing dinar liquidity to banks in the equivalent of EUR 127.0 mn for three months, at a favourable interest rate of 0.85% (the then applicable deposit facility rate increased by 10 bp) and at the rate of 0% for euros.**

In an environment where the health situation in the country was again exacerbated, the NBS decided to organise **additional three-month FX purchase swap auctions** on a weekly basis, starting from mid-November, in order to offer banks an opportunity to obtain additional, cheap dinar liquidity (interest rate on dinars is equal to the deposit facility rate plus 10 bp, and 0% on euros). By way of additional swap auctions, the NBS sought to maintain the level of available and cheap liquidity in the banking sector, and in turn in the corporate sector, at a sufficiently high level to ensure the continuation of the stimulus effect. At additional swap auctions, from mid-November until end-2020, the NBS swap bought EUR 207.0 mn, thus ensuring additional dinar liquidity for banks in the amount of RSD 24.3 bn, for a three-month period.

### III.1.3 Achievement of inflation target in 2020

In conditions of an unprecedented crisis, **headline and core inflation remained low and stable as in the previous seven years**, which was mostly attributable to the preserved relative stability of the exchange rate and the anchored inflation expectations of market participants. **Headline inflation averaged 1.6% in 2020**,<sup>10</sup> the same as core inflation.

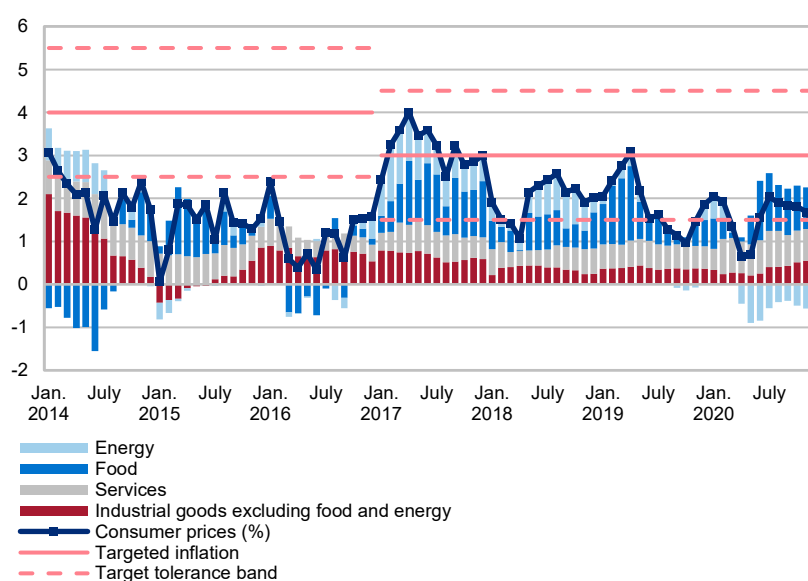
Similarly as in 2019, **the inflation dynamics during 2020 was mostly dictated by the prices of food and energy**, which dominantly stayed abreast with movements of these prices in the global market

In accordance with the NBS's expectations, in early 2020 y-o-y inflation slowed down – from 1.9% at end-2019 to 1.3% in March, and additionally to 0.6% in April, mostly owing to the significant drop in the prices of petroleum products and the high base effect from the prices of vegetables from the previous year. Then, from May to July y-o-y inflation sped up due to the waning of the base effect from the prices of vegetables and higher prices of fruit, only to stabilise at an average of 1.8% from August to November. At the end of the year, y-o-y inflation slowed down to 1.3% in December, mainly owing to the lower prices of unprocessed food (vegetables and fresh meat).

<sup>10</sup>The average annual CPI is derived as the simple arithmetic mean of 12 published monthly CPIs (month on last year average). Hence the average annual rate reflects not only the change in prices, but also the effect of the change in weights.

By components of headline inflation in 2020, the **prices of processed food** rose by 3.3% (with a 0.7 pp contribution to inflation), while at the same time **unprocessed food prices** edged down by 0.9% (with a -0.1 pp contribution to inflation). It was the decrease of the positive contribution of the base effect and the absence of the seasonal rise in vegetable prices in December, together with an atypical decrease in the prices of fresh meat and slower than usual growth in fruit prices, that primarily slowed down y-o-y inflation at the end of the year.

Chart III.1.3.1 **Contributions of CPI components to y-o-y inflation**  
(pp)



Sources: SORS and NBS calculation.

Inflation movements in 2020 were also under a significant impact of **energy prices**, which decreased by 4.6% y-o-y in December, contributing -0.7 pp to headline inflation. This is almost entirely owed to the sharp drop in the **prices of petroleum products** in the domestic market (-12.0% y-o-y in December), onto which the drastic fall of the global oil price spilled over.

In contrast, the **prices of services** in 2020 recorded a rise of 3.0% (with a 0.8 pp contribution to headline inflation), driven by the increase in the prices of landline telephony services (13.8%) and travel package arrangements (30.5%).<sup>11</sup> Also, the prices of the majority of the other services were increased in 2020.

**The prices of industrial products excluding food and energy** were 2.1% higher in December in y-o-y terms, contributing 0.6 pp to headline inflation. This is mostly attributable to the higher price of equipment needed for work at home (computers, mobile phones) which went up 9.8%, as well as the higher price of cigarettes (by 7.0%) on account of the annual adjustment of the excise tax. The 1.7% y-o-y decrease in the prices of clothes and footwear in December acted in the opposite direction.

<sup>11</sup>Because of the inability to ensure a full coverage during 2020 in conditions of the coronavirus pandemic, for this type of services the SORS used the growth rate from the same period of the prior year.

**Administered prices**, which are under direct or indirect control of the state, rose 3.3% in 2020 (with an 0.6 pp contribution to headline inflation), though in December, relative to previous months, their y-o-y rise slowed down, dominantly due to the hike in electricity prices from December 2019 exiting the y-o-y calculation.

**The prices within core inflation** (measured by CPI excluding energy, food, alcohol and cigarettes) went up by 1.6% on average in 2020. In December core inflation slightly picked up to 2.1% y-o-y, notably due to increased demand for medical products and items enabling work at home.

## III.2 Regulation and supervision of financial institutions

### III.2.1 Banks

**During 2020, 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. The banking sector accounted for 90.6%<sup>12</sup> of the balance sheet total of financial sector segments supervised by the NBS, which measured around 93% of GDP in 2020.

The trend of downsizing employment in the Serbian banking sector, which started back in 2009, continued in 2020 after slackening temporarily in 2019. At year-end, the banking sector employed 22,823 persons, 264 fewer than at end-2019.

Table III.2.1.1 **Financial system structure**

	31 December 2019			31 December 2020		
	Number	Balance sheet total (RSD bn)	Share (%)	Number	Balance sheet total (RSD bn)	Share (%)
Banking sector	26	4,084.1	90.1	26	4,601.2	90.6
Lessors	17	102.9	2.3	16	115.3	2.3
Insurance undertakings	20	299.8	6.6	20	314.2	6.2
Voluntary pension funds	7	45.2	1.0	7	47.0	0.9
<b>Total</b>	<b>70</b>	<b>4,532.0</b>	<b>100.0</b>	<b>69</b>	<b>5,077.7</b>	<b>100.0</b>

Source: NBS.

### Banking sector structure

The total number of banks operating in Serbia in 2020 remained unchanged from end-2019. End-2020 saw a change in the ownership structure of the banking

<sup>12</sup>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.

sector. Hence, at year-end there were 20 banks in the majority ownership of foreign shareholders (up by one from end-2019), three banks with predominantly private domestic capital and three banks in the majority ownership of the Republic of Serbia<sup>13</sup> (down by one from end-2019).

Table III.2.1.2 **Ownership structure of the banking sector in 2020**

	Balance sheet total (RSD mn)	Share in %	Capital (RSD mn)	Share in %
Banks in domestic ownership:	643,405	14.0	100,651	14.0
- state-owned	324,748	7.1	32,423	4.5
- private-owned	318,657	6.9	68,228	9.5
Banks in foreign ownership	3,957,759	86.0	616,405	86.0
<b>Total</b>	<b>4,601,164</b>	<b>100.0</b>	<b>717,056</b>	<b>100.0</b>

Source: NBS.

Foreign-owned banks made up 86% of the banking sector balance sheet total, followed by domestic state-owned banks (7.1%), while banks in majority ownership of domestic shareholders accounted for 6.9% of the banking sector balance sheet total. The share of foreign-owned banks increased by 10.3 pp at end-2020, while the share of state-owned banks decreased by 9.7 pp, and that of domestic-owned private banks by 0.5 pp.

Of foreign-owned banks, the highest share in total banking sector assets was held by banks from Italy (26.2%), Austria (14.4%), Hungary (13.4%) and Slovenia (11.7%), followed by banks from Greece (4.3%) and the Russian Federation (4.0%), while other countries jointly accounted for 12.0% of total assets.

**Total banking sector capital went up in 2020 by RSD 11.3 bn (1.6%).** Foreign-owned banks made up 86% of the banking sector capital, followed by banks in majority ownership of domestic shareholders (9.5%), while domestic state-owned banks accounted for 4.5% in total banking sector capital. The breakdown by capital ownership shows that the share of foreign-owned banks increased at end-2020 by 11.6 pp, due to the changes in ownership structure, while the share of state-owned banks decreased by 10.9 pp, and that of domestic-owned private banks by 0.7 pp.

## Concentration

In terms of the balance sheet total, at end-2020 half of banks recorded a balance sheet total between RSD 100 bn and RSD 500 bn, jointly accounting for 76.2% of total banking sector balance sheet assets. Three banks had a market share of over 10% each, jointly accounting for 36.1% of the total banking sector balance sheet assets.

<sup>13</sup>The Republic of Serbia is the majority owner or the largest individual shareholder.

Table III.2.1.3 Banks by balance sheet assets

	31 December 2019		31 December 2020	
	Number of banks	Balance sheet total (RSD mn)	Number of banks	Balance sheet total (RSD mn)
Over 500,000	1	652,631	1	717,186
From 100,000 to 500,000	12	3,007,167	13	3,508,165
From 50,000 to 100,000	4	297,793	3	225,878
From 10,000 to 50,000	7	110,694	8	143,686
Up to 10,000	2	15,851	1	6,248
<b>Total</b>	<b>26</b>	<b>4,084,136</b>	<b>26</b>	<b>4,601,164</b>

Source: NBS.

In 2020, HHI-measured market concentration<sup>14</sup> fell for all three observed categories (balance sheet assets, total loans and total deposits), with values significantly below 1,000, which indicates that **the Serbian banking sector remained concentration-free in all key segments.**

Table III.2.1.4 Concentration – the shares of top banks in banking sector balance sheet assets, loans and deposits

(%)

	31 December 2019	31 December 2020
<b>Share in balance sheet assets</b>		
Top bank	16.0	15.6
Top five banks	53.4	52.5
Top ten banks	79.7	79.6
<b>Share in gross loans</b>		
Top bank	15.7	15.7
Top five banks	52.0	51.0
Top ten banks	78.8	77.9
<b>Share in deposit potential</b>		
Top bank	17.2	16.3
Top five banks	54.9	53.1
Top ten banks	81.2	80.4

Source: NBS.

Table III.2.1.5 HHI concentration

	Balance sheet total	Gross loans	Deposit potential
31 December 2019	800	789	840
31 December 2020	786	783	809

Source: NBS.

<sup>14</sup> 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.

## Structure of banking sector assets and liabilities

### *Structure of assets*

Balance sheet total of the Serbian banking sector at end-2020 amounted to RSD 4,601.2 bn, up by RSD 517 bn or 12.7% from end-2019. As banks focus on traditional credit-deposit activities, loans and receivables<sup>15</sup> accounted for a dominant share of banking sector's net assets and are therefore the most important determinant of asset quality. The bulk of loans and receivables (91.6%) pertained to the non-financial sector, and the rest to banks and other financial organisations. Despite nominal growth in net loans and receivables in 2020, their share in total net assets decreased slightly, from 63.7% to 62.6% due, among other things, to an increase in the share of cash and balances with the central bank, from 15.3% to 16.9% in 2020. Also significant is the share of securities, which together with pledged financial assets accounted for 17.2% of the net assets.

Table III.2.1.6 **Structure of banks' assets as at 31 December 2020**

	Amount (RSD mn)	Share (in %)
Cash and balances with the central bank	775,814.6	16.9
Pledged financial assets	26,789.3	0.6
Derivative receivables	2,277.2	0.0
Securities	761,942.4	16.6
Loans and receivables from banks and other financial organisations	243,091.9	5.3
Loans and receivables from clients	2,636,888.3	57.3
Changes in the fair value of items being subject to hedging	0.0	0.0
Receivables under derivatives intended for hedging	14.7	0.0
Investment in associated undertakings and joint ventures	328.6	0.0
Investment in subsidiaries	19,059.9	0.4
Intangible assets	18,555.5	0.4
Property, plant and equipment	70,968.3	1.5
Investment property	12,375.1	0.3
Current tax assets	2,472.9	0.1
Deferred tax assets	2,389.1	0.1
Non-current assets held for sale and discontinued operations	857.3	0.0
Other assets	27,338.7	0.6
<b>Total assets</b>	<b>4,601,163.7</b>	<b>100.0</b>

Source: NBS.

### *Structure of liabilities*

Uncertainty caused by the coronavirus pandemic and numerous government measures taken to boost the liquidity of households and corporates further

<sup>15</sup>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, sureties, letters of credit and other sureties), and excludes excess liquidity and foreign currency required reserves deposited with the NBS.



increased the share of domestic deposits in bank funding sources. Significant growth of deposit potential in 2020 led to an increase in the share of *deposits and other liabilities* item<sup>16</sup> (of which 84.3% in the non-financial sector) in the total sources of funding of the Serbian banking sector, from 79.9% in 2019 to 81.7%. Consequently, the share of capital, despite the nominal increase, contracted from 17.3% to 15.6%.

Table III.2.1.7 **Structure of banks' liabilities as at 31 December 2020**

	Amount (RSD mn)	Share (in %)
Derivative liabilities	2,617.8	0.1
Deposits and other liabilities to banks, other financial organisations and the central bank	589,936.5	12.8
Deposits and other liabilities to other clients	3,171,884.6	68.9
Liabilities arising from hedging derivatives	620.4	0.0
Changes in the fair value of items being subject to hedging	0.0	0.0
Liabilities arising from securities	3,509.4	0.1
Subordinated liabilities	25,969.9	0.6
Provisions	17,331.0	0.4
Liabilities in respect of assets held for sale and discontinued operations	0.0	0.0
Current tax liabilities	195.3	0.0
Deferred tax liabilities	1,667.6	0.0
Other liabilities	70,374.7	1.5
<b>Total liabilities</b>	<b>3,884,107.2</b>	<b>84.4</b>
Capital	<b>717,056.4</b>	<b>15.6</b>
<b>Total liabilities</b>	<b>4,601,163.7</b>	<b>100.0</b>

Source: NBS.

Total deposit potential<sup>17</sup> of the banking sector in 2020 expanded by 15.0%, and amounted to RSD 3,408.0 bn, mainly on account of a rise in transaction deposits (by RSD 390.2 bn), mostly of corporates, households and the public non-financial sector.

In terms of the currency structure of deposits, although the bulk of deposits was in a foreign currency at end-2020 (60.2%), the rise in dinar deposits by almost 30% brought about an increase in their share from 35.2% to 39.8%.

At end-2020, banking sector balance sheet capital amounted to RSD 717.1 bn, up by RSD 11.3 bn (1.6%) from end-2019. Share capital went up by RSD 1.4 bn thanks to the capital increase in two banks. Banking sector net profit amounted to RSD 80.7 bn, rising by RSD 4 bn from end-2019. Reserves increased by RSD 5.9 bn in net terms compared to 2019.

<sup>16</sup> Pursuant to balance sheet structures valid as of 1 January 2018, item *deposits and other liabilities*, besides deposits, also includes received loans and liabilities in respect of interest, fees and commissions.

<sup>17</sup> They include transaction and other deposits within balance sheet items *deposits and other liabilities to banks, other financial organisations and the central bank* and *deposits to other clients*.

Table III.2.1.8 **Structure of bank capital**

(RSD mn)

	31 December 2019	31 December 2020
Share capital and other capital	388,919	390,356
Own shares	0	0
Reserves*	240,025	245,927
Profit of the current and previous years	101,542	102,509
Loss of the current and previous years	24,744	21,736
<b>Total</b>	<b>705,742</b>	<b>717,056</b>

Source: NBS.

\* And unrealised losses.

*Off-balance sheet items*

At end-2020, total off-balance sheet items of the banking sector amounted to RSD 6,735.8 bn, declining by 1.1% from end-2019.

The majority of banks (10) recorded off-balance sheet totals between RSD 100 bn and RSD 500 bn, accounting for 42.1% of total off-balance sheet items of the banking sector. Four banks had off-balance sheet items worth more than RSD 500 bn, jointly making up 50.7% of off-balance sheet items of the total banking sector, with one of them accounting for a 17.1% market share.

Table III.2.1.9 **Banks by off-balance sheet total**

	31 December 2019		31 December 2020	
	Number of banks	Off-balance sheet total (RSD mn)	Number of banks	Off-balance sheet total (RSD mn)
Over 1,000,000	1	1,073,124	1	1,148,920
From 500,000 to 1,000,000	5	3,417,187	3	2,263,796
From 100,000 to 500,000	8	1,923,855	10	2,838,456
From 50,000 to 100,000	4	300,923	5	423,899
From 10,000 to 50,000	3	81,189	2	40,252
From 1,000 to 10,000	5	15,428	5	20,435
Below 1,000	0	0	0	0
<b>Total</b>	<b>26</b>	<b>6,811,706</b>	<b>26</b>	<b>6,735,759</b>

Source: NBS.

The majority of off-balance sheet items were credit-risk free items<sup>18</sup> (83.7% of total off-balance sheet items). The most significant credit-risk bearing off-balance sheet items were derivative liabilities (10.4%), issued guarantees and other sureties (6.0%) and accepted irrevocable commitments (3.3%). Financial assets, carried over to off-balance sheet records in accordance with the Decision on the Accounting Write-off of Bank Balance Sheet Assets, made up 3.2% of total off-balance sheet items.

<sup>18</sup> Material collateral received, guarantees and other sureties accepted for the settlement of borrower's liabilities, funds from depositary and custody operations, contingent framework loans and credit lines approved to the bank, accepted revocable liabilities, placements on behalf of and for the account of third persons and other off-balance sheet assets.

## FX risk

At end-2020, banking sector's total open FX position equalled RSD 6.3 bn and **exposure to FX risk** (expressed as the FX risk ratio) **measured 1.0%, which is significantly below the prescribed 20% cap.**

Table III.2.1.10 **Banks' exposure to FX risk as at 31 December 2020**

(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	
5,032	5,326	515	263	17	119	728	31	126	0	6,293	5,739	<b>6,293</b>

Source: NBS.

## Asset quality

According to data from end-December 2020, the NPL ratio dropped to 3.7%, down by 0.4 pp compared to 2019. Since the implementation of the NPL Resolution Strategy began in August 2015, this indicator declined by as much as 18.5 pp. **Total gross NPLs equalled RSD 102.4 bn, down by RSD 1.0 bn (1%) compared to 2019.** Of total NPLs, corporates<sup>19</sup> accounted for 54.3% (4.0% NPL ratio), while natural persons<sup>20</sup> accounted for 44.1% (3.6% NPL ratio).

The corporate sector alone accounted for 36.8% of total NPLs at end-2020. NPLs in the corporate sector equalled RSD 37.7 bn, down by 1.5% compared to end-2019, while the NPL ratio dropped by 0.2 pp to 3.1%.

Table III.2.1.11 **NPL composition**

(RSD mn)

	31 December 2019	31 December 2020
Total gross NPLs		
Amount	101,416	102,382
Ratio	4.1%	3.7%
Corporates*		
amount	55,014	55,574
ratio	4.4%	4.0%
Natural persons**		
amount	43,655	45,161
ratio	3.9%	3.6%
Other		
amount	2,747	1,647
ratio	2.4%	1.3%

\* Corporates include companies, public enterprises, companies and public enterprises in bankruptcy, as well as legal persons and institutions in the area of education and health protection not financed from the budget.

\*\* Households, entrepreneurs, private households with employed persons and registered farmers.

Source: NBS.

<sup>19</sup> Including companies, public enterprises, companies and public enterprises in bankruptcy, as well as legal persons and institutions in the area of education and health protection not financed from the budget.

<sup>20</sup> Including household sector, entrepreneurs, private households with employed persons and registered farmers and entrepreneurs in bankruptcy.

Household NPLs accounted for 39.8% of total NPLs. The NPL ratio in the household sector dropped by 0.3 pp to 3.6% during 2020.

Movements in the NPL ratio were driven by banks' efforts to downsize NPLs through write-offs, assignments and collection on the one hand, and by higher lending activity on the other hand.

NPL coverage by allowances for impairment remained relatively high, suggesting that banks retained a cautious and proactive approach to assessing expected credit losses. At end-2020, 59.0% of total gross NPLs was covered by allowances for impairment calculated according to the International Financial Reporting Standards 9 (IFRS 9).

The structure of classified balance sheet and off-balance sheet assets of the banking sector improved in 2020, as the share of the most adversely classified assets (categories D and E) fell from 6.9% to 6.5%.

Total allowances for impairment of classified balance sheet assets and provision for losses on off-balance sheet items amounted to RSD 110.2 bn at end-2020 (up by 11.8% from end-2019).

Table III.2.1.12 **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	
<b>31 December 2020</b>					
Balance sheet assets	4,796,803	3,021,025	2,789,528	231,497	7.7
Off-balance sheet items	6,735,759	1,095,184	1,060,290	34,895	3.2
Total	11,532,562	4,116,209	3,849,817	266,392	6.5
<b>31 December 2019</b>					
Balance sheet assets	4,260,345	2,675,506	2,459,705	215,801	8.1
Off-balance sheet items	6,811,706	1,062,362	1,019,574	42,788	4.0
Total	11,072,051	3,737,868	3,479,279	258,589	6.9

Source: NBS.

## Banking sector liquidity

**The domestic banking sector remained exceptionally liquid. Hence, liquidity risk was the least pronounced of all risks in the system.**

In December 2020, the average monthly liquidity ratio of the banking sector was twice higher than the regulatory minimum (1.0) and stood at 2.2. In 2020, this 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 2020, liquid assets covered 37.2% of total balance sheet assets and 50.7% of short-term liabilities. In December 2020, the average monthly narrow liquidity ratio of the banking sector measured 1.9, also significantly above the regulatory minimum (0.7).

The value of the liquidity coverage ratio (LCR), applied as of June 2017 and calculated in the same manner as in the EU, was 211.8%, which also confirms high liquidity of the banking sector.

## Capital adequacy of the banking sector

**Despite reduced profit, Serbia's banking sector remained adequately capitalised in 2020 as well**, owing to significant capital reserves formed in the previous period and a favourable structure of regulatory capital, which consists largely (over 96%) of Tier 1 capital (consisting almost entirely of the highest quality segment – Common Equity Tier 1). At end-2020, the capital adequacy ratio stood at 22.42%, well above the regulatory floor of 8%, which has been applied since June 2017. The Tier 1 capital ratio measured 21.58% (regulatory minimum was 6%), and Common Equity Tier 1 capital ratio – 21.53% (regulatory minimum was 4.5%). The leverage ratio, i.e. core capital relative to the banks' total balance and off-balance sheet exposure (also applied as of June 2017), stood at 12.4% at end-2020.

## Compliance of performance indicators

At end-2020, out of 26 banks, performance indicators fully complied with the prescribed limits in 25 banks, while one bank had one non-compliant indicator.

Table III.2.1.13 **Banks' performance indicators**

	31 December 2020	Number of non-complying banks
Capital adequacy ratio (min. 8%)	22.4%	0
Fixed investment ratio (max. 60%)	13.7%	1
Liquidity ratio*	2.22	0
FX risk ratio (max. 20%)	1.0%	0

\* Average monthly indicator.

Source: NBS.

## Profitability

**In 2020, the Serbian banking sector continued to post a positive pre-tax net financial result amounting to RSD 46.08 bn**, down by RSD 21.6 bn (31.9%) relative to 2019. ROA declined from 1.72% in 2019 to 1.06%, and ROE from 9.77% to 6.48%.

Table III.2.1.14 **Banks' financial result**

	31 December 2019		31 December 2020	
	Amount (RSD mn)	Number of banks	Amount (RSD mn)	Number of banks
1 Profit	68,935	22	49,138	19
2 Loss	1,251	4	3,055	7
<b>Net financial result (1–2)</b>	<b>67,684</b>	<b>26</b>	<b>46,083</b>	<b>26</b>

Source: NBS.

In 2020, 19 banks operated at a profit, while seven banks recorded a negative financial result. Total profit tended to concentrate, with five banks with the highest net profit accounting for 81% of total banking sector financial result.

Table III.2.1.15 **Banking sector profitability indicators**

(%)

	2019	2020
ROA	1.7	1.1
ROE	9.8	6.5
Interest margin/average balance sheet assets	3.3	3.0
Interest margin/total operating income	66.4	66.7
Operating expenses/total operating income	61.5	62.6
Salary expenses/operating expenses	37.6	39.0

Source: NBS.

In the conditions of credit growth, and given the predominant reliance of domestic banks on traditional credit-deposit business models, the main drivers of the Serbian banking sector's net profit in 2020, as in the previous years, were interest and fees income, despite the downward trend in average interest rates. In 2020, net interest income came at RSD 129.4 bn, up by RSD 0.6 bn from 2019, while net income from fees amounted to RSD 40.6 bn, down by RSD 1.5 bn from 2019.

## Bank supervision activities

### *Regulatory activity*

At its meeting of 9 January 2020, the NBS Executive Board adopted the Decision Amending the Decision on Detailed Terms and Manner of Performing Bank Supervision and Special Bank Audit.<sup>21</sup>

At its meeting of 12 March 2020, the Executive Board adopted the following:

- Decision Amending the Decision on Reporting Requirements for Banks and

<sup>21</sup> RS Official Gazette, No 1/2020 of 10 January 2020.

- Decision Amending the Decision on Reporting on Capital Adequacy of Banks.

All the above by-laws were adopted with a view to adjusting the reporting system to the regulations adopted in December 2019 to encourage dinar corporate lending.

At the same meeting, the NBS Executive Board adopted the Decision Amending the Decision on Risk Management by Banks aimed at improving banks' practices at the time of introducing new products and outsourcing.<sup>22</sup>

In view of the emergency health situation in the country, the NBS undertook significant regulatory activities in 2020, thanks to which financial stability was preserved, and households and corporates were supported in overcoming the negative economic effects of the pandemic.

Considering the need to maintain the achieved level and further strengthen the stability of the financial system amid potential risks caused by the emergency health situation in the country due to the coronavirus pandemic, at its extraordinary meeting on 17 March 2020, the NBS Executive Board adopted the **Decision on Temporary Measures for Preserving Financial System Stability**.

The above decision offered a three-month moratorium to borrowers (natural persons, farmers and entrepreneurs and companies), during which borrowers were not required to settle their obligations in respect of either interest or principal.<sup>23</sup>

At its meeting held on 7 May 2020, the Executive Board adopted regulations to postpone by six months the implementation of measures discouraging the approval of new non-purpose and non-investment FX and FX-indexed loans to corporates, entrepreneurs and farmers, as follows:

- Decision Amending the Decision on Capital Adequacy of Banks,
- Decision on Deadlines for Compliance of Banks' Internal Acts on Risk Management and for Reporting by Banks and
- Decision Amending the Decision on Reporting Requirements for Banks.<sup>24</sup>

**These regulations were adopted in order to minimise the possible consequences of the epidemiological situation on stable operation of banks,** free additional operational capacities of banks and create greater scope for providing liquidity to the real sector during and immediately after the lifting of the state of emergency, as banks were able to approve all types of FX and FX-indexed loans during 2020 to all corporates without impediments.

To create regulatory preconditions for a lower downpayment required for the approval of housing loans to first-time home buyers and prescribe a new rule according to which a bank can approve a mortgage-backed housing loan if the loan amount does not exceed 90% of the value of the property mortgaged (exception to

<sup>22</sup> RS Official Gazette, No 27/2020 of 13 March 2020.

<sup>23</sup> RS Official Gazette, No 33/2020 of 17 March 2020.

<sup>24</sup> RS Official Gazette, No 67/2020 of 8 May 2020.

the general rule which sets this limit at 80%), at its meeting held on 11 June 2020, the Executive Board adopted the Decision Amending the Decision on Measures for Safeguarding and Strengthening Stability of the Financial System.<sup>25</sup>

To adjust the measures adopted in December 2019 in order to encourage sustainable lending to households amid the coronavirus pandemic, at its meeting held on 9 July 2020, the NBS Executive Board **adopted regulations which enabled banks to offer to borrowers who took out loans before the onset of emergency circumstances adequate facilities during 2020 and 2021 for the repayment of consumer, cash and other loans approved by 18 March 2020** (refinancing or change of maturity date of the last instalment under certain conditions), without this leading to an increase in deductibles from capital or to a deterioration of the concentration risk indicator. Specifically, from the day these regulations come into force, banks can, without consequences for capital, offer to borrowers refinancing or change of the maturity date of the last instalment of consumer, cash and other loans (other than housing loans or current account overdrafts) approved by 18 March 2020, for additional two years relative to the original repayment regime (implying a repayment period of up to seven years in 2020, up to six years in 2021, up to eight years for consumer loans approved for the purchase of motor vehicles regardless of the year). The above facilities can be offered to borrowers even in case their debt-to-income ratios would exceed 60% after the refinancing or change of the maturity date of the last instalment under the conditions provided by the new regulations. In that regard, the following decision were adopted:

- Decision Amending the Decision on Managing Concentration Risk Arising from Bank Exposure to Specific Products and
- Decision Amending the Decision on Capital Adequacy of Banks.<sup>26</sup>

As it became certain that the pandemic would last for some time, at its meeting held on 27 July 2020, the NBS Executive Board adopted the Decision on Temporary Measures for Banks for the Purpose of Mitigating the Consequences of COVID-19 Pandemic in Order to Preserve Financial System Stability, **allowing to borrowers another suspension (moratorium) in the repayment of their obligations to banks** falling due between 1 August 2020 and 30 September 2020, as well as any outstanding obligations which fell due in July 2020.

In order to facilitate households' access to financing, at its meeting held on 17 August 2020, the NBS Executive Board adopted the Decision on Temporary Measures for Banks to Facilitate Access to Financing for Natural Persons.<sup>27</sup>

This Decision includes three sets of measures, which aim to encourage easier access to housing loans by allowing a lower degree of completion of residential facilities, creating regulatory preconditions for extending the repayment period of housing loans by maximum five years from the due date of the last instalment and

<sup>25</sup> RS Official Gazette, No 84/2020 of 12 June 2020.

<sup>26</sup> RS Official Gazette, No 98/2020 of 10 July 2020.

<sup>27</sup> RS Official Gazette, No 108/2020 of 20 August 2020.



temporarily facilitating the procedure for households' access to short-term dinar loans up to a certain amount. These specific measures may be applied until the end of 2021.

At its meeting held on 12 November 2020, the NBS Executive Board adopted the following:

- Decision Amending the Decision on Capital Adequacy of Banks,
- Decision Amending the Decision on Reporting Requirements for Banks and
- Decision Amending the Decision on Deadlines for Compliance of Banks' Internal Acts on Risk Management and for Reporting by Banks.<sup>28</sup>

**These regulations were adopted to postpone by six months the implementation of measures** which discourage the approval of new non-purpose and non-investment FX-indexed and FX loans to borrowers from the non-financial and non-government sector, given the prolonged duration of the pandemic.

As the application of measures was postponed by additional six months, new FX-indexed and FX loans extended as of 1 July 2021 are relevant for the calculation of the deductible, and not those extended as of 1 January 2021. Consequently, this changes the start of application of the prescribed percentages representing the share of FX-indexed and FX loans in total loans approved to borrowers from the non-financial and non-government sector, as well as the dynamics of their reduction<sup>29</sup>.

Deadlines for reporting to the NBS on new forms FX 1, FX 2 and FX 3 were postponed.

In December 2020, the NBS Executive Board adopted **the Guidelines Amending the Guidelines for the Identification of Default**,<sup>30</sup> postponing the start of implementation of the Guidelines for the Identification of Default. The provisions of these Guidelines are, therefore, to be implemented as of 1 January 2022 instead of 1 January 2021 (other than Section 10 of the Guidelines, which refers to the manner of determining the materially significant amount and is already applied as of 1 January 2019) in order to evaluate more accurately the effects of the pandemic-induced macroeconomic situation on NPLs and prevent their potential growth on account of changes in the methodological approach prescribed by the Guidelines. In this way, banks were given additional time to adjust to the new rules of identifying the default status.

Bearing in mind the complex impact of the current health situation in the country on households and corporates, at its extraordinary meeting held on 14 December 2020, the NBS Executive Board adopted:

<sup>28</sup> RS Official Gazette, No 137/2020 of 13 November 2020.

<sup>29</sup> 71% in the period 1 July 2021 to 30 June 2022; 64% in the period 1 July 2022 to 30 June 2023; 57% in the period 1 July 2023 to 30 June 2024; 50% as of 1 July 2024.

<sup>30</sup> RS Official Gazette, No 149/ 2020 of 11 December 2020.

– **Decision on Temporary Measures for Banks to Enable Adequate Credit Risk Management Amid Covid-19 Pandemic.**<sup>31</sup>

This Decision prescribes the measures and activities that banks are required to implement to adequately manage the credit risk, which implies timely identification of borrowers' potential difficulties and the taking of appropriate steps. Repayment facilities are offered to natural persons, farmers, entrepreneurs and companies, to settle their liabilities under loans, credit cards and current account overdrafts, provided that the borrower regularly settled its liabilities to such bank in a relevant time period before the pandemic (in this context, regularity implies that the borrower was not in default status in such bank as at 29 February 2020 and in the 12-month period before that day, i.e. that no receivables from that borrower on account of loans and other loan products – credit cards and current account overdrafts were classified as NPLs in that bank).

The facilities that the bank is required to offer to a borrower meeting the requirement of prior regularity in settling obligations and the prescribed conditions regarding the pandemic impact include a six-month grace period during which the borrower is not required to settle debt in respect of principal, while repayment of debt on account of interest (which is calculated in any case) can also be suspended during the grace period if the debtor chooses this option. The new loan repayment period resulting from the application of the facility will be defined in such a way that the amount of annuity, i.e. the borrower's monthly obligations after the expiry of the grace period until the end of the new loan repayment period, does not exceed this amount in the period before the facilities were applied.

According to the NBS estimate, the following categories in particular are eligible for the facilities: the unemployed, borrowers whose average net monthly income in the last three months is below the average wage in the Republic of Serbia, as well as borrowers whose average net monthly income measured up to RSD 120,000 in the last three months, whose net monthly income is lower by 10% or more relative to their income before 15 March 2020 and whose debt-to-income ratio exceeds 40%.

When it comes to farmers, entrepreneurs and companies, it has been estimated that repayment facilities should in particular be offered to borrowers who recorded a decrease by at least 15% in operating income and/or turnover in 2020 compared to 2019 or whose operations were shut down for at least 30 successive days due to the coronavirus pandemic.

*Off-site supervision*

**Off-site supervision means supervision and analysis of 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

<sup>31</sup> RS Official Gazette, No 150/ 2020 of 14 December 2020.

signed multilateral or bilateral agreements on cooperation, exchange of information and coordination of supervisory activities).

During 2020, the coronavirus pandemic and its consequences on the macroeconomic and business environment and the banking system as a whole, as well as NBS measures aimed at mitigating the effects of the pandemic, led to changes in supervisory activities. Hence, a pragmatic approach was applied and the focus of supervisory evaluations of banks was adjusted to include an assessment of corporate governance during the pandemic-induced crisis, assessment of financial position and capital adequacy, as well as of risk profiles of banks, primarily credit risk, operational risk, liquidity and funding risk. The supervisory review of banks also included the assessment of updated individual recovery plans, namely the assessment of banks' compliance with recommendations for eliminating material deficiencies identified in the previous versions of the recovery plans.

In addition, in light of numerous uncertainties facing banks during the pandemic in 2020, the NBS, guided by a conservative approach amid prevailing uncertainty, decided to keep total supervisory requirements for banks' capital at the level determined by the Decision on setting minimum capital adequacy ratio at a level higher than prescribed for 2020, issued in accordance with the provisions of Article 23 of the Law on Banks and Section 5 of the Decision on Capital Adequacy of Banks,<sup>32</sup> whereby it kept supervisory reviews (total and by individual areas) determined by the previous assessment and did not issue supervisory recommendations for necessary qualitative improvements in bank operations.

In 2020, information on liquidity ratios was monitored daily, while changes in largest depositors and analysis of the liquidity gap for the next three months were monitored weekly. Also, information on banking sector's profitability, lending activity and NPL movements were prepared monthly, while banks' solvency and concentration risk, as subtypes of credit risk, were monitored quarterly.

With regard to temporary measures adopted to support households and corporates in conditions of the coronavirus pandemic, analysis was conducted of banks' implementation of the adopted measures, the effects of the moratorium were monitored on a monthly basis, as was the implementation of loan repayment facilities. At the same time, the utilisation of the total amount approved under the Guarantee Scheme for the banking sector was also monitored.

In 2020, the NBS monitored the implementation of banks' plans for reducing gross NPLs and analysed the possibilities for further lowering the NPL ratio at the level of individual banks.

In addition, the NBS analysed 55 notifications on introduction of new products and 41 notifications on assignment of receivables.

In 2020, the NBS **conducted four off-site supervisions of banks' operations**, based on which minutes were made and delivered to banks, three of which related to the implementation of the Law on the Conversion of Housing Loans Indexed to Swiss Francs, while one related to the supervision of calculation of capital and the

<sup>32</sup> RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020 and 137/2020.

capital adequacy ratio. In addition, execution of orders from the Decision on orders and measures was also monitored in one bank. Further, in order to take pre-emptive action and prevent the spillover of negative effects to the banking sector and the real economy, efforts were intensified to monitor the liquidity position and the loan approval process of some banks.

As in the prior period, enhanced efforts were invested in monitoring the financial status and operating trends in state-owned banks (where the state is the largest individual or majority shareholder). Also, meetings were held with managing bodies, activities were monitored related to planned integrations (acquisitions) of banks and some aspects of banks' operations were analysed.

All these analyses and information were used in preparing the draft plan of on-site supervision and the plan of supervisory activities for 2021. Cooperation with the ECB, IMF and foreign supervisors of banking groups operating in Serbia continued.

### *On-site supervision*

On-site supervision of banks is carried out on site, by inspecting the business books and other documents of the bank, in accordance with the annual on-site supervision plan. **During 2020, twenty on-site examinations in total were conducted:** seven targeted prudential examinations in accordance with the Law on Banks and thirteen follow-ups on the measures pronounced by the NBS. An overview of on-site examinations conducted in 2020 by supervision subject is shown in the following table:

Table III.2.1.16 **Overview of on-site supervisions in 2020**

Type of on-site examination	Subject of on-site examination	Number of on-site examinations
Targeted prudential examination of bank operations in accordance with the Law on Banks	Process of approval of cash and housing loans	1
	Process of loan approval to legal persons	3
	Process of loan approval to legal persons and management of risks arising from outsourcing activities	1
	Process of approval of housing and cash loans and credit cards	1
	Accuracy of reporting for the purposes of calculating liquidity coverage ratio on PPLA forms 1-4	1
Examination of bank's activities pursuant to measures pronounced by the NBS	Related to prudential supervision of bank operations in accordance with the Law on Banks	13
Total on-site examinations conducted in 2020		20

Source: NBS.

### *Measures against banks*

In bank examination procedures conducted in 2020, the NBS took the following measures: sent 11 written warnings to banks; issued four decisions imposing orders and measures on banks and three decisions fining banks.

Three banks were fined in the amounts of RSD 2,090,400.00 (0.11% of the bank's total income), RSD 3,795,000.00 (0.021% of the bank's total income) and RSD 2,568,550.00 (0.27% of the bank's total income).

Also, eleven examination procedures were discontinued.

### *Acting upon requests for consent*

Acting upon requests for issuing operating licences and various consents and approvals, pursuant to the Law on Banks, in 2020 the NBS issued:

- 21 decisions granting consent to banks' core acts (founding act and articles of association), of which one decision on rejecting the request;
- 83 decisions granting prior consent to appointment of members of the managing and executive boards;
- two decision granting prior consent to acquiring ownership in a bank;
- four decisions granting prior consent for allocation of profit by dividend payment to its shareholder;
- two decisions granting prior consent concerning fulfilment of conditions to include profit of the current year in Common Equity Tier 1 capital;
- one decision granting prior consent to a bank to reduce the value of elements of Common Equity Tier 1 capital (other reserves from profit) and one decision suspending the procedure for giving prior consent to reduce the value of elements of Common Equity Tier 1 capital;
- five decisions granting prior consent to a bank for inclusion of a Common Equity Tier 1 capital element in calculation of that capital – capital increase;
- three decisions granting consent to a bank or its parent company not to include a subsidiary in the consolidated financial statement of its banking group as at 31 December 2019;
- two decisions granting consent to a bank or the ultimate parent company not to include a subsidiary/subsidiaries which is/are financial sector entity/entities in the annual audit of banking group's financial statements for 2019;
- one notification granting consent to a bank not to include the exposure to the group member in the calculation of limits of large exposures to related parties;
- 266 notifications on outsourcing were processed.

### III.2.2 Insurance sector

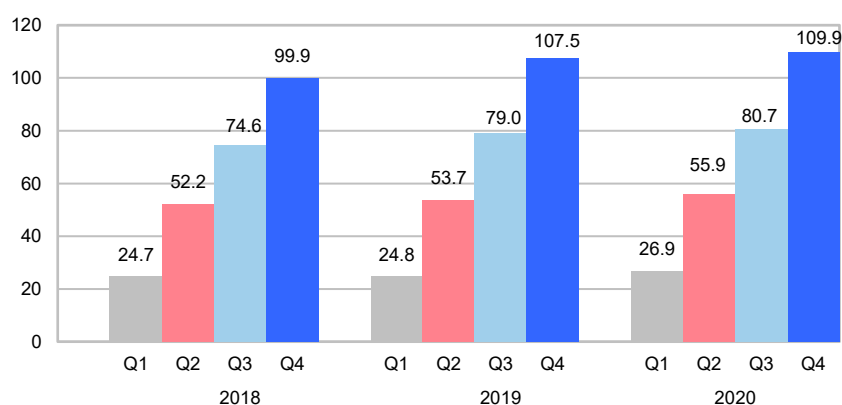
The share of insurance sector's balance sheet total in the balance sheet total of the financial sector supervised by the NBS (banks, financial lessors, (re)insurance

undertakings and voluntary pension funds)<sup>33</sup> was 6.0%, which slightly less than a year earlier when it equalled 6.6%.

At end-2020, **20 (re)insurance undertakings operated in the Republic of Serbia**, same as in 2019, 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. Breakdown by capital ownership shows that 15 insurance undertakings were in majority foreign ownership.

Besides (re)insurance undertakings, the sales network also included: 17 banks, six financial lessors and one public postal operator which are licensed for insurance agency operations, 101 legal entities (insurance brokerage and agency services), 77 insurance agents (natural persons – entrepreneurs). A total of 4,336 persons were certified for insurance brokerage/agency activities and listed in the register of active certified brokers/agents in insurance with the NBS.

Chart III.2.2.1 **Quarterly movements in total premium**  
(RSD bn)



Source: NBS.

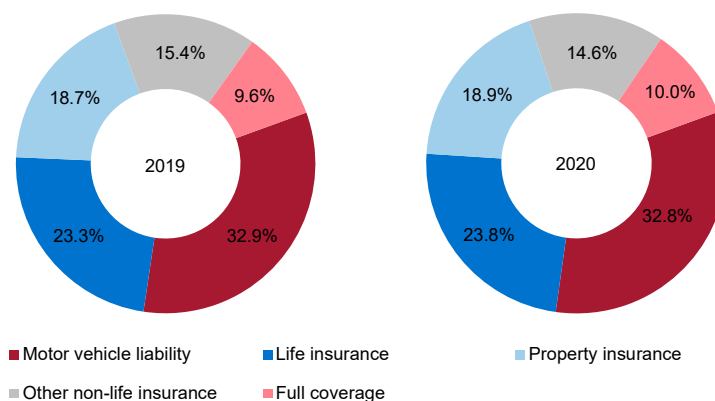
**In 2020, the total insurance premium amounted to RSD 109.9 bn (2% GDP), up by 2.3% from 2019.** Non-life insurance had a 76.2% and life insurance a 23.8% share in the premium structure. Life insurance premium rose 4.4% relative to 2019.

By type of insurance, as before, motor third party liability insurance (MTPL) retained the largest share in total premium (32.8%), followed by life insurance (23.8%), property insurance (18.9%) and full coverage motor vehicle insurance (10.0%).

**The balance sheet total of (re)insurance undertakings at end-2020 equalled RSD 314.2 bn, up by 4.8% from a year earlier.** The bulk of assets of (re)insurance undertakings at end-2020 consisted of debt securities available for sale (49.7%), fixed-income debt securities (11.0%), cash and short-term deposits (8.3%), receivables (7.6%), technical provisions charged to coinsurer, reinsurer and retrocessionaire (7.2%) and property plant and equipment (6.6%).

<sup>33</sup> Except for payment institutions and electronic money institutions.

Chart III.2.2.2 Total premium by types of insurance



Source: NBS.

Technical provisions (66.3%) and capital (24.5%) accounted for the largest share of (re)insurance undertakings' liabilities. In 2020, capital rose by 6.5% (to RSD 76.8 bn) and technical provisions by 2.8% (to RSD 208.3 bn). The largest share in technical provisions was that of mathematical reserves, which went up by 6.7% in 2020.

**Measured by the HHI, market concentration decreased in 2020 relative to the year before, but remained moderate and measured 1,309.<sup>34</sup>**

## Performance indicators

In 2020, the core **capital adequacy ratio**,<sup>35</sup> as an indicator of capital coverage of risk exposure, equalled 228.8% for predominantly non-life insurance undertakings and 249.4% for predominantly life insurance undertakings.

As an indicator of price policy and adequacy, i.e. sufficiency of premiums for the settlement of liabilities arising from non-life insurance contracts and adequacy of risk transfer to reinsurance and coinsurance, the **net combined ratio**<sup>36</sup> was satisfactory (79.3%) in 2020, and higher than in 2019 (84.2%).

As an indicator of life-insurance premium adequacy, the **benefit ratio**<sup>37</sup> was 86.1% in 2020, which is an increase compared to the previous year when it stood at 85.5%.

## Business result

**The insurance sector ended 2020 with a positive net financial result of RSD 14.1 bn pre-tax and RSD 12.9 bn after tax.<sup>38</sup>** Total income of (re)insurance

<sup>34</sup>HHI is calculated based on the balance sheet totals of (re)insurance undertakings.

<sup>35</sup> The ratio of available to required solvency margin.

<sup>36</sup>Ratio of the sum of net claims and underwriting expenses relative to earned net premium.

<sup>37</sup> Ratio of the sums of net claims and changes in technical provisions compared to the earned net premium. In interpretation one needs to take into account the long-term character of life insurance and the significant impact of changes in technical provisions on this indicator.

undertakings amounted to RSD 186.7 bn, up by 2.0% from a year earlier. The largest share in the sector's income was made up of technical premium income (51.8%), other operating (functional) income (23.8%) and expense loading income (13.7%). Total expenses of (re)insurance undertakings in 2020 equalled RSD 172.6 bn, up by 1.4% from 2019. The greatest share in expenses belonged to other operating (functional) expenses (41.5%), damage compensations and sum insured (32.5%), and acquisition costs (15.2%), with other operating (functional) expenses going up by 1.3 pp, acquisition costs by 1.0 pp, while damage compensations and the sum insured contracted by 2.3 pp.

## Results of supervisory activities

In 2020, on-site examinations of (re)insurance undertakings and other supervised entities were carried out according to planned activities. **The NBS conducted 9 on-site examinations of supervised entities engaged in insurance business**, three of which concerned prudential supervision of reinsurance undertakings, one exclusively concerning market behaviour, and one examination covering both prudential supervision and market behaviour. One examination covered AML/CTF supervision of an insurance undertaking. Also, the NBS conducted one examination of a commercial bank licensed to perform insurance agency, one examination of a financial lessor and one on-site supervision of information systems in an insurance undertaking.

Examinations conducted in supervised entities in 2020 in the area of prudential supervision included three examinations initiated in late 2019 – two planned and one ad hoc targeted on-site examination.

Based on examinations conducted in 2019 and 2020, which established illegalities and irregularities in the operation of insurance undertakings and other supervised entities, four decisions were issued on corrective supervisory measures, imposing fines on the supervised entities and responsible persons in those entities (according to the Insurance Law and Law on Compulsory Traffic Insurance). At the same time, two on-site examinations were discontinued after the entities implemented the supervisory measures.

**1) On-site examinations** – Examinations conducted in reinsurance undertakings in 2020 in the area of prudential supervision were full-scope examinations, placing emphasis on significant activities in their operation and important balance sheet positions. An on-site examination report for one undertaking was made and delivered, identifying smaller irregularities, mainly with regard to a lack of an established internal controls system or its proper functioning, as well as to adequate control of functioning and risk exposure by responsible persons.

The subjects of the three on-site examinations, initiated in 2019 and concluded in early 2020, concerned mainly the MTPL segment of the insurance market.

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<sup>38</sup> Includes only tax expenses which (re)insurance undertakings carried until submission of data to the NBS.



In the segment of supervised market behaviour of insurance undertakings, irregularities were identified as regards: calculation of total damages in MTPL insurance and manner of informing of claimants, records and handling of claims for damages based on motor vehicle insurance and general liability insurance, manner of informing and contracting collective pension insurance, inadequate implementation of the prescribed complaints procedure, etc.

On-site examination of establishing of the system for ML/TF risk management identified omissions in the system's functioning, i.e. a certain level of exposure to the ML/TF risk.

In the supervision of insurance agency activities performed by other supervised entities, **focus was placed on sale of insurance services, provision of adequate information to clients and transparency of the insurance service when offered together with another financial product.** The NBS also warned the insurance undertakings responsible for insurance agency activities about the incorrect calculation of insurance premium refund in the case of cancellation of an insurance contract concluded together with a bank's loan product, in order to prevent insufficient premium refunds.

The report on supervision of information systems in one insurance undertaking is under preparation. The examination included information system risk management, control of the framework for managing such risk, control of managing business continuity and disaster recovery, information system security, development and maintenance.

**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 and ML/TF risk management.

Prudential off-site supervision included continuous monitoring of (re)insurance undertakings both from the financial-economic and the actuarial aspect, as well as taking activities to clarify the submitted data and information and/or to remove the identified irregularities. Off-site prudential supervision activities were carried out separately, namely: (1) risk monitoring based on supervisory matrices of risks in (re)insurance undertakings, (2) analysis of quarterly opinions of the certified actuary, opinions of the certified actuary on financial statements and annual reports of (re)insurance undertakings, opinions of the certified actuary about reports on implementation of co-insurance and re-insurance policy, analysis of internal audit reports of undertakings, receipt and analysis of submitted internal acts of (re)insurance undertakings, (3) receipt and analysis of submitted annual, quarterly and monthly data of (re)insurance undertakings and compiling of appropriate reports, and (4) compiling of quarterly reports about the current state of the insurance sector.

Within off-site supervision of market behaviour of insurance undertakings, supervisors continued regular monitoring, based on analysis of qualitative and quantitative indicators with a view to identifying problematic aspects of operation of insurance undertakings and other supervised entities. Potential inadequate

market behaviours that were recognised as the most detrimental to the rights and interests of insurance service users were covered by the planned supervisory activities in order to timely examine the activities of insurance undertakings and other supervised entities and to ensure the necessary protection of rights and interests of insurance service users in case of identified irregularities.

In parallel with the above activities, **the NBS invested special efforts in order to ensure unhindered operation of insurance undertakings and other participants in the insurance market during the current coronavirus pandemic**, among other things, also by providing additional clarifications about the possibilities of distance sale (online sale), coverage of the coronavirus pandemic risk through insurance and introduction of new insurance products, postponed payment of insurance premium, application of moratorium on due insurance premium instalments associated with bank loan products, etc. Through communication with insurance undertakings, appropriate support was provided to improving the process of digitalisation and expanding the offer of insurance products concluded via distance contracts. A novelty in the insurance market is distance contracting of life insurance using the video identification procedure.

Due to the large pandemic-induced shock in the tourism sector, efforts were made to find solutions to overcome difficulties facing travel agencies. In addition to other activities, **recommendations were published which aimed to facilitate the operation of travel agencies and help them stay in the business**. The NBS supported the efforts of other competent state authorities in finding adequate solutions to address this issue. As for other supervised entities, the NBS continued regular analysis of annual reports for 2019 submitted by entities conducting insurance brokerage/agency (insurance brokerage/agency undertakings, agents-entrepreneurs, banks, financial lessors, public postal operator).

As part of its intensive activities of licensing (re)insurance undertakings in 2020, the NBS issued 106 prior approvals of appointment of members of management, 20 prior approvals of selection of audit firms and three prior approvals of acquisition of a qualifying holding. As regards other supervised entities, during the reporting period, the NBS issued five insurance brokerage licences to undertakings carrying out insurance brokerage, three insurance agency licences to undertakings carrying out insurance agency and nine insurance agency licences to insurance agents. Also, in other supervised entities the NBS conducted 12 procedures for issuing prior approval of acquisition/increase of a qualifying holding and 12 procedures for issuing prior approval of appointment of members of management.

## Certification and further professional education in insurance

Amid the coronavirus pandemic in 2020, in the emergency situation, the NBS organised one regular and one extraordinary certification exam for insurance brokers/agents. It also organised two regular examination terms for acquiring the title of a certified actuary.

Based on final exam results, the NBS issued 353 decisions on acquiring the title of a certified broker or a certified agent in insurance, and four persons acquired the title of a certified actuary.

In 2020, the NBS regularly supervised continuous professional development of certified insurance brokers and agents and certified actuaries. Proof of continuous professional development for 2020 was submitted by 54 certified actuaries, and the requirement for professional development in 2020 was fulfilled by 3,426 certified insurance brokers and agents.

## Regulatory activity and European integrations

**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 the protection of the rights and interests of insurance service users. Expert editing of Serbian translations of supplements to Solvency 2 Directive, Insurance Distribution Directive etc., is underway, as part of the process of translation of the *acquis communautaire* in the Republic of Serbia, which will facilitate further harmonisation of insurance regulations.

In accordance with the timeframe defined in the Strategy for Implementation of Solvency II in the Republic of Serbia, activities relating to drafting of preliminary versions of regulations necessary for establishing a new regulatory framework for carrying out (re)insurance business continued in 2020.

Also, with a view to aligning domestic regulations with EU regulations on accounting in insurance, preliminary versions of regulations were prepared to govern this area.

The working group for the development of the new Law on Compulsory Traffic Insurance continued its activities aimed at further harmonisation with the relevant EU *acquis*. The working group was formed by the Ministry of Finance in 2019 and it also includes NBS representatives.

With a view to further aligning domestic legislation with the EU *acquis* in insurance, the NBS successfully completed the **IPA project “Strengthening of the Institutional Capacities of the National Bank of Serbia in the Process of EU Accession”**. The most important project aspect was the exchange of experiences in the area of insurance supervision and giving recommendations for improvement of the NBS’s regulatory framework.

With a view to improving the protection of insurance service users and stability of the insurance market, the NBS adopted the following secondary legislation:

- Decision Amending the Decision on the System of Governance in an Insurance/Reinsurance Undertaking<sup>39</sup>. The requirements introduced by amendments to this Decision relating to the policy of reimbursements, wages and other income of employees in (re)insurance undertakings

<sup>39</sup> RS Official Gazette, No 84/2020.

aim to ensure that (re)insurance undertakings have adequate policies on wages and other income for employees who make decisions on the assumption of risk and to promote through such policies prudent and cautious risk assumption, by applying the proportionality principle. The decision is aligned with the EU *acquis* governing this issue (Solvency 2 Directive);

- Decision Amending the Decision on the Basic Criteria of the Bonus-Malus System, Data Required for Its Application, and Maximum Bonus<sup>40</sup>. The main goal of amendments was to improve the existing bonus-malus system in the MTPL insurance through adequate pricing of insurance premium for insured persons – drivers who do not jeopardise other traffic participants and their property. Raising the bonus level (reducing the insurance premium) for those insured persons who caused no traffic accident over a period of several years will help improve traffic safety, which should lead to a decrease in the number of insurance damage claims;
- **Decision Amending the Decision on Investment of Insurance Funds<sup>41</sup>. The decision was amended in order to support insurance market growth, especially in the view of the newly-emerged situation caused by the pandemic, which led domestic insurers to continue the practice of allowing postponed premium payments, hence the share of receivables not due in balance sheet of (re)insurance undertakings is expected to grow. This Decision prolonged for two years, i.e. from 31 December 2020 until 31 December 2022, the deadline until which unearned premium receivables under unexpired non-life insurance, coinsurance and reinsurance may be acquired by using technical provisions.**

In order to comply with the obligations prescribed by the new Accounting Law<sup>42</sup>, three accounting decisions were adopted: Decision on the Chart of Accounts and Content of Accounts in the Chart of Accounts for Insurance Undertakings, Decision on the Content and Layout of Financial Statement Forms for Insurance Undertakings and Decision on the Layout and Content of Statistical Report for Insurance Undertakings.

### III.2.3 Voluntary pension funds

**At end-2020, the market comprised four companies managing seven voluntary pension funds (VPFs).** Assets of all funds were held with one custody bank. 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

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<sup>40</sup> RS Official Gazette, No 84/2020.

<sup>41</sup> RS Official Gazette, No 149/2020.

<sup>42</sup> RS Official Gazette, No 73/2019.

by 645 sales agents (of 925 persons licensed by the NBS to perform these activities) who were engaged by VPF management companies (hereinafter: management companies), intermediary banks and insurance brokerage undertakings. For the purpose of securities purchase and sale, management companies cooperated with 11 brokerage firms.

**The market remained highly concentrated, as indicated by *HHI* which measured 2,707 points at end-2020.** The share of the largest fund in net assets of the entire sector was around 39%, while four largest funds held around 93% of the market.

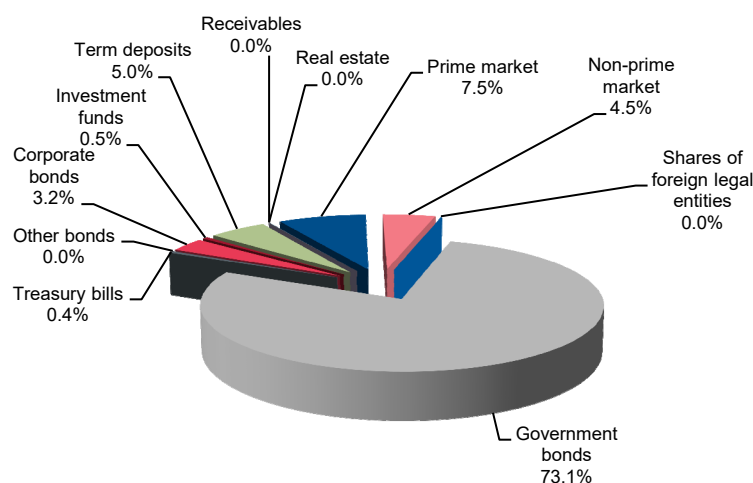
The VPF balance sheet continued to grow in 2020. **Net assets of the funds reached RSD 47.0 bn at end-2020, up by around 4% relative to the end of the previous year.** Payments to individual accounts of members amounted to RSD 3.5 bn in 2020, while withdrawals totalled RSD 2.2 bn. **The return on investment came at RSD 530.5 mn in the course of the year.**

The number of VPF beneficiaries at end-2020 stood at 204,969, which is around 3% of total population, or around 9.5% of the total number of employees.

The main investment principles of each fund are defined by its investment policy. Each fund defines the structure of its investment depending on their investment policy. Hence, some VPFs invest in euro instruments only, and others mainly in dinar instruments. All VPFs invest primarily in government securities.

As the investment structure varies, the returns of VPFs also differ. **In 2020, they ranged from 0.38% to 2.00%.** The return in the sector in 2020, measured by FONDex, which indicates movements in investment unit values of all VPFs, stood at 1.0%.

Chart III.2.3.1 **Composition of VPF assets**  
as at 31/12/2020



Source: NBS.

VPF investment was, as in the past period, determined by the circumstances in the financial market. Thus, at end-2020 the bulk of funds' assets was invested in

government bonds (73.1%). Demand deposits accounted for 5.8%, shares for 12%, term deposits for 5%, corporate bonds for 3.2%, and investment in units of open-end funds for 0.5% of funds' assets.

At end-2020, the maturity of the largest share of government debt instruments was two to five years. More specifically, 7.6% were with the maturity of up to one year, 7.3% of one–two years, 51% of two–five years, 23% with the maturity of five–ten years, and 11.1% with the maturity over ten years. The average maturity of assets invested in government securities, weighted by their share in total investments in those securities, was 4.3 years.

Broken down by currency structure, at end-2020, dinar assets accounted for 85.5% of total assets, while FX-denominated assets (EUR) made up the remaining 14.5%.

**Despite the changed business circumstances amid the pandemic, VPFs recorded total investment return of around RSD 0.5 bn in 2020.** In 2020, payments to individual accounts of members declined by around 11.2% from 2019, but increased by around 1.4 times relative to average annual contributions since the start of VPF operation. This indicates the preserved confidence of citizens in these financial institutions and their ability to maintain adequate safety of the collected funds, while ensuring a stable return.

## Regulatory activity

The Insurance Supervision Agency of Slovenia and the NBS signed the Annex to the Memorandum of Understanding concerning their cooperation in the field of insurance supervision. The subject of the Annex is the expansion of cooperation from insurance supervision to supervision of VPF management companies with a focus on the exchange of information about anti-money laundering and terrorism financing, with a view to fulfilling the FATF Recommendation 40.

Five decisions were adopted in the area of accounting of VPFs and VPF management companies: Decision on the Content and Layout of Financial Statement Forms for Voluntary Pension Fund Management Companies, Decision on the Content and Layout of Financial Statement Forms for Voluntary Pension Funds, Decision on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Voluntary Pension Fund Management Companies, Decision on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Voluntary Pension Funds, and the Decision on the Layout and Content of Statistical Report for Voluntary Pension Fund Management Companies and Voluntary Pension Funds.

By adopting these decisions, the NBS complied with the obligations prescribed by the new Accounting Law<sup>43</sup>, while at the same time creating conditions for fulfilling the legal obligation of management companies to prepare financial statements in accordance with by-laws that ensure the implementation of the said

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<sup>43</sup> RS Official Gazette, No 73/2019.

law and the International Financial Reporting Standard – IFRS 9 – Financial Instruments.

## Ongoing supervision

During 2020, the NBS continuously supervised VPFs through off- and on-site examinations and performed licensing procedures.

In Q1, within targeted on-site examination of one management company, the NBS issued a decision on supervisory measures and a decision on a fine.

In Q2, within its continuous off-site examination, the NBS analysed data from regular annual questionnaires on activities regarding ML/TF risk management, submitted by all management companies. One targeted on-site supervision procedure was initiated in one management company envisaged by the annual on-site supervision plan for 2020.

In Q3, one targeted on-site supervision in a management company was suspended when it was established that the issued orders had been acted upon.

In Q4, another targeted on-site supervision in a management company was suspended. Also, one targeted on-site supervision procedure was initiated in one management company envisaged by the on-site supervision plan.

In 2020, five decisions were issued on giving consent to the appointment of management members of management companies and six decisions were issued on giving consent to re-appointment. One management company withdrew its application for consent to the appointment of a management member after which the decision was issued to cancel the procedure. In addition, seven decisions were issued approving VPF prospectuses and summary prospectuses.

Amid the coronavirus pandemic in 2020, the NBS organised licensing exams in two regular exam terms for natural persons to be engaged in dissemination of information on VPF membership and, based on the submitted applications, 80 licenses were issued to persons who passed the examination.

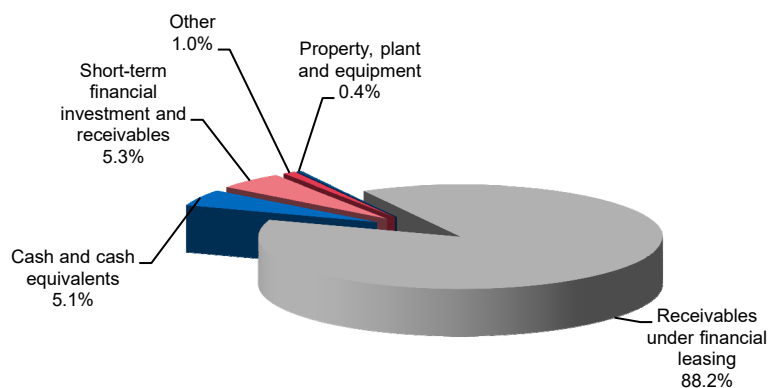
### III.2.4 Financial leasing

#### Market participants

**There were 16 financial lessors licensed by the NBS to perform financial leasing operations in Serbia at end-2020, employing 336 people in total.**

The majority of financial lessors (11 in total) are owned by banks, banking group members or other financial institutions, seven financial lessors are entirely or largely owned by foreign shareholders, while nine lessors are in the majority ownership of domestic shareholders, of which eight are owned by domestic banks with foreign capital.

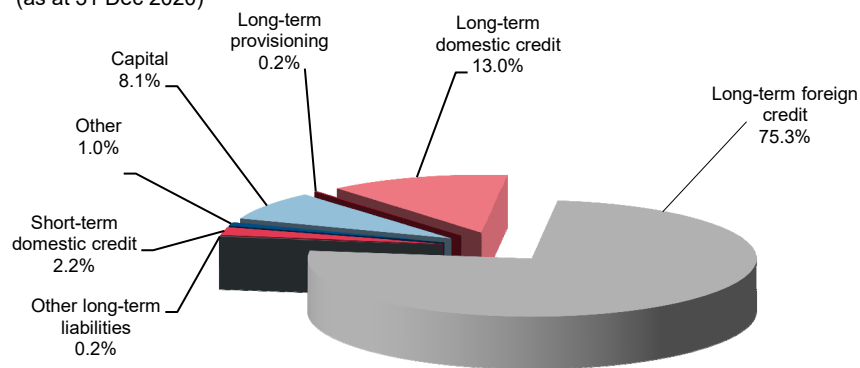
Chart III.2.4.1 **Composition of lessors' assets**  
(as at 31 Dec 2020)



## Balance sheet

**At end-2020, balance sheet assets of financial lessors totalled RSD 115.3 bn, up by 12% relative to end-2019.** The largest share of financial lessors' total balance sheets was made up of financial lease receivables (88.2%). The share of cash and cash equivalents in total balance sheet assets amounted to 5.1%, while the share of short-term financial assets and receivables stood at 5.3%.

Chart III.2.4.2 **Composition of lessors' liabilities**  
(as at 31 Dec 2020)



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 (75.3%) at end-2020, while the share of long-term and short-term loans in the country measured 13.0% and 2.2%, respectively. The share of capital in total balance sheet liabilities stood at 8.1%.

## Market share

**The financial leasing market falls into a moderate competition group, as indicated by HHI, which in 2020 measured 1,267.8 points, up by 18 points from**



2019. The share of the largest financial lessor in total balance sheet assets stood at 18.9%, negligibly higher than in 2019 (18.3%).

### *Structure of lease investments*

**At end-2020, the bulk of financial leasing went to non-financial corporates (82.9%),** while entrepreneurs received 6.5% of the funding, natural persons 4.3%, public enterprises 2.6% and farmers 2%.

At end-2020, the structure of investment by lease asset showed a high share of financing of freight vehicles, minibuses and buses, at 39.5%. The share of passenger vehicle financing rose from 36.5% in 2019 to 38.0% in 2020. It was followed by the financing of construction machinery and equipment (8%) and agricultural machinery (5.7%). The smallest share of financing by lease asset was that of production machinery and equipment (2.8%) and machinery and equipment for service provision (2.4%).

Breakdown by sector shows that the majority of financial lease investments went to transport, warehousing, information and communications (26.4%), followed by other activities (22.1%), trade (16.7%), manufacturing with mining and water supply (14.2%) and construction sectors (11.8%).

### **Income statement**

**Total financial result before tax of all financial lessors equalled RSD 616 mn in 2020 (RSD 1.0 bn in 2019).** Relative to 2019, total income and gains increased by 4.8% and total expenses and losses by 20.1%.

The most significant category of lessor income was interest income with a share of 69.7% in total income, followed by leasing income, with a share of 16.2% in total income. Net income from share in the profit of subsidiary legal entities and joint ventures had a 4.1% share in total income.

The largest category in total lessor expenses were salaries and wages and other related employee benefits (22%), followed by other operating expenses (16.3%), and lease interest expenses (17.1%).

### **Off-site supervision of financial leasing providers**

Off-site supervision of financial lessors was conducted based on data from quarterly reports submitted in 2020. No irregularities or illegalities were identified based on which financial lessors may be issued statutory measures.

### **On-site supervision of financial lessors**

In 2020, on-site supervision of one lessor's operations was initiated. Two official notes were made on acting in accordance with the decision on a written

warning, and one official note on the objections of a financial lessor to the examination report.

## Regulatory activity

In 2020, amid the outbreak of the coronavirus pandemic, the NBS Executive Board adopted three decisions in the field of financial lessors' operations in order to preserve financial stability and ensure credit risk management: Decision on Temporary Measures for Lessors Aimed at Preserving Financial System Stability,<sup>44</sup> Decision on Temporary Measures for Financial Lessors for the Purpose of Mitigating the Consequences of COVID-19 Pandemic in Order to Preserve Financial System Stability<sup>45</sup> and Decision on Temporary Measures for Financial Lessors to Enable Adequate Credit Risk Management Amid Covid-19 Pandemic.<sup>46</sup>

The NBS Executive Board also adopted the following decisions:

- Decision on Management of Risks Arising from Introduction of New Products/Services by Lessors,<sup>47</sup>
- Decision on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts for Financial Lessors,<sup>48</sup>
- Decision on the Content and Layout of Financial Statement Forms for Financial Lessors<sup>49</sup> and
- Decision on the Layout and Content of Statistical Report for Financial Lessors.<sup>50</sup>

## Granting licenses

In 2020, the NBS issued:

- 20 decisions granting consent to the appointment of members of managing and executive boards of financial lessors;
- one decision granting consent to an entity to acquire ownership of stakes of the lessor, which provide the owner 10% and more of voting rights;
- two decision terminating the procedure of granting consent to a foreign legal entity to acquire ownership of stakes of the lessor, which provide the owner 10% and more of voting rights;
- one decision granting consent to the financial lessor's Assembly to adopt documents terminating the voluntary liquidation procedure.

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<sup>44</sup> RS Official Gazette, No 33/2020 of 17 March 2020.

<sup>45</sup> RS Official Gazette, No 103/2020 of 27 July 2020.

<sup>46</sup> RS Official Gazette, No 150/2020 of 14 December 2020.

<sup>47</sup> RS Official Gazette, No 149/2020 of 11 December 2020.

<sup>48</sup> RS Official Gazette, No 93/2020 of 1 July 2020.

<sup>49</sup> RS Official Gazette, No 93/2020 of 1 July 2020.

<sup>50</sup> RS Official Gazette, No 93/2020 of 1 July 2020.

### III.2.5 Supervision of financial institutions' information systems

For the purpose of timely intervention, **the NBS continuously monitors how financial institutions** (banks, insurance undertakings, financial lessors, VPF management companies, payment institutions, e-money institutions and public postal operator in the part of their operations that relates to the provision of payment services and/or e-money issuance) **manage the information system risk** arising from the use of information-communications technologies. It also assesses that risk in order to achieve higher levels of security and stability in operations of financial institutions.

In order to analyse the implementation of standards and regulations governing the application of information-communications technologies in financial institutions, the NBS conducts an annual questionnaire survey on the information system of financial institutions. Also, in order to act preventively, the NBS monitors data on incidents under the Decision on Minimum Information System Management Standards for Financial Institutions<sup>51</sup>, according to which financial institutions submit quarterly reports on incidents.

**The information system risk for all financial institutions is assessed by considering the following areas:** information system development and maintenance, information system security, business continuity management, outsourced activities and the use of modern digital solutions. Risks are assessed in relation to the size and/or relevance of a financial institution, answers from the Questionnaire on the information system and audit reports which describe information systems. The NBS identifies and assesses information system risks in financial institutions to be able to take pre-emptive actions and eliminate irregularities. Based on the results of the risk analysis from 2020, the supervisors determined a risk trend relative to the previous reporting period, which informed the preparation of the on-site examinations plan for 2021.

As the previous year was marked by the coronavirus pandemic and financial institutions enabled work from home for many of their employees, security risks related to remote working and using telecommunications channels increased. To this end, **the NBS published special recommendations for information system security, warning about the vulnerability of the information system that can be exploited by remote access. Also, the NBS warned about the risks related to the use of electronic services** (Internet) that can be used for various types of cyber-attacks, which is why it is necessary to take appropriate pre-emptive examinations to prevent problems and incidents.

In 2020, in line with its competencies, the NBS carried out several examinations related to information system and business continuity management in financial institutions, according to the supervision plan for 2020. With this aim, the NBS monitored the elimination of detected irregularities in information systems, in accordance with the measures it issued in the mentioned supervisions.

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<sup>51</sup> RS Official Gazette, Nos 23/2013, 133/2013, 2/2017 and 88/2019.

In accordance with regulatory requirements, in the procedure of financial institution licencing, the NBS had an active role in assessing the adequacy of information systems depending on the nature, scope and complexity of operations of an institution. Considering new trends in the development of information-communications technologies, the NBS analysed the submitted documents, particularly documents on outsourced information system activities and information about new technologies and risk assessment in the area of electronic services. In 2020, supervisors processed 439 cases, the majority of which concerned innovative solutions for electronic services including new communication channels with service users and preparations for implementing regulations on instant credit transfers once the Decision on Conditions and Manner of Establishing and Verifying Identity of a Natural Person through Means of Electronic Communication<sup>52</sup> enters into force. **The implementation of the said decision in 2020 increased the interest of financial institutions, especially in the conditions of the coronavirus pandemic, to introduce video identification of natural persons.** Before video identification procedure is implemented in a financial institution, the NBS, among other things, assesses the adequacy of its technical and information-communication conditions.

In 2020, the NBS actively monitored the activities of several financial institutions in relation to data migration to a new system of core business applications, with a view to preserving financial sector stability and protecting financial services consumers. Data migrations were carried out due to status change (acquisition) of a financial institution, i.e. due to the planned implementation of information system development strategy. In addition to monitoring data migrations, on several occasions the NBS supervised, guided and advised financial institutions which suffered an incident seriously threatening and disrupting their operations, in order to ensure stable functioning of the financial sector and protect financial assets and data of financial services consumers.

### III.2.6 Protection of financial services consumers

**In 2020, the NBS continued to actively assist financial services consumers** in exercising their rights, by dealing with complaints, mediating in disputes and providing education and information. In addition, the NBS imposed measures and/or fines on banks found incompliant with certain provisions of the law governing the protection of financial services consumers.

#### Handling of complaints

**In 2020, the NBS acted upon 2,143 complaints of financial services consumers (including 396 complaints from the previous period).** Of that number, banks accounted for 53.9%, insurance undertakings for 45.8%, while payment institutions and financial lessors accounted for 0.1% each.

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<sup>52</sup> RS Official Gazette, No 15/2019.

Table III.2.6.1 Number of complaints by financial service provider in 2020

Financial services provider	Total	In %
Banks	1,156	53.9
Insurance undertakings	982	45.8
VPF mng companies	0	0.0
Lessors	2	0.1
Payment institutions	3	0.1
E-money institutions	0	0.0
<b>Total</b>	<b>2,143</b>	<b>100.0</b>

Source: NBS.

Of the 1,156 complaints against banks in 2020, the majority involved loans (43.9%), payment accounts/services (35.1%), and payment cards (15.9%).

Also, 982 complaints against insurance undertakings were solved, most of them relating to motor third party liability insurance (33.7%) and accident insurance (22.7%).

In addition, 1,216 consumers contacted the NBS with one or two questions about financial services and the protection of their rights. The bulk of questions (79%) related to banks.

## Measures aimed at eliminating irregularities

Acting upon complaints of financial services consumers in 2020, **the NBS issued seven decisions ordering the removal of detected irregularities and/or imposing fines on banks.** It also issued one decision establishing that a particular bank engaged in an unfair business practice and imposing a ban on such practice and a fine. It also issued one decision establishing that a particular bank negotiated unfair contract terms and prohibiting the implementation and future contracting of such terms.

In addition, 16 findings in which irregularities were established were drafted, but as banks eliminated them during the procedure, there was no need to issue a decision.

## Off-site supervision

In addition to acting upon complaints of financial services consumers, the NBS also carried out off-site prudential supervision of banks' operations, in accordance with the Law on Banks, in the part relating to regulations governing the protection of financial services consumers. The importance of these procedures is reflected in the fact that the implementation of such procedures ensures that banks eliminate established systemic irregularities that affect a large number of consumers.

In 2020, in one off-site supervision in the area of financial services consumer protection in which irregularities were established, the NBS issued one decision imposing fine, which determined that the bank advertised financial services contrary to the Law on the Protection of Financial Services Consumers and the

NBS Decision based on that Law. The NBS also issued 4 written warnings to banks to remove the established irregularities.

## Regulatory activity

In addition to regulatory activities and measures aimed at providing support to financial services consumers in the pandemic-induced emergency circumstances, **the NBS continued with regular improvement of the regulatory framework to ensure the most efficient protection of financial services consumers.** To this aim, the NBS adopted the Decision Amending the Decision on Detailed Terms and Manner of Performing Bank Supervision and Special Bank Audit, which adjusted the framework for banking supervision (designed primarily to meet the requirements of prudential supervision) to the needs of effective and efficient supervision of their market behaviour. The NBS also established the practice of regulating specific processes and activities related to the provision of financial services through instructions, which enable a prompt response when necessary, detailed and precise regulation of any open issues and easy adjustment to changing market conditions.

## Mediation

**In 2020, 202 mediation proposals were made**, of which 49 were accepted by the parties. In the observed period, 68 mediation procedures were initiated, of which 76.5% pertained to insurance undertakings and 23.5% to banks.

Table III.2.6.2 **Number of mediation procedures in 2020**

Financial services provider	In progress	Agreements	Peaceful resolutions	Cancellation	Abandonment	Total	In %
Banks	2	1	5	7	1	16	23.5
Insurance undertakings	32	4	2	8	6	52	76.5
<b>Total</b>	<b>34</b>	<b>5</b>	<b>7</b>	<b>15</b>	<b>7</b>	<b>68</b>	<b>100.0</b>

Source: NBS.

After the first half of March 2020, mediation procedures did not take place continuously due to the declaration of the state of emergency in the Republic of Serbia. After this time, the NBS continued to carry out these procedures, taking measures to protect from and prevent the spread of the coronavirus.

## Informing financial services consumers

**In 2020, around 40 media requests were answered**, through responses to print and electronic media queries, participation in TV programmes and statements given by phone. The NBS Information Centre received 15,671 consumers' telephone calls and emails.

## Financial education

**In early 2020, 12 educational panels were held in 8 towns, attended by around 560 consumers – citizens, students and entrepreneurs**, after which no panels were held due to the pandemic. At the panels, financial services were presented to visitors via 30 presentations/workshops.

In the observed period, 886 consumers addressed the regional financial education offices. The majority of consumers' queries related to banking services, notably loans.

### III.2.7 Anti-money laundering/combating the financing of terrorism

In the area of anti-money laundering and combating the financing of terrorism (AML/CFT), the NBS has a double role – regulatory and supervisory.

#### Regulatory role

**In its regulatory capacity, the NBS** prepares/takes part in preparing some laws and by-laws in this area aimed, among other things, at reducing the possibilities for money laundering and terrorism financing (ML/FT) through financial institutions supervised by the NBS, in accordance with the Law on the Prevention of Money Laundering and the Financing of Terrorism.

The Republic of Serbia has implemented AML/CFT activities for years, keeping abreast of international developments and adopting the best regulatory solutions. **Thus, in 2020 the NBS had an active role in the adoption of the Law Amending the Law on the Prevention of Money Laundering and the Financing of Terrorism<sup>53</sup>**, in order to harmonise with the Law on Digital Assets (in the drafting of which it also took part), to harmonise the domestic legislation further with the international standards in this area, most notably EU regulations and standards, FATF recommendations<sup>54</sup> and EU Directive 2018/843 of the European Parliament and the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing of 30 May 2018.<sup>55</sup>

Also, in 2020, for the sake of further improvement of the AML/CFT system, the NBS adopted the Decision Amending the Decision on Guidelines for Implementation of the Law on the Prevention of Money Laundering and Terrorism Financing for Obligors Supervised by the NBS,<sup>56</sup> thereby harmonising fully with the provisions of the Law on the Prevention of Money Laundering and the Financing of Terrorism, taking into account prior application of this regulation, as well as examples of international practice in this area.

<sup>53</sup> RS Official Gazette, No 153/2020.

<sup>54</sup> Financial Action Task Force.

<sup>55</sup> The 5<sup>th</sup> Anti-Money Laundering Directive

<sup>56</sup> RS Official Gazette, No 137/2020.

In 2020, the NBS also adopted the Decision Amending the Decision on Conditions and Manner of Establishing and Verifying Identity of a Natural Person Through Means of Electronic Communication,<sup>57</sup> which further regulates video-identification of a customer who is an entrepreneur and of a natural person who is a representative of a customer that is a legal person with a financial institution supervised by the NBS.

In addition to the above, and in accordance with the obligation arising from the law governing the prevention of money laundering and the financing of terrorism, **in 2020 the NBS** adopted the Decision on Detailed Terms and Manner of Keeping the Single Register of Safe-deposit Boxes<sup>58</sup> and the Decision on Detailed Terms and Manner of Keeping the Single Register of Money Remittance Beneficiaries<sup>59</sup>, **establishing a mechanism which encourages the reporting of violations of the provisions of that law by the obligors under the remit of the NBS.** A notification was published on the NBS website about the established mechanism, along with the accompanying application, which helps ensure maximum confidentiality of data, protection of integrity and personal data of persons submitting a notification to the NBS about obligors' activities which conflict with AML/CFT regulations. The establishment of this mechanism helps preserve the integrity of the financial system and prevent the misuse of financial institutions supervised by the NBS for the purpose of money laundering and terrorism financing.

In addition, the NBS participated in the preparation of the Rulebook on Methodology for Implementing Requirements in Compliance with the Law on the Prevention of Money Laundering and Terrorism Financing<sup>60</sup> and the Rulebook on Licensing of Compliance Officers<sup>61</sup>, published by the Administration for the Prevention of Money Laundering.

## Supervisory role

Apart from licensing and issuing consents, **the NBS's supervisory competences** also include the supervision of legal compliance. Supervision particularly concerns the assessment of compliance of supervised entities' operations with AML/CFT regulations. In case of irregularities in the application of regulations, i.e. implementation of AML/CFT 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 growth of supervised entities, as well as for the sake of alignment with EU regulations, international standards in the area

<sup>57</sup> RS Official Gazette, No 84/2020.

<sup>58</sup> RS Official Gazette, No 13/2020.

<sup>59</sup> RS Official Gazette, No 13/2020.

<sup>60</sup> RS Official Gazette, No 80/2020.

<sup>61</sup> RS Official Gazette, No 104/2020.



and best practice principles, the NBS continuously works on improving the supervisory assessment of the ML/FT risk.

**Sources of data used for ML/FT risk assessment** in entities supervised by the NBS are internal acts related to ML/FT risk management, findings of on-site examinations and other supervisory assessments, data and information received from the AML Administration, data from the questionnaire drawn up for the purpose of collecting quantitative and qualitative data and information, information received from the competent prosecutor 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 when concluding life insurance contracts, as well as VPF management companies, to respond to all trends and ensure timely updating of supervisory information.

**The key result of the supervisory ML/FT 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 2020, off-site supervision of ML/FT risk management in entities supervised by the NBS were also continuously conducted. During 2020, an off-site examination was conducted in one bank regarding the establishment of a business relationship with a non-resident, as was an examination of implementation of supervisory orders and measures issued to one bank and one financial lessor.

In addition to regular ML/FT risk assessment activities in entities supervised by the NBS, in February 2020 the NBS published on its website the Notification to authorised exchange dealers and the public postal operator on the obligation to compile and submit the annual report for 2019 on the conducted internal control and the measures taken thereafter. Based on the received reports on the conducted internal control and the measures taken thereafter, a representative number of received reports was analysed (855 annual reports).

### *On-site supervision*

**In the course of 2020, the NBS carried out 202 AML/CFT on-site examinations of supervised entities.** The NBS took a series of measures accordingly – sent written warnings, issued decisions on orders and measures, imposed fines and filed charges for commercial offence and misdemeanour. Four examination procedures were discontinued in the same period.

Based on the supervisory assessment of ML/FT risk exposure, the NBS developed the AML/CFT on-site examination plans for 2021 for the entities it supervises.

### *NBS as a member of the AML/CFT Coordination Body*

As a member of the AML/CFT Coordination Body, **the NBS actively participated in preparing the National AML/CFT Strategy for the Period 2020–2024** and in defining the activities set forth by the Action Plan for the Implementation of the AML/CFT Strategy (2020–2022), which were adopted on 13 February 2020 by the Serbian Government.

During 2020, the NBS participated in the implementation of project activities within the EU project – Enhancing the Quality and Efficiency of Suspicious Transactions Reporting and Administration for the Prevention of Money Laundering Core Functions.

### *Cooperation with international organisations (Council of Europe's Moneyval and the FATF's International Co-operation Review Group (ICRG))*

**The NBS has an active role in Moneyval, the Council of Europe's committee** which gathers experts from member states who assess the compliance of the AML/CFT systems 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 have systems to efficiently prevent money laundering and terrorism financing in accordance with relevant standards in that field, particularly with *FATF* Recommendations and international conventions. Moneyval's reports include recommendations for the improvement of the efficiency of the AML/CFT systems in individual states, as well as for boosting the capacity for international cooperation.

On its website, the NBS published the Moneyval report *Money Laundering and Terrorism Financing Trends in Moneyval Jurisdictions during the COVID-19 Crisis*, made for the purpose of considering the threats caused by the coronavirus pandemic globally. The report is based on the responses of Moneyval member states to the submitted questionnaire about the impact of the COVID-19 crisis on AML/CFT systems, as well as on observations in practice. Together with other relevant Serbian authorities, the NBS responded to the submitted questionnaire with regard to the operations of entities it supervises.

In addition to the above, in 2020 the NBS signed an Annex to the MoU with the Insurance Supervision Agency of the Republic of Slovenia in the area of insurance supervision. The subject of this Annex is the broadening of cooperation from insurance supervision to supervision of voluntary pension fund management companies, with emphasis on exchange of information on AML/CFT efforts, all with the purpose of meeting FATF Recommendation 40.

### III.3 Bank resolution function

#### Legal framework

In the environment of the global financial crisis and its aftermath, the existing mechanisms at the global level proved insufficient to address the problems of banks facing serious difficulties in their operation. These mechanisms did not allow for sufficiently prompt and efficient intervention of the competent authorities, nor did they provide the necessary conditions for maintaining banks' critical functions, and thus for safeguarding the financial stability of the system as a whole. This led to a growing national and international awareness of the need to define clear rules and mechanisms for crisis response. At EU level this eventually led to the adoption of the Directive on establishing a framework for recovery and resolution of credit institutions and investment firms<sup>62</sup> in May 2014. The Directive became effective on 1 January 2015.

In line with the Republic of Serbia's strategic commitment to EU accession, the NBS drafted the Law Amending the Law on Banks whose implementation started on 1 April 2015. Amendments to this Law were part of the amendments to a set of financial laws (Law on the National Bank of Serbia, Law on Banks, Law on Deposit Insurance, Law on Deposit Insurance Agency and Law on Bankruptcy and Liquidation of Banks and Insurance Undertakings). These amendments aligned the bank resolution framework with the EU Directive, as well as with international regulatory trends.

The NBS was assigned a new role – that of the bank resolution authority.

Bank resolution is conducted in order to:

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

The main objective of bank resolution is to minimise the use of budgetary and other public funds with a view to preserving financial stability. This is achieved by envisaging that losses incurred by a failing bank are borne first by bank shareholders and creditors, observing the prescribed limitations and protective mechanisms (the losses may not exceed those entailed by a bankruptcy procedure).

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<sup>62</sup> Directive 2014/59/EU on establishing a framework for recovery and resolution of credit institutions and investment firms.

## Activities

In accordance with the deadlines set in the Law on Banks, in late 2015 and early 2016 the NBS developed the first resolution plans for all banks operating in the territory of the Republic of Serbia and in early 2017 also for all banking groups subject to NBS's consolidated supervision. In line with its obligation to update resolution plans at least once a year, the NBS updated resolution plans for banks on four occasions and for banking groups on three occasions.

When developing and updating resolution plans, the NBS assessed banks' critical functions and core business lines and considered resolution options for each individual bank and banking group subject to NBS's consolidated supervision. On those occasions the NBS identified no impediments to resolution that would require issuance of special decisions. On the other hand, the NBS indicated to some banks that they need to ensure continuity of operations as regards outsourced activities and to improve information system risk management in the context of planning potential resolution.

### **Updates of resolution plans for all banks and banking groups under the NBS's competence were adopted in early 2020.**

In line with the provisions of the Law on Banks, the **minimum requirement for capital and eligible liabilities** is integral to the resolution plan, along with the deadline for the bank to reach the prescribed level of the requirement. The first resolution plans were accompanied by decisions setting such requirements for each individual bank. Starting from the assessment of resolution possibility, in updating bank resolution plans, the NBS re-examined the initially defined minimum requirements for capital and eligible liabilities and prescribed new ones.

For the purpose of monitoring compliance with the set minimum requirement for capital and eligible liabilities, and drawing up and updating resolution plans, banks and ultimate parent companies of banking groups supervised by the NBS on a consolidated basis submit reports prescribed by 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, on a semi-annual basis.<sup>63</sup> In the course of 2020, after the examination of submitted reports for 2019, their analysis indicated that **all banks were compliant with the set minimum requirement for capital and eligible liabilities as at 31 December 2019.**

The NBS also has successful cooperation with foreign regulatory bodies in charge of resolution, such as the Single Resolution Board – the central resolution authority within the Banking Union of the EU, and the Hungarian National Bank, with which it regularly exchanges information concerning bank resolution and it also takes part in resolution councils organised by those bodies.

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<sup>63</sup>RS Official Gazette, Nos 78/2015, 78/2017 and 46/2018.

## III.4 Stability of the financial system

### III.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 develops and carries out measures and activities aimed at preserving and strengthening financial system stability.**

In addition to adopting its own measures, the NBS may also propose that other institutions take specific measures aimed at maintaining and strengthening financial 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 titled Macroprudential Framework. This document sets out in more detail the objectives, instruments and decision-making process of macroprudential policy, without prejudice to the achievement of the NBS's primary objective – 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 the domestic regulations. An integral part of this set of regulations is the Decision on Capital Adequacy of Banks which introduced capital buffers into banking regulations, as the most important instrument of macroprudential policy. Apart from capital buffers, new liquidity requirements were introduced in accordance with Basel III standards, such as the liquidity coverage ratio. 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 capital 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. **The countercyclical capital buffer** is additional CET 1 capital applied in the financial cycle upturn phase which may range from 0% to 2.5% of 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 the last three years, as well as in 2020**

due to continued global uncertainty caused by the spread of coronavirus, as the setting of a countercyclical capital buffer rate above 0% could affect potential credit growth in the given circumstances.

**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 at 0–2% of their risk-weighted assets. The list of systemically important banks is published on the NBS website, and the Decision on Establishing the List of Systemically Important Banks and the relevant buffer rate is re-examined at least once a year.

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

**The systemic risk buffer** was set in June 2017, with amendments adopted on 11 January 2018, with a view to mitigating the systemic risk of euroisation and incentivising banks to reduce the degree of euroisation. Since euroisation is a major systemic structural 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 the systemic risk buffer at 3% of their FX and FX-indexed receivables from corporates and households in Serbia.

#### *Temporary macroprudential measures taken by the NBS to mitigate the consequences of the coronavirus aimed at maintaining financial system stability*

In order to preserve financial stability amid potential risks caused by the emergency health situation at home and abroad, the NBS adopted the following decisions:

- In March 2020, decisions prescribing a suspension in repayment of borrowers' liabilities (moratorium) were adopted: Decision on Temporary Measures for Preserving Financial System Stability and Decision on Temporary Measures for Lessors Aimed at Preserving Financial System Stability;
- In June 2020, Decision Amending the Decision on Measures for Safeguarding and Strengthening Stability of the Financial System was adopted, creating regulatory preconditions for lower downpayment required at the time of housing loan approval to first-time home buyers;
- In July 2020, regulations were adopted enabling further deferral of liabilities under loans, loan products and leasing for bank and financial lease borrowers. In accordance with the adopted regulations, borrowers were offered another suspension of repayment of liabilities to

banks/financial lessors maturing between 1 August 2020 and 30 September 2020, as well as of outstanding liabilities matured in July 2020;

- In August 2020, the NBS adopted the Decision on Temporary Measures for Banks to Facilitate Access to Financing for Natural Persons, which facilitated households' access to financing. The Decision prescribes three sets of temporary measures which allow for households' easier access to housing loans, thereby supporting the economy, more specifically the construction industry, through faster turnover of assets, offer the possibility to extend housing loan repayment periods by maximum five years and temporarily relax the approval procedure for household short-term dinar loans up to a certain amount. Banks will be able to apply the adopted set of measures until end-2021.
- In December 2020, the NBS adopted the Decision on Temporary Measures for Banks to Enable Adequate Credit Risk Management amid COVID-19 Pandemic and the Decision on Temporary Measures for Financial Lessors to Enable Adequate Credit Risk Management amid COVID-19 Pandemic. These decisions prescribe the measures and activities to be applied by banks and financial lessors in order to ensure adequate credit risk management, which implies timely identification of borrowers faced with potential difficulties and the taking of appropriate steps.

**The NBS continued to actively support the dinarisation of the financial system of the Republic of Serbia**, while mitigating potential risks for financial system stability which may arise from the euroisation risk.

The adoption of by-laws at end-2019 established new rules for banks, which aim to change the currency structure of lending towards a higher share of dinar lending in total loans approved in the Republic of Serbia and create an environment that encourages more favourable dinar financing of corporates, most notably SMEs. Bearing in mind the circumstances created by the spread of the coronavirus pandemic, in order to facilitate access to dinar sources of financing, in July 2020 the NBS adopted a measure that provides more favourable terms of financing through loans under the Guarantee Scheme for entrepreneurs, micro, small and medium-sized enterprises. This supported dinar lending to corporates, so dinar loans approved by banks under the Guarantee Scheme of the Republic of Serbia turned out even more favourable than the initial terms. These measures pushed up the dinarisation of corporate loans, with **dinar loans accounting for around 60% of loans approved under the Guarantee Scheme**.

### III.4.2 Financial stability assessment

#### *International environment risks*

The global economic downturn caused by the coronavirus pandemic was probably the sharpest since the Great Depression of the 1930s. The pandemic triggered heightened uncertainty in the international financial market, bolstering investment in safe assets. Global stock exchange indices struck a downward path, and capital flows to emerging economies ebbed away. Monetary policy accommodation by leading central banks, as well as central banks of emerging economies, many of which applied unconventional measures, was possible given low inflationary pressures amid declining aggregate demand and subdued energy prices.

According to the IMF's estimate from April 2021 report,<sup>64</sup> the global economy fell by 3.3% in 2020. As a consequence of the "Great Lockdown" in H1, the world faced a sharp contraction in economic activity, which would have been even more pronounced had the countries around the world not taken numerous monetary and fiscal measures to support corporates and households in the newly emerged crisis. Monetary and fiscal authorities' responses calmed the financial markets and boosted investors' readiness to invest, leading to improved financial conditions in both advanced and emerging economies. Mid-2020 saw the beginning of global economic recovery, driven by better than anticipated performances, particularly in advanced economies, and the rebound in the Chinese economy. However, the nascent recovery was slowed down by the renewed spread of the virus as of October, leading to a reinstatement of containment measures in many countries.

According to estimates, euro area GDP declined by 6.5%<sup>65</sup> in 2020 due to the "Great Lockdown" (GDP growth rate measured 1.3% in 2019). In December 2020, the unemployment rate in the euro area stood at 8.2% (7.4% at end-2019). Harsher consequences for the labour market were avoided thanks to the introduction of short-time work schemes and wage subsidies for employed persons. According to Eurostat, Germany and Italy, Serbia's key trade partners in the euro area, recorded a 4.8% and 8.9% fall, respectively, in 2020.

COVID-19 vaccine progress and availability bolstered the prospects for a global economic recovery (according to the IMF's April 2021 estimate, global economy will grow at a rate of 6% in 2021), leading to diminished uncertainty in the international financial market and investors' greater propensity to take up riskier assets, as well as fuelling a rise in global prices of primary commodities amid expectations of stronger demand. Even so, uncertainty as to how the pandemic will unfold is still present. Another cause for concern is the emergence of new virus strains and in many countries, notably in Europe, extension of restrictive containment measures, which might slow down the expected economic recovery.

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<sup>64</sup> IMF WEO, April 2021.

<sup>65</sup> According to Eurostat.



Inflation in the euro area stood at 0.3% y-o-y on average in 2020, which is lower than its 2019 average (1.2% y-o-y) and below the target value of below, but close to 2%. The falling energy prices and industrial product prices excluding energy drove inflation down to -0.3% y-o-y from September until December 2020, its lowest level since January 2015 (-0.6%). Core inflation (excluding prices of food, energy, alcohol and cigarettes) equalled 0.2% y-o-y from September until December 2020, its lowest level on the Eurostat's record. Primary commodity indices were higher at end-2020 than at end-2019, despite the April 2020 fall. Global oil price was volatile in 2020. The sharp fall in the oil price was prompted by the counter-pandemic measures which directly affected the transport sector, overloaded oil storage facilities, as well as concerns about the future effects of the pandemic, failed agreement of OPEC members to cap the production and the price war between Saudi Arabia and Russia. In the second half of April, the price of oil dropped to only USD 17.3 per barrel, and oil futures entered the negative zone for the first time on record. The price of oil recovered thereafter, primarily reflecting production cuts by OPEC members to an almost 30-year low, but also as a result of optimism that demand might start to recover as the economies open. However, as early as August, the price of oil declined again due to the rising number of coronavirus infections worldwide, growing inventories, lower crude oil import by China and other supply- and demand-side factors. As of October, it started to rise again on the back of investors' readiness to invest, data about depleting crude oil inventories in the US, expanded sanctions on Iran and Venezuela, as well as the agreement between OPEC countries and Russia to increase daily output by only 500,000 barrels a day as of 1 January 2021. At the end of the year, the price of oil equalled USD 51.2 per barrel, down by 23% from end-2019.

In 2020, the ECB kept its main refinancing rate at 0.00%, lending facility rate at 0.25% and deposit facility rate at -0.50%. In its March 2020 meeting, the ECB decided to increase the volume of net asset purchases from the private sector (Asset Purchase Programme – APP) by EUR 120 bn until the end of the year in order to provide financial support to the real sector in the conditions of heightened uncertainty. At an extraordinary meeting held in March, the ECB decided to launch a new Pandemic Emergency Purchase Program (PEPP) worth EUR 750 bn and to increase its initial volume in December to a new total of EUR 1,850 bn. The programme was to be implemented until end-2020, but it was extended until March 2022. In April, the ECB introduced PELTROs (Non-Targeted Pandemic Emergency Longer-Term Refinancing Operations), a new programme to provide liquidity support to the financial system and contribute to smooth functioning of money markets. It eased the conditions relating to the volume and interest rate for participating in targeted longer-term refinancing operations (TLTROs III), with interest rate on these loans for banks meeting certain conditions being as low as -1.0%. In December, the duration of more favourable terms under this program was extended until June 2022 (previously June 2021). In addition to the programme for alleviating the consequences of the coronavirus, in January 2020 the ECB launched a review of its monetary policy strategy, extending the deadline for its completion from end-2020 to H2 2021.

At its January, March and April 2021 meetings, the ECB kept its rates on hold (main refinancing rate at 0.00%, deposit facility rate at -0.50% and lending facility rate at 0.25%). It also kept the volume of net asset purchases under PEPP programme at EUR 1,850 bn, net asset purchase programme (APP) at a monthly pace of EUR 20 bn and more favourable conditions (lower interest rates and eased collateral requirements) under TLTRO III.

Increased uncertainty, mainly due to the coronavirus, drove the Fed to trim its federal funds rate and introduce a number of unconventional measures. In March, it trimmed its federal funds target range twice by 150 bp in total, to 0.00–0.25%. At its second unscheduled meeting in March, the Fed decided to resume its QE programme, beginning with asset purchase worth at least USD 700 bn, of which USD 500 bn referred to purchases of Treasury securities and USD 200 bn of mortgage-backed securities. As of March 2020, the Fed started conducting temporary repo transactions to inject additional liquidity in the banking sector, as well as launching international repo transactions providing dollar liquidity to foreign central banks and other monetary institutions (FIMA Repo Facility). The Fed activated dollar swap lines with central banks of other advanced economies (including the ECB) and several emerging economies' central banks to provide additional dollar liquidity. It encouraged banks to use their capital and liquidity buffers, established in the aftermath of the 2008 crisis, in approving loans to households and corporates. At end-August 2020, the Fed adopted changes to its monetary policy strategy which imply a more flexible approach to inflation targets and perception of the maximum employment level. The Fed will undertake a thorough public review of its monetary policy strategy every five years.

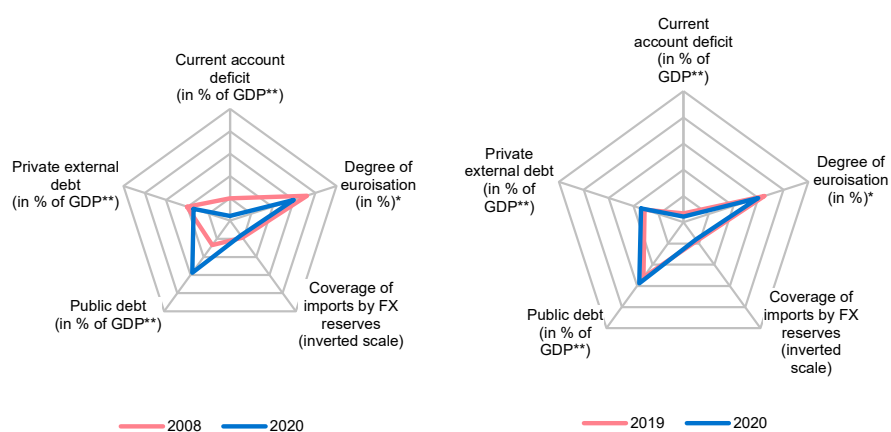
At its meetings in January, March and April 2021, the Fed kept the rate for its federal funds rate at 0.0–0.25% and decided to continue with net purchases under the QE programme – monthly purchases of at least USD 80 bn in Treasury bonds and at least USD 40 bn in mortgage-backed securities. The Fed expects to maintain its federal funds rate at its current level until labour market conditions have reached levels consistent with maximum employment and inflation has risen to 2% for a longer time. The outlook for the US economy depends largely on the further course of the coronavirus pandemic, including the pace of vaccination.

The adoption of a sizeable fiscal support package worth USD 1,900 bn in the USA, along with increased optimism concerning powerful global economic recovery and accelerating inflation, pushed up long-term yields on US treasury securities since early 2021. Higher yields were recorded in other countries as well, including the euro area. Such developments raised concerns about further capital flows to emerging economies and a possible tightening of financial conditions, which is currently assessed as one of the most significant risks emanating from the international environment.

### Domestic macroeconomic environment

Macroeconomic conditions at home remained favourable in 2020, despite the crisis caused by the coronavirus pandemic. Inflation stayed low and stable for the seventh year in a row, measuring 1.6% on average in 2020. Average core inflation was at the same level, which suggests that demand-side pressures remain relatively low despite the continued rise in wages and employment in the majority of sectors. Owing to numerous economic measures to support corporates and households, the domestic labour market was not severely affected by the global health crisis and continued recording favourable trends from the previous years. The increase in wages and employment was preserved both in the private and public sector and was coupled with a further decrease in unemployment. Domestic lending, supported by an accommodative monetary policy and Guarantee Scheme loans, posted an almost double-digit growth for the third year in a row. Due to sizeable support measures aimed at overcoming the consequences of the pandemic, the consolidated government budget recorded a deficit of 8.1% of GDP. The current account deficit narrowed from April and equalled 4.3% of GDP at year level. The imports of goods and services posted a sharper fall (5.8%) than exports (4.9%). FDI inflow in 2020 was relatively high – EUR 3.0 bn gross and EUR 2.9 bn net, providing for the full coverage of the current account deficit.

Chart III.4.2.1 Key macroeconomic risks

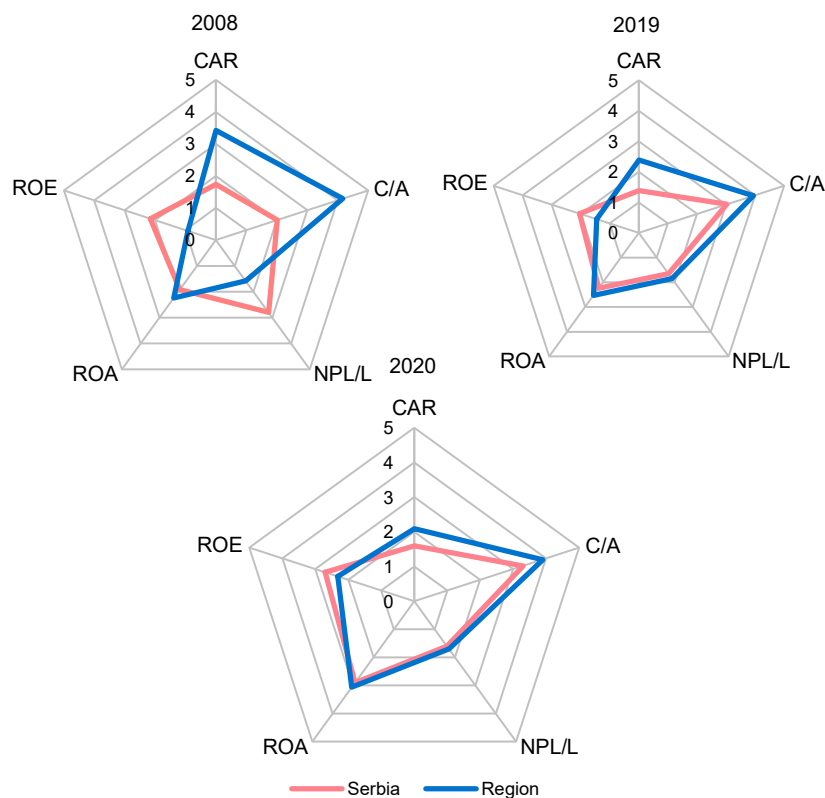


\* Share of FX and FX-indexed deposits in total corporate and households deposits.  
 \*\* GDP is adjusted with ESA 2010 methodology.  
 Source: NBS.

Fitch Ratings confirmed Serbia's Long-Term Foreign- and Local-Currency Issuer Default Ratings at BB+. On 14 December 2020, Standard & Poor's also confirmed Serbia's Long-Term Foreign- and Local-Currency Issuer Default Ratings at BB+. A stable outlook was also confirmed. Despite global circumstances marked by the coronavirus pandemic, Moody's upgraded Serbia's credit rating in March 2021 from Ba3 to Ba2. The key drivers of the decision to upgrade the rating were Serbia's economic resilience to the coronavirus shock, solid medium-term growth, as well as expectation that fiscal metrics will continue

to outperform Ba peers. Further, in mid-March 2021, Fitch affirmed Serbia's rating at BB+, a step away from investment grade, with a stable outlook.

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



Notes:

- 1) 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; P/NPLs – Provisions to Gross NPLs; ROA – Return on Assets; ROE – Return on Equity.
- 2) Greater distance from the network centre indicates greater risk.
- 3) 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: GFSR.

A comparison of indicators of financial system vulnerability<sup>66</sup> in 2020 and 2019 shows a **decline in vulnerability and a rise in the system's resilience, as indicated by the narrowing of the current account deficit and greater dinarisation of bank's deposits and receivables**. The share of the current account deficit in GDP was 4.3% in 2020, a decrease relative to 2019 (6.9%). A sharper fall in imports of goods and services than exports contributed to the narrowing of the current account deficit. Higher dinarisation of the Serbian financial system also contributes to greater resilience of the domestic economy to possible changes in the dinar exchange rate, as the share of FX and FX-indexed household and corporate deposits in total bank deposits contracted by 5 pp in 2020, measuring 59.9% at the

<sup>66</sup> 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 scale of the coverage of imports by gross FX reserves). The farther the position from the centre of the graph is, the higher the risk for each of the indicators.

end of the year. The share of FX and FX-indexed household and corporate receivables in total bank receivables also went down (from 66.9% at end-2019 to 62.7% at end-2020). Greater resilience of Serbia's economy to external risks was also bolstered by the increase in FX reserves which hit a record high level at end-2020 (EUR 13.5 bn), covering more than six months of imports of goods and services.

On the other hand, the share of private external debt in GDP increased relative to 2019 (from 31.3% to 34.1%), as did the share of total external debt in GDP (from 61.5% to 66.3%) and the share of public debt (from 52% to 57.4%), though remaining within the bounds of sustainability.

### *Financial stability assessment*

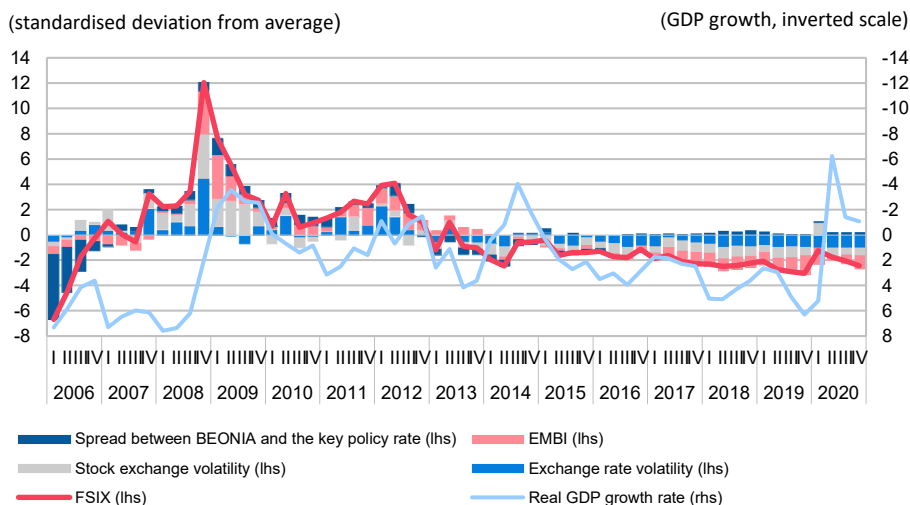
The stability of the financial system reflects the stability of the banking system, since banks make up around 91% of the Serbian financial system. **The banking system is stable thanks to its high solvency, liquidity and profitability, as well as better loan quality due to a significant reduction of NPLs.** Lending activity continued to grow and provide support to Serbia's economic growth. Despite the coronavirus pandemic, thanks to timely monetary and fiscal policy measures, high capital adequacy and liquidity have been preserved.

Several indicators and analyses were used to assess the financial stability, as follows: (a) comparison of selected financial soundness indicators, (b) financial stress index and composite systemic stress indicator, and (c) exposure of the financial system to large-scale shocks in stress tests and assessment of systemic risk components by 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 above the region's average owing to the NBS's prudential regulations.** In 2020, the Serbian banking sector posted positive results, with return on assets above the region's average. **At end-2020, the share of NPLs in total loans was below the region's average – it stood at 3.71%.**

**The financial stress index (FSIX)** is a composite indicator of financial soundness which aims to identify episodes of elevated financial stress and their duration. Positive values of the financial stress index point to the above-average level of financial stress and negative values to a level below the average. The resilience of the financial and real sector built in the previous period, along with a range economic policy measures, alleviated the negative effects of the coronavirus pandemic. Given the above, FSIX indicated a below-average stress level throughout 2020, with a mild upward trend in Q1 due to increased volatility in stock market movements.

Chart II.4.2.3 Financial Stress Index (FSIX) and GDP growth



Source: NBS.

In order to identify crisis periods and estimate the level of systemic stress of the Serbian financial system, a methodology was developed based on which the **composite indicator of systemic stress**<sup>67</sup> was constructed. This indicator is used by the European Systemic Risk Board<sup>68</sup> and the ECB<sup>69</sup> for analysing risk accumulation in different segments of the financial system and assessing the level of total systemic stress.

This indicator gives decision-makers significant and timely information about trends in the financial markets, i.e. instabilities in the financial system and possible implications for financial and macroeconomic stability. Additionally, it enables the identification of early warning alerts, 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: FX market, government securities market, money market, capital market, banking sector and the international environment.

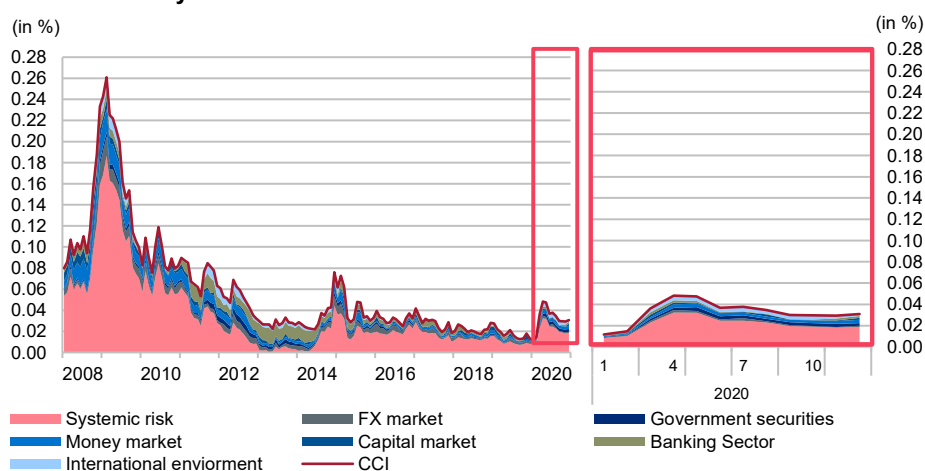
After touching its historical low in January 2020, this indicator increased in March due to the spread of the coronavirus and peaked in April. Already in Q2, it was noticeable that monetary, microprudential and macroprudential policy measures of the NBS and the Government helped diminish the negative consequences of the coronavirus, stabilise the systemic stress indicator and strengthen the stability of the Serbian financial system.

<sup>67</sup> For a more detailed analysis of the systemic stress indicator see the *Annual Financial Stability Report*.

<sup>68</sup> <https://www.esrb.europa.eu/pub/rd/html/index.en.html>

<sup>69</sup> <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1426.pdf?6d36165d0aa9ae601070927f3ab799fc>

Chart III 4.2.4 Systemic stress indicator



Source: NBS.

The quarterly **macroprudential stress-tests of the NBS**<sup>70</sup> indicate high resilience of the banking sector even to the strongest shocks. Under the most unfavourable macroeconomic scenario (which implies high depreciation of the dinar, decrease in real wages and increase in the key policy rate), the Serbian banking sector as a whole would remain adequately capitalised. According to the results of liquidity stress tests, the domestic banking sector would remain liquid even in case of an assumed extremely high deposit withdrawal. In addition, **network modelling**, based on interbank exposure, is used to assess the systemic component of risk in the banking 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 ways of shock transmission through the system. Also, the network structure 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 stability of the banking sector, indicated by stress test results, is confirmed by the demonstrated high resilience of this sector to the consequences of the coronavirus pandemic.**

<sup>70</sup> The results of macroprudential stress tests are published in the *Annual Financial Stability Report*.





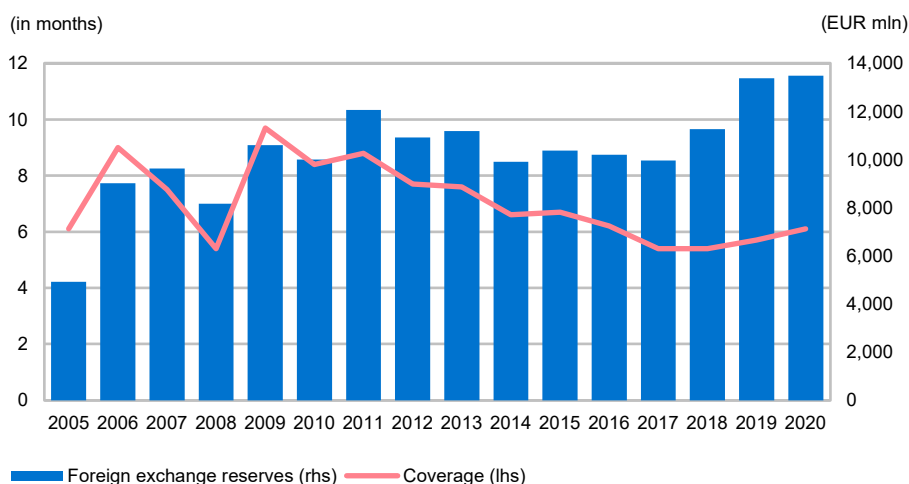
# IV OTHER FUNCTIONS AND ACTIVITIES OF THE NATIONAL BANK OF SERBIA

## IV.1 Foreign exchange reserve management

### Stock and changes in FX reserves in 2020

At end-2020, gross NBS FX reserves were at the highest end-of-year level on record (since 2000). On 31 December 2020, gross NBS FX reserves stood at EUR 13,491.7 mn, up by EUR 113.2 mn from end-2019. This level of FX reserves covered 130% of money supply (M1) or more than six months' worth of the country's import of goods and services (almost twice the level prescribed by the standard on the adequate level of FX reserves).

Chart IV.1.1 Coverage of imports by FX reserves



Source: NBS.

In 2020, the major inflow into FX reserves came from the issue of eurobonds of the Republic of Serbia in the international financial market in the total amount of EUR 2,951.6 mn. Funds raised in the May issue of seven-year bonds (EUR 1,968.6 mn) were used for the implementation of the programme of economic measures aimed at mitigating the effects of the coronavirus pandemic, while ten-year bonds worth EUR 983.0 mn (USD 1.2 bn) were issued in November (settlement in December).

The FX inflow from the sale of government securities in the domestic financial market came at EUR 366.4 mn.

Banks allocated EUR 286.3 mn net in FX required reserves.

The FX inflow from donations amounted to EUR 276.4 mn and from payment transactions with Kosovo and Metohija to EUR 261.1 mn, pursuant to the Law on Temporary Performance of Specific Payment Transactions in the Territory of the FRY (requiring that banks sell to the NBS all FX inflows arising from resident transactions with Kosovo and Metohija).<sup>71</sup>

The FX inflow from loans disbursed by the Republic of Serbia amounted to EUR 222.1 mn. The loans were granted by:

- the **World Bank Group** (EUR 120.1 mn) for enhancement of land administration, competitiveness and jobs, support to financial institutions, modernisation of public administration, health development, improvement of efficiency and sustainability of infrastructure, development policies for disaster risk management, reconstruction of roads and entrepreneurship promotion;
- the **EIB** (EUR 80.5 mn) for SME development, research and development in the public sector, local development programmes, road reconstruction and school modernisation, as well as the development of river transport infrastructure;
- the **Council of Europe Development Bank** (EUR 14.5 mn) for the construction of a new prison unit in Kragujevac, investment in science infrastructure and for the construction of a new University Children's Hospital "Tiršova II";
- the **EBRD** (EUR 7.0 mn) for the reconstruction of four streets in Belgrade and improvement and reconstruction of Belgrade public transportation and transport infrastructure.

In addition, an inflow of EUR 395.0 mn came from the privatisation of Komercijalna banka.

In 2020, a total outflow of EUR 1,003.7 mn was recorded on account of the payment of more expensive dollar eurobonds in the international financial market. Of that, the remaining debt on account of the eurobond issued in 2013 in the amount of EUR 198.6 mn was repaid in February, while a portion of debt on account of eurobonds issued in 2011 in the amount of EUR 805.1 mn was repaid

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<sup>71</sup>FRY Official Gazette, No 9/01.

early in December. The amount of EUR 505.1 mn was paid in respect of matured government securities issued in euros in the domestic financial market.

NBS interventions in the IFEM caused a net FX outflow (including spot and swap transactions) in the amount of EUR 1,303.0 mn.<sup>72</sup> The outflow of EUR 1,226.3 mn was recorded on account of the settlement of liabilities to foreign creditors (principals and interest). A total of EUR 23.8 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 the unpaid FX savings of citizens from the former republics of the SFRY in the amount of EUR 20.8 mn)

**On 31 December 2020, net NBS FX reserves stood at EUR 11,130.7 mn, down by EUR 310.1 mn from end-2019.**

### Structure and profitability of FX reserves

On 31 December 2020, NBS FX reserves were made up of: foreign securities (49.7%), FX funds in accounts abroad (21.9%), foreign cash (14.8%), gold in the NBS vault and in the account abroad (13.1%) and SDR holdings with the IMF (0.5%).

The currency composition of NBS FX reserves (excluding gold) on 31 December 2020 was as follows: 66.04% – EUR, 29.21% – USD, 1.84% – GBP, 1.73% – CAD, 0.56% – SDR and 0.62% – other currencies.

A major portion of FX reserves – EUR 6,709.9 mn, was invested in securities denominated in the euro, US dollar, pound sterling and Canadian dollar. Of this, 58.1% was invested in long-term and 41.9% 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, the UK, Germany, France, the Netherlands, Austria, Belgium, Finland and Slovakia; public sector securities (supranational, subnational, agencies, sovereign), including floating rate notes (FRN), as well as covered bonds.

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 (the USA, Germany, France, Belgium, Ireland, Finland and Canada), government coupon securities with up to one-year maturity (the USA, Canada, the UK, France, Germany, Belgium, the Netherlands and Slovakia), public sector securities (supranational, subnational, agencies, and sovereign) and covered bonds.

A portion of FX reserves worth EUR 2,957.9 mn was held in current accounts abroad and was invested in deposits with maturities longer than overnight. Of this amount, 60.95% was invested with central banks (Fed, Bundesbank, Bank of Canada, Oesterreichische Nationalbank, Central Bank of Luxembourg and Reserve Bank of Australia) and international financial organisations (BIS), while 39.05% went to top-tier foreign commercial banks with composite credit rating of AAA (up

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<sup>72</sup>Transactions under NBS interventions in the international FX market are disclosed in line with the accounting rules as at the execution day, and not the trading day.

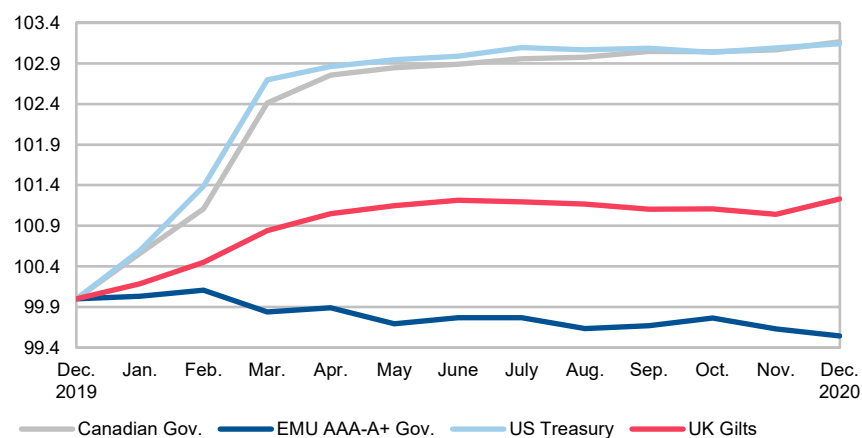
to six months), foreign commercial banks with composite credit rating of AA- at least (up to three months), and current accounts of correspondent commercial banks abroad.

In 2020, the NBS income from investment in foreign securities and interest on foreign assets totalled EUR 54.8 mn net.

## Risk management

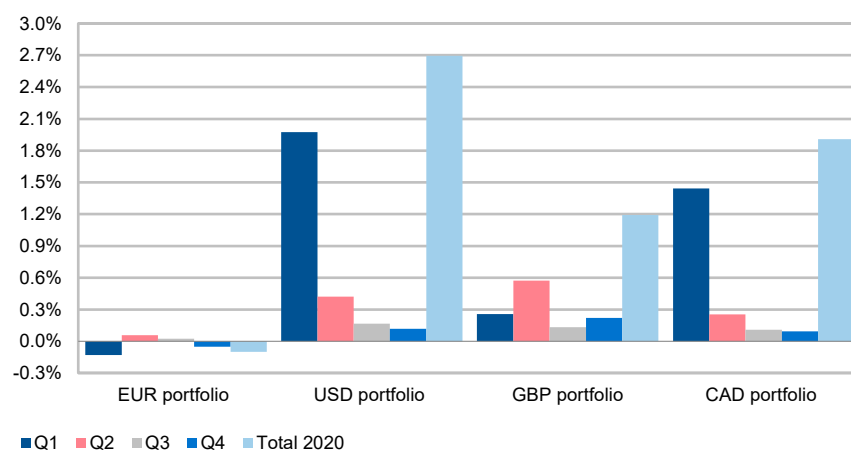
**In 2020, the NBS remained committed to maintaining its portfolio risk at a very low level, sustaining high levels of security and liquidity.**

Chart IV.1.2 **Sovereign bond indices in original currency**  
(Dec 2019 = 100)



Source: NBS.

Chart IV.1.3. **Portfolio return in original currency**  
(by quarter)



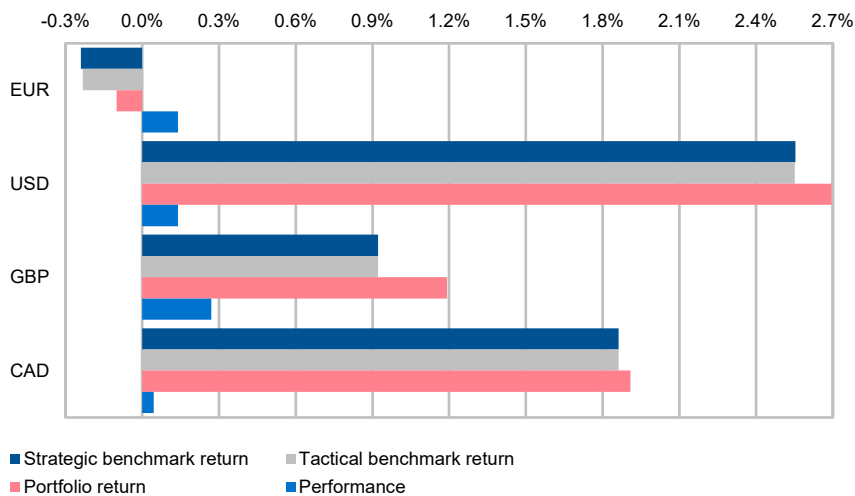
Source: NBS.

Yield rates on government bonds in the NBS portfolio went down in 2020. In the case of US, Canadian and UK government bonds, the yield curve slope heightened, since the decrease in the yield rates on shorter maturities was more

pronounced than the decrease in the rates on longer maturities, while the yield curve for European sovereigns (German, French and Dutch) flattened. The highest yield in original currencies was recorded for US and Canadian government bonds.

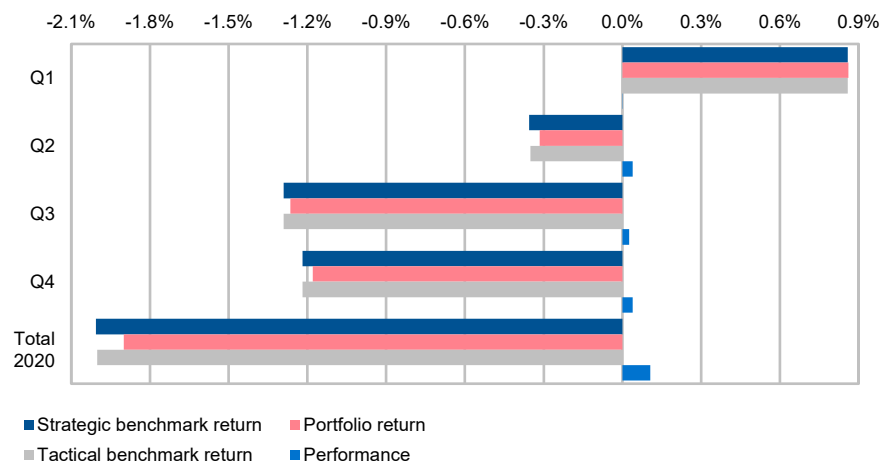
In such an environment, thanks to its cautious approach to investment and low portfolio duration, which in 2020 moved around 1–1.5, the NBS achieved a positive yield in USD, GBP and CAD portfolios, while the EUR portfolio recorded a negative yield. The highest yield of 2.69% was recorded in the USD portfolio, followed by the CAD portfolio – 1.91%, GBP portfolio – 1.19%, while the yield in the EUR portfolio was -0.10%. At the same time, all four NBS portfolios (euro, US dollar, pound sterling and Canadian dollar) recorded higher yields relative to the benchmark.

Chart IV.1.4 Portfolio and benchmark return in original currency in 2020



Source: NBS.

Chart IV.1.5 Total portfolio and benchmark return recalculated in RSD, by quarter

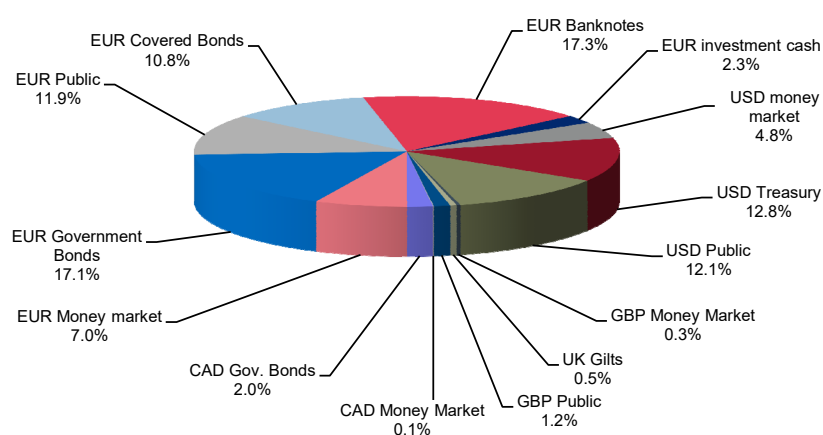


Source: NBS.

The USD, GBP and CAD portfolios recorded positive results in all four quarters, the best in Q1 for the USD and CAD portfolios and in Q2 for the GBP portfolio. The EUR portfolio recorded positive yields only in Q2 and Q3. The underlying reason are market developments. The year 2020 was marked by the coronavirus pandemic, economic slack and the adoption of many measures aimed at mitigating the negative effects of the pandemic. In the USA, the Fed lowered the federal funds rate target range twice in March, by a total of 150 bp, i.e. to the range of 0.00–0.25%. The Bank of England also lowered its rate two times in March, by a total of 65 bp, from 0.75% to 0.1%. The Bank of Canada lowered its rate three times in March by a total of 150 bp, from 1.75% to 0.25%, while the ECB did not additionally lower the policy rate in 2020 (-0.50%). All four central banks initiated asset purchase programmes, raising the volume over the year, and adopted other incentives to provide liquidity and favourable financing terms. To reduce the negative effects of the global economic slack and fall in employment, governments adopted fiscal assistance packages for corporates and households. In November, the democratic candidate won the US presidential elections. The UK and the EU officially reached an agreement on the future relationship on 24 December 2020, only a few days before the end of the Brexit transition period.

The euro appreciated by 8.57% against the US dollar, by 5.55% against pound sterling and by 6.55% against the Canadian dollar. Primarily due to the US dollar's depreciation against the euro, the yield of overall investment portfolio was negative, at -1.89%, calculated in euros. In the situation of almost unchanged exchange rate of the dinar against the euro, and the dinar's appreciation against the US dollar, the overall portfolio yield, calculated in dinars, was negative, at -1.90%.

Chart IV.1.6 **Composition of investment portfolio**  
as at 31/12/2020



Source: NBS.

The structure of the investment portfolio by type of assets and the currency structure were in line with the Strategic Guidelines for the Management of FX Reserves of the National Bank of Serbia.

In 2020, the NBS invested in highly liquid bonds with low market and credit risk. Currency risk was considerably mitigated by matching the currency structure of FX reserves and the country's external debt, while interest rate risk was reduced by maintaining low portfolio duration. This is also confirmed by low value-at-risk (VaR) which estimates the value of market risk for the given level of confidence, calculated by individual portfolios and different calculation methods.

**Table IV.1.1 Value-at-Risk (VaR) as at 31 December 2020**

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

	EUR portfolio	USD portfolio	GBP portfolio	CAD portfolio
Parametric VaR	0.03%	0.07%	0.04%	0.04%
Historical VaR	0.04%	0.05%	0.04%	0.02%
Monte Carlo VaR	0.02%	0.06%	0.04%	0.04%

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 IV.1.2 Stress test as at 31 December 2020**

(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	-0.80%	-1.33%	-1.01%	-0.3%

Source: NBS.

**To manage credit risk, the NBS set high criteria for depositing funds with 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 and issuers is A-, for securities in the portfolio which are not fully guaranteed by the government (public sector bonds) – A+, and for covered bonds – AA. In 2020, Standard & Poor's lowered the credit rating of the German province Baden-Wuerttemberg and its related entities from AAA to AA+, and of the issuer EUROFIMA (European Company for the Financing of Railroad Rolling Stock) from AA+ to AA. Fitch lowered long-term credit rating of the UK and the Bank of England from AA to AA-, of Slovakia from A+ to A and of Canada from AAA to AA+, while Moody's lowered credit rating of the UK and the Bank of England from Aa2 to Aa3. Credit ratings of other issuers and bonds in the NBS portfolio remained the same as in 2019, according to all rating agencies. Due to the worsened economic conditions amid the pandemic and heightened financial risks, all three rating agencies made mostly negative adjustments to the issuers' rating outlook throughout the year. The ratings of commercial banks in which the NBS invests remained largely unchanged, though they experienced negative adjustments to their rating outlook.

In addition to financial indicators from bank balance sheets, other credit risk indicators were also monitored, such as the five-year CDS<sup>73</sup> spread for banks.

**All other indicators: the tracking error, limits on the structure and duration of the portfolio, as well as credit limits, in 2020 were within the framework prescribed** by the Strategic Guidelines for the Management of FX Reserves of the National Bank of Serbia.

## IV.2 Issue of banknotes and coins and cash management

### IV.2.1 Issue of banknotes and coins

In 2020, 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.

Table IV.2.1.1 **Denominational structure of currency in circulation**

Denomination	31 December 2019		31 December 2020	
	(in RSD mn)	in %	(in RSD mn)	in %
RSD 5000	20,927	10.1	30,082	11.4
RSD 2000	103,474	50.0	130,847	49.6
RSD 1000	63,060	30.5	80,522	30.5
RSD 500	10,379	5.0	12,791	4.8
RSD 200	3,918	1.9	3,990	1.5
RSD 100	2,418	1.2	2,578	1.0
RSD 50	1,310	0.6	1,419	0.5
RSD 20	887	0.4	987	0.4
RSD 10	679	0.3	745	0.3
Total:	207,052	100.0	263,961	100.0

Source: NBS.

**As at 31 December 2020, currency in circulation** (excluding currency kept in the NBS vaults, cash vaults of banks and the Ministry of Finance – Treasury Administration) **totalled RSD 266,7 bn** (banknotes and coins), up by 27.2% from end-2019.

Of this amount, banknotes accounted for 99.0% and coins for 1.0%. The share of banknotes increased by 0.2% from end-2019.

At end-2020 there were 375.5 mn pieces of banknotes in circulation, up by 53.5 mn pieces (16.6%) from end-2019. In nominal terms, the share of 5000-dinar banknotes increased by 1.3%, while the share of 2000-dinar banknotes decreased by 0.4%, of 500-dinar banknotes by 0.2%, of 200-dinar banknotes by 0.4%, of 100-dinar banknotes by 0.2%, and of 50-dinar banknotes by 0.1% y-o-y. The share of 1000-, 20- and 10-dinar banknotes remained unchanged from 2019. In 2020, 500,

<sup>73</sup> CDS (Credit Default Swap) spread is the market risk indicator. It includes the implicit probability of the issuer's bankruptcy according to market assessment.



1000, 2000 and 5000-dinar banknotes accounted for 96.3% of the nominal value of cash payment transactions, a marginal increase (0.7%) from end-2019.

There were 911.0 mn circulating coins at end-2020, up by 9.4% compared to end-2019. The denomination structure of circulating coins shows the prevalence of 1-dinar coins (42.8%), followed by 5-dinar coins (26.6%), 2-dinar coins (25.4%), 10-dinar coins (2.6%), and 20-dinar coins (2.5%).

To meet the needs of cash payment operations and replace banknotes unfit for circulation, in 2020 the NBS planned the production of an additional quantity of banknotes in denominations of 2000, 200 and 10 dinars (total 60.0 mn pieces). The production of banknotes in all denominations was fully executed between September and end-November 2019 as production capacities were available at the time, and the banknotes were taken over from the Central Vault in early 2020 to record the production according to the plan for 2020.

The proposed programme of the production and issuance of banknotes, coins, commemorative coins, numismatic money and blank bills of exchange for 2020 envisioned additional production of 1-, 2- and 5-dinar coins in the quantity of 85.0 mn pieces. In 2020, a total of 36.6 mn coins in those denominations (43.1%) was produced. The manufacturing of coins under the production plan for 2020 continued into 2021 until final plan execution. The remaining 5 mn pieces of 1-dinar coins under the 2019 programme were manufactured in 2020. Hence, the 2019 programme was fully implemented.

In the process of **expert analysis** of suspect counterfeits, **2,110 counterfeit (dinar) banknotes were detected in 2020**. In denomination terms, the dominant share among counterfeits related to 1000, 2000 and 500-dinar denominations. In percentage terms, these three denominations accounted for 97.02% of the total number of detected banknote counterfeits.

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

	5000	2000	1000	500	200	100	50	Total
Pieces	23	672	910	465	26	13	1	2,110
Share in %	1.09	31.85	43.13	22.04	1.23	0.62	0.05	100.00

Source: NBS.

In value terms, the 2000- and 1000-dinar banknotes made up the largest share of the dinar counterfeit structure. In percentage terms, these two denominations taken together accounted for 86.42% of the total number of detected banknote counterfeits.

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

Denomination	5000	2000	1000	500	200	100	50	Total
Amount	115	1344	910	233	5.2	1.3	0.1	2,608.1
Share in %	4.41	51.53	34.89	8.91	0.20	0.05	0.00	100.00

Source: NBS.

The ratio of the number of detected dinar counterfeits and of genuine dinar banknotes in circulation reveals that 4.55 pieces in every one million circulating banknotes were found to be counterfeit, i.e. in nominal terms, there was RSD 8,009.28 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. There was a considerably smaller number of detected good quality counterfeits, mostly in denomination of 1000 dinars, produced on security paper with threads that fluoresce under a UV lamp, as well as in denomination of 2000 dinars 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 that are hard to distinguish from genuine notes (very good quality and dangerous counterfeits).

## 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 and 2020. Due to the coronavirus pandemic in 2020, the remaining 250 pieces of numismatic money with Nikola Tesla portrait - 2018 and 2019 issues were not manufactured, nor were the 500 pieces of the 2020 issue for the needs of the Serbian numismatic market. The production of these quantities is expected in 2021.

## Cash management

During the emergency state declared in the territory of the Republic of Serbia due to the coronavirus pandemic, NBS Branches in Belgrade, Novi Sad, Niš, Kragujevac and Užice were timely supplied with sufficient quantities of banknotes and coins to meet bank requirements for cash withdrawal at all times.

**In 2020, 638.4 mn pieces of banknotes and coins worth RSD 554.0 bn nominally were delivered to banks.** Relative to 2019, the quantity increased by 5.1% and the nominal value by 11.6%.

A total of 517.7 mn pieces of banknotes and coins were submitted by banks, in the nominal amount of RSD 491.1 bn. Relative to 2019, the quantity increased by 7.2% and the nominal value by 6.1%.

Regarding coins, as observed in earlier years, there was a significant imbalance between in-payments and out-payments, both in terms of quantity and the nominal value. Such imbalance was offset by additional production of coins needed to execute cash payment transactions, as it was the case in the years before.

In the NBS count rooms, 516.9 mn pieces of banknotes were processed, in the nominal amount of RSD 506.2 bn, up by 61.7 mn pieces relative to 2019. Of the total banknotes processed, 87% were fit for circulation. In 2020, the velocity of money (the quantity of processed relative to the quantity of circulating banknotes) equalled 1.4.

A total of 65.8 mn pieces of banknotes unfit for circulation, worth RSD 47.9 bn nominally, were destroyed. The renewal index (number of destroyed banknotes to the number of banknotes in circulation) was 14.2. In addition, around 3.9 mn pieces of faulty banknotes in the denominations of 10, 200, 500 and 2000 were destroyed.

## IV.2.2 Activities of NBS Branches

In 2020, 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 2020, 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.

Table IV.2.2.1 **Cash management and foreign cash operations – Belgrade Branch**  
(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2020	Index 2020/19
	In 2019	In 2020		
Cash in-payments by banks	281,650,888,000	307,470,938,500	307,470,938,500	109.2
Cash out-payments to banks	293,453,271,000	292,972,588,500	292,972,588,500	99.8
Foreign cash in-payments by banks	60.454.310 *	40.844.194 *	4.802.468.499 **	67.6
Foreign cash in-payments by government bodies	821.508 *	1.354.052 *	159.209.705 **	164.8
Foreign cash out-payments to banks	77.486.339 *	390.921.972 *	45.964.683.652 **	504.5
<b>TOTAL</b>			<b>651,369,888,856</b>	

\* In EUR.

\*\* In the dinar equivalent at the middle exchange rate of the dinar as at 31 December 2020.

Source: NBS.

In 2020, total cash in-payments from banks were 9.2% higher than in 2019 and cash out-payments to banks 0.2% lower. In nominal terms, banks' in-payments foreign cash decreased by 32%, while out-payments increased by 405% from 2019.

In 2020, EUR 1.3 mn were received from government bodies, by 64.8% more than in the previous year.

The Belgrade Branch processed 389.6 mn pieces of banknotes, i.e. RSD 403.6 bn, as well as all foreign cash received from banks operating in the territory of the Republic of Serbia, i.e. 10.3 mn pieces of banknotes in the equivalent of EUR 934.8 mn.

A total of 50.9 mn banknotes, worth RSD 40.3 bn (13% of the total volume of banknotes processed) were cancelled and destroyed.

A total of 6,828 banknotes were sent for expert analysis as suspect counterfeits and to be checked against the degree of damage and alert colour. Also, 279 foreign currency banknotes were sent for analysis as suspect counterfeits.

The Branch handed over 1.6 mn blank bills of exchange worth RSD 79.6 mn to commission banks and recorded seven sales of commemorative coins in the total amount of RSD 361,315.58. It also received seven and issued one safe custody item.

Given that it holds an electronic database of account statements and payment orders from accounts of government bodies, legal entities and entrepreneurs, the Belgrade Branch processed and addressed 61 applications requesting copies of account statements – payment orders and statements on balance and changes in accounts (until 31 December 2002, these records were kept by the National Bank of Yugoslavia – Accounts and Payment Bureau, ZOP). It also issued 26 fee payment notifications in respect of data found.

## Novi Sad Branch

In 2020, the Novi Sad Branch processed 3,412 cash in-payment and out-payment transactions with banks and the Treasury Administration and 224 foreign cash in-payment and out-payment transactions with banks, customs, judiciary and other government bodies, in the total amount of RSD 136.3 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 11 and issued 15 safe custody items.

**Table IV.2.2.2 Cash management and foreign cash operations – Novi Sad Branch**

(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2020	Index 2020/2019
	In 2019	In 2020		
Cash in-payments	64,700,894,500	57,580,817,500	57,580,817,500	89.0
Cash out-payments	54,974,555,000	72,670,726,500	72,670,726,500	132.2
Foreign cash in-payments by banks	11,968,370*	1,195,375*	140,552,432**	10.0
Foreign cash in-payments by government bodies	1,231,298*	2,338,549*	274,967,059**	189.9
Foreign cash out-payments to banks	5,996,242*	47,660,469*	5,603,927,477**	794.8
<b>TOTAL</b>			<b>136,270,990,968</b>	

\* In EUR.

\*\* In the dinar equivalent at the middle exchange rate of the dinar as at 31 December 2020.

Source: NBS.

In addition, as part of its teller operations, the Branch handed over 357,000 blank bills of exchange worth nominal RSD 17.8 mn to commission banks. In 33 transactions with natural persons, it sold 360 commemorative coin packs and vacuum sets of coins issued by the National Bank of Yugoslavia and the NBS, in the total amount of RSD 1 mn. The Branch received 540 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 cash tellers of other branches in the NBS system. In total, RSD 98.9 bn, i.e. 124.7 mn pieces of banknotes were processed. In the processing procedure, the Branch cancelled 7.5 mn banknotes worth RSD 1.6 bn and destroyed 3.7 mn banknotes worth RSD 2.7 bn. In the course of processing, 18 suspect counterfeits were sent for expert analysis. In the processing procedure, the Branch set aside one non-circulating banknote and 21 non-circulating coins whose replacement term expired.

In 2020, the Novi Sad Branch processed 34 applications requesting copies of statements of changes in accounts (until end-2002, these records were kept by the National Bank of Yugoslavia – Accounts and Payment Bureau, ZOP). Of this, eight requests were submitted by natural and 26 by legal persons.

## Niš Branch

In 2020, 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 151.3 bn.

In 1,267 transactions, total cash in-payments from commercial banks and the Treasury Administration of the Ministry of Finance were worth RSD 56.3 bn, up by 15.8% from 2019, while 2,032 out-payment transactions amounted to RSD 90.6 bn, up by 33.8% relative to 2019.

In-payments of foreign cash from commercial banks in 13 transactions, worth EUR 0.7 mn, declined by 88.6% relative to the previous year, while out-payments in 78 transactions, worth EUR 35.1 mn, increased by 316.7% relative to 2019.

In 140 transactions, EUR 1.6 mn were received from government bodies, by 26.27% less than in the previous year.

The Niš Branch processed 10.3 mn banknotes in the nominal amount of RSD 13.2 bn.

**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 2020	Index 2020/2019
	In 2019	In 2020		
Cash in-payments	48,564,114,500	56,281,182,000	56,281,182,000	115.89
Cash out-payments	67,744,028,000	90,644,929,000	90,644,929,000	133.81
Foreign cash in-payments by banks	6,409,924*	728,529*	85,660,585**	11.37
Foreign cash in-payments by government bodies	2,161,806*	1,593,824*	187,402,145**	73.73
Foreign cash out-payments to banks	8,439,527*	35,168,968*	4,135,174,291**	416.72
<b>TOTAL</b>			<b>151,334,348,021</b>	

\*In EUR.

\*\* In the dinar equivalent at the middle exchange rate of the dinar as at 31 December 2020.

Source: NBS.

Niš Branch tellers received 1,264 pieces of dinar and seven pieces of foreign currency banknotes suspect as counterfeits and sent them for expert analysis.

In addition, the Branch handed over 240,000 blank bills of exchange to commission banks, worth RSD 12.2 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 2020 it processed 9 applications and issued two copies of such orders.

## Kragujevac Branch

Through 3,267 dinar in-payment and out-payment transactions with banks and the Treasury Administration, 98 foreign cash in-payment and out-payment transactions with banks, customs, judiciary and other government bodies, 883 transactions of buying and selling foreign cash from/to natural persons, the Kragujevac Branch generated a turnover of RSD 121.8 bn in 2020, up by 12.2% from 2019.

In addition, as part of its teller operations, the Branch handed over 192,000 blank bills of exchange worth nominal RSD 9.6 mn to commission banks. The Branch sold commemorative coins in five transactions worth RSD 103,231.16. The Branch received 324 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 2020, the Kragujevac Branch processed 14.95 mn banknotes in the nominal amount of RSD 20.6 bn, and cancelled 1,241 thousand pieces.

In 2020, the Branch also processed eight applications 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).

**Table IV.2.2.4 Cash management and foreign cash operations – Kragujevac Branch**  
(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2020	Index 2020/2019
	In 2019	In 2020		
Cash in-payments	48,578,480,000	43,811,560,000	43,811,560,000	90.19
Cash out-payments	57,394,578,000	73,277,973,500	73,277,973,500	127.67
Foreign cash in-payments from banks	14,954,574*	3,263,124*	383,678,772**	21.82
Foreign cash out-payments to banks	7,446,708*	36,671,115*	4,311,797,036**	492.45
Foreign cash in-payments from government bodies	47,388*	577,530*	67,906,093**	1,218.73
Purchase of foreign cash from natural persons	97,156*	45,064*	5,298,432**	46.38
Sale of foreign cash to natural persons	55,415*	25,713*	3,023,163**	46.40
<b>TOTAL</b>			<b>121,861,236,996</b>	

\* In EUR.

\*\* In the dinar equivalent at the middle exchange rate for foreign cash as at 31 December 2020.

\*\*\* In the dinar equivalent at the daily middle exchange rate.

Source: NBS.

## Užice Branch

In 2020, banks paid at the Branch tellers dinar cash worth RSD 25.5 bn and submitted requests for dinar cash out-payments worth RSD 24.3 bn. In 2020 total cash in-payments from banks were 33.5% higher than in 2019 and cash out-payments 7.7%. In 2020, the Branch received EUR 103,785 from government authorities, up by 438.8% from 2019.

It supplied commission banks with 130,000 blank bills of exchange, worth RSD 6.5 mn, down by 35.3% relative to 2019. Also, it received 133 dinar and foreign currency banknotes suspect as being counterfeit/stained with alert colour and sent them to expert analysis. In 2020, the sale of numismatic money equalled RSD 123.1 thousand.

**Table IV.2.2.5 Cash management and foreign cash operations – Užice Branch**  
(in RSD, unless specified otherwise)

Type of operation	Turnover		Total turnover in 2020	Index 2020/2019
	In 2019	In 2020		
Cash in-payments by banks	19,122,870,500	25,528,485,000	25,528,485,000	133.5
Cash out-payments to banks	22,532,482,000	24,265,544,000	24,265,544,000	107.7
Foreign cash in-payments by banks	457,205*	147,000*	17,284,289**	32.2
Foreign cash out-payments to banks	983,055*	14,297,297*	1,681,079,041**	1,454.4
Foreign cash in-payments by government bodies	23,650*	103,785*	12,203,061**	438.8
<b>TOTAL</b>			<b>51,504,595,391</b>	

\* In EUR.

\*\* In the dinar equivalent at the middle exchange rate of the dinar as at 31 December 2020.

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 36.8 mn banknotes

worth nominal RSD 30.9 bn were processed. In the processing procedure, the Branch cancelled 4.8 mn pieces of banknotes, worth RSD 1.3 bn and destroyed 485,801 banknotes, worth RSD 520.2 mn. In the course of processing, 30 suspect counterfeits were set aside and sent for expert analysis, as well as 13 non-circulating banknotes whose replacement term expired.

In 2020, the Užice Branch processed six applications requesting 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).

### IV.3 Payment system

#### NBS as the payment system operator

**The NBS operates the following payment systems: 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-2020, the RTGS included 30 participants – 26 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 third year in a row.** At end-2020, the system included 28 participants – 26 banks, the NBS and the Ministry of Finance – Treasury Administration.

At end-2020, 23 banks and 11 processing companies participated in the DinaCard clearing system. Sixteen banks participated in the payment card settlement in the Visa system and 17 banks in the MasterCard system.

The number of participants in the systems of interbank and international clearing of foreign exchange payments was 20: 13 banks from the Republic of Serbia, the NBS and six banks from Bosnia and Herzegovina.

The availability of the NBS RTGS and clearing systems was 99.98% and of the central switch in the DinaCard system 99.99% in 2020.

#### *NBS RTGS system*

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

A total of 186.7 mn payments were carried out through the NBS RTGS system in 2020, with total turnover amounting to RSD 110,472.5 bn.



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

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

2020	Number of business days	Number of payments	Average daily number of payments	Value of turnover	Average daily turnover
January	20	13,390.7	669.5	7,304.1	365.2
February	19	14,398.5	757.8	6,728.5	354.1
March	22	14,299.6	650.0	7,006.4	318.5
April	20	12,616.4	630.8	10,213.2	510.7
May	20	15,681.3	784.1	9,553.5	477.7
June	22	17,008.2	773.1	12,911.8	586.9
July	23	16,892.8	734.5	12,343.3	536.7
August	21	15,992.0	761.5	9,391.1	447.2
September	22	16,305.2	741.1	10,514.9	478.0
October	22	16,193.8	736.1	8,167.9	371.3
November	20	15,981.8	799.1	6,887.7	344.4
December	23	17,906.5	778.5	9,450.1	410.9
<b>Total</b>	<b>254</b>	<b>186,666.9</b>		<b>110,472.5</b>	
		<b>Monthly average:</b> <b>15,555.6</b>	<b>Daily average:</b> <b>734.9</b>	<b>Monthly average:</b> <b>9,206.0</b>	<b>Daily average:</b> <b>434.9</b>

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.

A total of 42.3 mn payments, worth RSD 463.0 bn, were effected in the clearing system in 2020.

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

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

2020	Number of business days	Number of payments	Average daily number of payments	Value of turnover	Average daily turnover
January	20	3,388.3	169.4	33.3	1.7
February	19	3,921.5	206.4	36.2	1.9
March	22	3,205.5	145.7	36.5	1.7
April	20	2,458.3	122.9	29.8	1.5
May	20	3,502.1	175.1	35.8	1.8
June	22	3,747.5	170.3	40.7	1.9
July	23	3,609.1	156.9	41.9	1.8
August	21	3,741.6	178.2	39.5	1.9
September	22	3,668.4	166.7	41.0	1.9
October	22	3,690.4	167.7	42.3	1.9
November	20	3,588.8	179.4	39.8	2.0
December	23	3,818.8	166.0	46.1	2.0
<b>Total</b>	<b>254</b>	<b>42,340.2</b>		<b>463.0</b>	
		<b>Monthly average:</b> <b>3,528.3</b>	<b>Daily average:</b> <b>166.7</b>	<b>Monthly average:</b> <b>38.6</b>	<b>Daily average:</b> <b>1.8</b>

Source: NBS.

### NBS IPS system

Individual instant credit transfers of up to RSD 300,000.00 are effected in the NBS IPS system. The system operates in the 24/7/365 regime. Payments are effected almost instantaneously and the recipient has access to funds within 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), as well as instant payments at merchants' points-of-sale, and additional services for participants – bill presentment (BP) and transfer service, i.e. making instant payments to the registered alias of the payment service user, such as, for instance, the mobile phone number.

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

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

2020	Number of business days	Number of payments	Average daily number of payments	Value of turnover	Average daily turnover
January	31	1,536.8	49.6	13.6	0.4
February	29	1,641.6	56.6	14.7	0.5
March	31	1,687.1	54.4	15.0	0.5
April	30	1,862.0	62.1	14.2	0.5
May	31	2,147.6	69.3	16.9	0.5
June	30	2,093.1	69.8	18.7	0.6
July	31	2,197.3	70.9	19.8	0.6
August	31	2,227.8	71.9	18.9	0.6
September	30	2,221.4	74.0	19.9	0.7
October	31	2,320.7	74.9	20.9	0.7
November	30	2,430.0	81.0	21.8	0.7
December	31	2,696.8	87.0	26.2	0.8
<b>Total</b>	366	25,062.3		220.6	
		<b>Monthly average:</b>	<b>Daily average:</b>	<b>Monthly average:</b>	<b>Daily average:</b>
		<b>2,088.5</b>	<b>68.5</b>	<b>18.4</b>	<b>0.6</b>

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 in accordance with the law governing banks, the Ministry of Finance – Treasury Administration, a payment institution with the head office in Serbia and licensed by the NBS in accordance with the law governing payment services, an electronic money institution with the head office in Serbia and licensed by the NBS in accordance with the law governing payment services, the public postal operator with the head office in Serbia and established in accordance with the law governing postal services.

A total of 25.1 mn payments, worth RSD 220.6 bn, were effected in the NBS IPS in 2020. The average daily number of payments was 68,476 and the average daily value of transactions RSD 602.7 mn. **The average transaction time was 1.2 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.

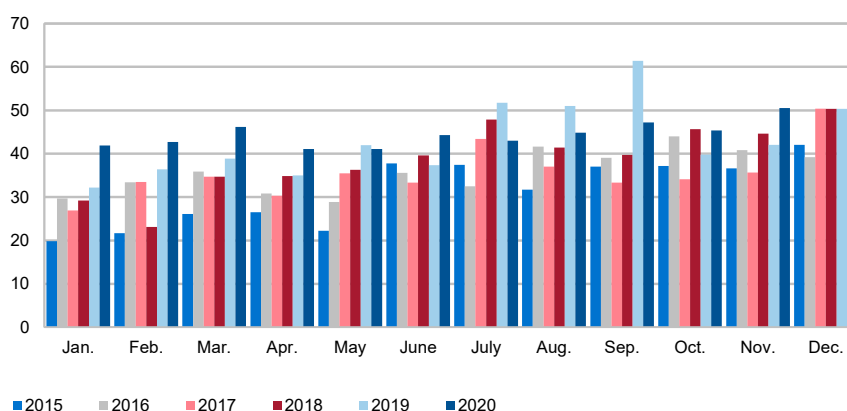
The multilateral interchange fee is determined by the NBS IPS system operating rules and equals 0.2% of the value of an executed instant payment at a point-of-sale and is paid by the acquirer to the issuer of the IP payment instrument.

### *Systems of interbank and international clearing of foreign exchange payments*

The interbank and international payments clearing enables euro payments between banks in the Republic of Serbia and payments with banks from Bosnia and Herzegovina. Payment transactions between banks in Serbia and those in Bosnia and Herzegovina are settled on a multilateral net basis.

In 2020, 38,627 payments worth EUR 550.6 mn were processed in the systems.

Chart IV.3.1.1 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 be accessible to citizens and merchants and that interbank fees be in accordance with the conditions in the Serbian market. National cards of the largest European countries were used

as a model for the creation of the DinaCard. In these countries citizens dominantly use the national cards for reasons of economic prudence, as the preferred choice in terms of costs for the national economy. Besides, national card systems are also important in view of preservation of market competition, faster adjustment to the specific local market needs and financial inclusion.

**Table IV.3.1.4 Value of turnover and number of payments in interbank and international clearing**

(turnover in EUR mn)

2020	Number of business days	Number of payments	Average daily number of payments	Value of turnover	Average daily turnover
January	20	3,413	170.7	41.9	2.1
February	19	3,470	182.6	42.7	2.2
March	22	3,507	159.4	46.2	2.1
April	20	2,548	127.4	41.1	2.1
May	20	2,828	141.4	41.1	2.1
June	22	3,199	145.4	44.3	2.0
July	23	3,190	138.7	43.0	1.9
August	21	3,000	142.9	44.8	2.1
September	22	3,245	147.5	47.2	2.1
October	22	3,377	153.5	45.4	2.1
November	20	2,940	147.0	50.5	2.5
December	23	3,910	170.0	62.5	2.7
<b>Total</b>	<b>254</b>	<b>38,627</b>		<b>550.6</b>	
		<b>Monthly average:</b>	<b>Daily average:</b>	<b>Monthly average:</b>	<b>Daily average:</b>
		<b>3,218.9</b>	<b>152.1</b>	<b>45.9</b>	<b>2.2</b>

Source: NBS.

**In 2020, a total of 102.2 mn transactions were carried out in the national card system (up by 45% from the previous year), with the turnover of RSD 434.2 bn (up by 76% from the previous year). Of this, 73% of transactions and 30% of turnover were recorded at points-of-sale (payments for goods and services), while the rest were cash withdrawal transactions. Interbank transactions accounted for 63% of total transactions and 31% of total turnover. At end-2020, there were 4.4 mn DinaCard payment cards issued in the market.**

As in 2019 the acceptance of chip-based cards was enabled in the entire acceptance network and conditions for the issuance of such cards were created, all newly issued DinaCards in 2020 were produced with this technology. In 2020, 36% of all DinaCards were chip-based.

**Cooperation with the Chinese national card operator – UnionPay International continued in 2020.** The aim of the cooperation is to enable acceptance of UnionPay cards in the Republic of Serbia and to issue a joint card DinaCard-UnionPay, which would be accepted both in the country and in the global Union Pay acceptance network. In 2018 and 2019 the NBS and the Payment Gateway system finished the development work (providing for the connection between two card systems and message conversion) enabling the acceptance of UnionPay International cards in the DinaCard acceptance network in Serbia. In 2020, the certification of acquirers for enabling the acceptance of the Chinese

national card in Serbia continued. Some banks already started to accept these cards at their ATMs (Banka Poštanska štedionica and OTP banka), while a greater number of banks and processors initiated certification. In parallel with the certification of acquirers and terminals, the testing and certification of the Payment Gateway system for routing transactions of the joint DinaCard-UnionPay card issued by domestic banks began and personalised patterns for the joint card, as well as further steps and plans for 2021 were defined.

As cooperation with the company Discover Financial Services (DFS) continued in 2020, the preparation of the draft contract which would enable the acceptance of cards from the DFS card system in the DinaCard acceptance network in Serbia began. At the same time, analysis was conducted and proposals were made for the technical implementation of online payments with DinaCard-DFS cards abroad using cutting-edge security systems for online card payments (the so-called ProtectBuy system).

In 2020, preparations were completed for transitioning to the new equipment and the latest version of the current application solution FIS Cortex for the DinaCard switch, which entailed the installation and configuration of the new version of FIS Cortex for the DinaCard switch and detailed testing of all functionalities, change of the DinaCard clearing software package, change of the single functioning software package and the testing of these packages; and changes in accompanying software tools for support to the operation and monitoring of the DinaCard system.

In 2020, a new feature was introduced for DinaCard users – the “Withdraw dinars” service, allowing dinar cash withdrawals at the time of purchase at points-of-sale (the so-called “purchase with cashback” service) and the first merchant to introduce this option was the company NIS a.d. Novi Sad.

**The online shopping network which accepts domestic card payments continued growing** in 2020. The number of online merchants accepting DinaCard tripled from end-2019 – at end-2020 the domestic card was accepted in more than 750 internet stores. The use of m-commerce merchant payment applications (the so-called card-on-file payment system) is on the rise and the first merchants to introduce DinaCard as a payment method in their applications were the companies NIS a.d. Novi Sad and public enterprise Parking servis.

**Intense use of the service of deferred interest-free payment in instalments** for DinaCard-PostCard card users **continued**, with the constant rise in the number of transactions and turnover. The number of points of-sale where this card can be used for payments was over 3,000 at end-2020.

## Regulatory activities

The past year was very challenging for our country and the entire world and all social actors strived to invest maximum efforts into minimising the consequences of the coronavirus pandemic. In 2020, the NBS engaged all of its resources to ensure stability and security of the payment system and did all it takes to make sure

that payment service users continued using payment services smoothly and efficiently and made payments without difficulties. In that sense, all regulatory activities in the payment system area were subject to the needs of payment service users so that they could have unimpeded access to the funds in their accounts and pay their monthly bills and make all other payments without any difficulties in the crisis period.

In 2020, the NBS performed two significant tasks with its regulatory activities.

On the one hand, with its proactive and timely response, passing the necessary instructions in direct communication with payment service providers **the NBS enabled citizens (primarily the elderly who are the most vulnerable population group in the pandemic) to use the funds in their accounts without any difficulties.** The instructions that the NBS passed upon the outbreak of the pandemic governed the temporary methods for payment service provision (withdrawal of cash from dinar and foreign currency accounts of financial service users, withdrawal of pensions for persons 65 years old or older) and temporary method for issuing and reissuing payment cards. In this way, in the situation where particularly our oldest citizens were exposed to heightened health risk and the prescribed measures aimed at protecting the health of citizens had to be implemented consistently, the NBS enabled them to use their pensions and other money without coming into physical contact with other people by going into bank branch offices. Payment service users could choose whether to authorise a person to withdraw money from their accounts based on the one-off and uncertified authorisation and presentation of a valid ID, or to have a postman deliver the money to their home address in a registered mail. In addition to the said smooth use of cash, the NBS instruction also temporarily allowed issuance and re-issuance of payment cards, as well as the activation of e- and m-banking services without the need for citizens to go to bank premises and take over the payment card and sign the necessary documents. Payment service users could do this for the duration of the government measure that stipulated limited movement of citizens, based on the one-off authorisation or using the registered mail service to their home address, i.e. by submitting the request and following bank instructions online and by phone. Even though the said instruction stipulated exceptions to the general rule in terms of users communication with banks, protection and adequate control mechanisms were ensured and special care was taken of the protection of users' right and interests.

Given the uncertain course of the pandemic, on 21 July 2020 the NBS adopted Instruction on the Manner of Temporary Payments of Funds from Dinar and FX Current Accounts of Payment Service Users and the Provision of Remittances. **Until the end of the pandemic this Instruction will regulate the manner of the delivery of payment service of withdrawal of cash from dinar and foreign currency accounts of financial service users.** The Instruction enabled certain categories of payment service users (a person aged 55 and older, a person provided with adult accommodation services within the meaning of the law governing social protection, a person hospitalised in a health institution for medical treatment, a

person deprived of legal capacity or who did not acquire legal capacity, a person deprived of freedom within the meaning of the law governing the execution of criminal sanctions, a person who has not been issued a payment card with which they could make use of the funds in their current account) to request a payment of funds also based on a one-off authorisation, which does not have to be certified by a public notary, and which the authorised person would present to the bank, along with the original and valid personal documents of both the person giving the authorisation and the person authorised to request payment from the account. This Instruction also enabled banks to apply these provisions to other users who do not meet the said conditions, if the bank decides so, in accordance with its own assessment of the risk of abuse and fraud, and in other cases when they assess that it is particularly justified. The amount that can be paid out in this way is limited to RSD 100,000 a month (i.e. the amount of foreign currency whose dinar equivalent value at the official middle exchange rate is not higher than RSD 100,000), excluding the funds paid out from the user's account in respect of the pension, and funds transferred to the user's current account in respect of other welfare payments from public funds (e.g. unemployment benefits, child support, or EUR 100 in the dinar equivalent value in respect of one-off financial aid, etc.).

The NBS also supported the mitigation of the negative effects of the pandemic by adopting the Decision on payment transaction fees in payment and transfer of funds aimed at receiving the donations to fight the COVID-19 disease, which stipulates that no fees and other costs for services shall be charged in payment and/or transfer of dinars and foreign currency to special purpose accounts of the Republic of Serbia and the NBS opened to receive donations to fight the pandemic.

The NBS actively participated in the implementation of the economic support programme for corporates and households adopted by the Serbian Government. In this regard, the NBS – in cooperation with the Ministry of Finance, Tax Administration, Treasury Administration and banks, **coordinated the opening of special purpose accounts** in accordance with the Decree on Fiscal Benefits and Direct Aid to Companies in the Private Sector and Monetary Aid to Citizens Aimed at Mitigating the Economic Consequences of COVID19 (adopted in April 2020) and Government Conclusion 05 No 4010-6052/2020 (adopted in July 2020).

Adopting the necessary instructions and recommendations for banks, the NBS also coordinated the opening of special purpose accounts to adult Serbian citizens aimed at paying one-off financial aid of EUR 100 in dinar equivalent value using the NBS middle exchange rate in accordance with the said Government Decree. Within its mandate, the NBS promptly replied to the questions of direct aid and one-off financial aid users, dispelling their dilemmas about the procedure of opening special purpose accounts and the use of funds in those accounts.

In addition to the said, the NBS **participated**, in cooperation with the Serbian Prime Minister's Office and other competent institutions, **in the drafting of the Law on Digital Assets, adopted in December 2020**. This law regulates the issuance of digital assets and their secondary trading in the Republic of Serbia, the provision of digital asset services, pledge and fiduciary right on digital assets,

competences of the Securities Commission and the NBS, and the supervision of the implementation of this law. The Law on Digital Assets regulates the operation of entities doing business with digital assets in the Republic of Serbia as this area has not been regulated so far in our country, except for activities of the providers of services in relation to virtual currencies and wallet custody providers in the domain of anti-money laundering and terrorism financing. The Law starts to apply on 29 June 2021, and in the meantime the NBS will prepare the required by-laws that fall within its scope of competences.

**In 2020, the NBS continued to support the domestic startup ecosystem and the development of innovative technologies**, which facilitate the operation of companies and improve overall business environment in the Republic of Serbia. Upon publication of the public call at end-2019, the collection of data on startups in our country began. These data were used for the establishment of the startup register which is in its final stages and will be publicly available to all interested parties.

## Payment system oversight

The NBS oversight activities in 2020 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.

According to the submitted reports, all payment systems in the Republic of Serbia showed high reliability, in accordance with their operating rules. In systems carrying out netting based on transfer orders, in 2020 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.

In line with the main goals of payment system oversight, which also includes oversight of the security and efficiency of the use of payment instruments for the initiation of transactions in payment systems, during the emergency state, declared on 15 March 2020 due to the pandemic, the NBS adopted a set of measures to enable smooth payment operations and supply citizens with the necessary money. **The recommendations adopted by the NBS for this purpose encouraged citizens to use cashless payment instruments** (payment cards, m-banking and instant payments using IPS QR code where possible – at points-of-sale, and using NBS IPS QR code in bills/invoices), ATMs for cash withdrawals instead of visits to bank counters, m- and e-banking, distance bank arrangements, etc.

In view of the market needs during the pandemic, **special attention was devoted to the oversight of continued introduction of instant payments at merchants' points-of-sale**, i.e. implementation of established standards concerning the security and efficiency of this payment instrument. In line with the Operating Rules of the NBS IPS System, an assessment was made of the capacity of banks to enable in the IPS system the execution of instant credit transfers by



issuing, i.e. accepting instant payment instruments at merchants' points-of-sale. This was particularly monitored within the oversight function, in terms of security and efficiency of the use of a new payment instrument for all market participants.

Comprehensive monitoring of the implementation of instant payments in the local market upholds the principle of consistency in the application of requirements and standards of payment system oversight to all payment systems, including those operated by the NBS.

In 2020, the NBS initiated the assessment of compliance of important payment system with the law governing payment services and regulations adopted based on that law to maintain its secure and stable operation and adequate risk management. The NBS collected and analysed publicly available information and documents of other central banks to become familiar with the comparable practice in this area. In addition, the oversight function was actively involved in the preparation of amendments to the regulations governing the national payment system.

## Development of instant payments

**In H1 2020, after successful pilot productions, the first instant payments at points-of-sale were initiated and banks executed those using the IPS QR code.** Two methods can be used to initiate payments using the IPS QR code at points-of-sale (the specification, along with the contents and manner of use, are prescribed by the NBS): *IPS show*, where a payer's mobile application generates a one-off IPS QR code that the merchant will scan (e.g. using a reader connected to the cash register), and *IPS scan*, where the user's camera opens and scans the merchant's IPS QR code displayed at an appropriate device used by the merchant for accepting instant payments at that point-of-sale. During 2020, the said service was enabled at physical points-of-sale in Merkator S d.o.o. (in more than 320 Roda, Idea and Merkator stores) and NIS Petrol (at all petrol stations). This payment method was also made possible in the online shops of Laguna, Vulkan, Tehnomanija, Gigatron, Infostud – second-hand cars and Farmvilla. In parallel with instant payments at points-of-sale, almost all companies issuing a large number of monthly bills started printing the IPS QR codes in their bills so that users can pay them by using the IPS scan option simply and quickly, without filling in data in the payment order (public enterprises "Elektroprivreda Srbije" and "Infostan Tehnologije", Telekom Srbija, Telenor, Vip mobile and SBB). In H2 2020, the NBS enabled technical preparation (NBS IPS QR code generation) and technical verification (validation) of the generated IPS QR code in a special section of its website – the IPS QR code webpage. Using this service interested users can generate their own code and validate the already prepared code in a fast and simple manner.

In 2020, in a specialised lab (IPS TestLab) the NBS supervised and verified the security and efficiency of technical and technological solutions of banks providing the service of issuing and/or accepting instant payment instruments at merchants' points-of-sale (hereinafter: solutions). Based on the results of tests in IPS TestLab and pilot productions of bank solutions, instant payments were enabled at

merchants' points-of-sale and payments made by scanning the IPS QR code in bills/invoices prepared by the issuers.

**At end-2020, 18 banks provided the instant payment service at merchants' points-of-sale using IPS show and IPS scan methods.** Of these, three banks enable such payments also to legal entities and entrepreneurs, and four banks accept instant payments of merchants through independent merchant solutions connected to the cash register, solutions for accepting online instant payments and mobile applications than can also be developed independently by merchants and implemented in cooperation with an accepting bank for e.g. acceptance of instant payments when a product is delivered. By accepting instant payments at points-of-sale, merchants offer to buyers a modern payment method, at merchant fees considerably lower than payment card acceptance fees, and the money becomes available to them within a matter of a few seconds. For buyers, instant payments are a safe and efficient payment method for the purchase of goods and services, with particular advantages for online payments as buyers leave no data about their payment instrument on the merchant's website – the entire payment procedure is implemented in a simple way, in the bank's m-banking application, i.e. in a safe environment.

**In 2020, the Government of Serbia, the Office for Information Technologies and e-Government, launched the project "e-Pay", aimed at enabling an efficient and reliable method for paying taxes and fees for the services rendered by public administration to citizens, corporates, and public administration bodies as payment recipients.** To achieve this goal, in cooperation with the banking sector, the NBS implemented activities to enable the execution of instant payments to the credit of accounts of public administration bodies administered by the Treasury Administration (budget accounts 840) through the NBS IPS system. In this way, the NBS provided a full contribution to the digitalisation of public administration.

Also in 2020, the NBS prepared the ground for further improvement of instant payments service at points-of-sale, and within its oversight function, monitored the preparation of technical documents required for the IPS system participants to implement deep-link technology. This technology will enable instant payments at internet points-of-sale or instant payments on m-commerce applications of merchants using a mobile device (e.g. mobile phone).

Furthermore, within its oversight function, during 2020 the NBS assessed technical and technological solutions of banks for providing the service of paying bills/invoices by scanning the IPS QR code using m-banking applications and supervised the application of the IPS QR code in recipients' bills. To offer a safe and efficient transaction execution method by scanning the IPS QR code to payment service users in the Serbian market, the oversight function monitored the implementation and launch of the NBS web-services – IPS QR code generator and IPS QR code validator, which enable proper technical preparation of the IPS QR codes for bills/invoices and technical verification (validation) of the already prepared IPS QR codes. At end-2020, 17 banks provided the service of payment

execution by scanning the IPS QR code, and one bank was in the final stage of testing the solution for such payments.

In 2020, as a part of the next stage of implementation of instant payments in the local market, the NBS prepared the necessary technical documents for participants in the NBS IPS system to enable them **to develop and introduce instant money transfers for citizens simply based on knowing a person's mobile phone number – the Transfer service**. This service will considerably simplify instant payments as there will be no need for writing down, remembering and typing the recipient's account number. This service will enable citizens to send and receive funds in a fast and safe manner at any place, any time, and in matter of just a few seconds, using only a mobile phone number. Citizens will be able to transfer money in this way only to users registered for the Transfer service. If they wish to receive money by means of this service, they will have to register through their bank, which will connect their mobile phone number to their bank account. The registration will be simple and it will be implemented in existing m-banking applications, which will be updated with the Transfer service and through which the service user's mobile phone number will be connected to his/her bank account. As part of its oversight function, the NBS made the necessary preparations for monitoring the testing of bank solutions for the Transfer service in the IPS TestLab. Based on the test results, it will assess banks' capacity to provide this service to their payment service users.

#### IV.3.1 Payment institutions and electronic money institutions

In 2020, the development of payment services market continued, reflected primarily in enhanced competition and expansion of the network of agents rendering payment services in the name and for the account of different payment institutions and the public postal operator. Increase in the number of locations concerning both the provision of payment service of money transfer from an account/to an account, and the available services for receiving and sending remittances (Western Union, MoneyGram, Ria Money Transfer, Unistream and Small World) enabled easier and wider access to payment services for Serbian citizens, which is particularly significant in view of the current epidemiological situation.

**As at 31 December 2020, 14 payment institutions and two e-money institutions operated in Serbia.** Of this number, 11 payment institutions and the public postal operator rendered payment services also through the network of 3,950 agents in total (compared to 2,998 agents in 2019). E-money institution which provides payment services at the locations of its agents, too, continued distributing e-money through a wide network of distributors. The majority capital owners of 12 payment institutions and both e-money institutions are Serbian residents, i.e. domestic legal and natural persons and the Republic of Serbia as the majority owner of share capital.

In 2020, the NBS adopted one decision granting the licence for the provision of payment services, one decision rejecting the application for the licence for the provision of payment services, one decision granting to a payment institution prior consent for the inclusion of profit from the current year in core capital and one positive opinion on the fulfilment of conditions for the acquisition of a qualifying holding in a payment institution, i.e. opinion on the fulfilment of conditions for the acquisition of a 100% stake in the capital of a company which is the qualifying owner of the payment institution. In addition, formal and material validity of the submitted documents was evaluated concerning the application for supplementing licences for payment service provision and of applications for licences for e-money issuance. The NBS also analysed documents submitted for the purpose of providing opinion on the fulfilment of the prescribed conditions in relation to the change of the ownership structure, i.e. persons with a qualifying holding in the capital of payment institutions, and in relation to the change of a member of governing bodies, and/or person to directly manage the provision of payment services.

#### *On-site and off-site supervision of payment services provision*

In 2020, based on the Law on Payment Services and Decision on Detailed Conditions and Manner of Supervision of Payment Institutions, Electronic Money Institutions and Public Postal Operator, the NBS adopted one decision on on-site supervision for the purpose of verifying a payment institution's compliance with the said law and the relevant by-laws and one decision on on-site supervision of a company providing services in relation to virtual currencies, i.e. verification of its compliance with the provisions of the Law on the Prevention of Money Laundering and Terrorism Financing and the relevant by-laws. Off-site supervision of payment service providers and electronic money issuers was carried out in line with the provisions of the Decision on Capital and Capital Adequacy of Payment and Electronic Money Institutions and other relevant NBS by-laws.

## **IV.4 Other activities**

### **IV.4.1 Economic analysis and statistics**

#### *Economic analysis and research*

The main objective of **economic analysis** at the NBS is to provide analytical support to the Executive Board and the Council of the Governor in their decision-making. The unprecedented economic and health challenges faced by the entire world in 2020 have increased the importance of economic analyses and projections that facilitate decision-making. In an environment of elevated uncertainty, the macroeconomic projections that the NBS produced and used in its communication

with the professional community, the IMF, European Commission, rating agencies and other international financial institutions were conservative from the very start. They were also well-calibrated and proved very close to the actual inflation, GDP and current account deficit outcome.

**In the area of inflation analysis and projection, the greatest focus was placed on assessing the pandemic's effects on the key factors of inflation**, such as the output gap, inflation expectations, imported inflation, global primary commodity prices etc. The NBS regularly carried out the analyses of volatile inflation components, such as the prices of food and petroleum products, which, just like in the earlier years, largely determined the profile of headline inflation in 2020. 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. 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 by using the BVAR (Bayesian vector autoregression) and ECM (error correction model) methodologies.

Further efforts were made to improve the main medium-term projections 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.

**In the real sector, the focus was on analyses and projections of the annual and quarterly GDP growth and its structure**, on the production and expenditure side. Similarly to inflation, expert judgement and econometric models were used for GDP projections. It was with GDP projections that the highest uncertainty was associated as it was not possible to adequately determine the magnitude and duration of the negative effects of the pandemic at home and abroad. When the pandemic broke out, it was particularly hard to assess its duration, effects and their variation over time, i.e. it was hard to determine when the economic recovery would start and how it would unfold. Therefore, in addition to standard approaches and indicators, our analyses and projections also relied on new high-frequency indicators, which, when the economies were locked down amid the pandemic, showed significant correlation with trends in some sectors. Specifically, we estimated the statistical links of Google and Apple mobility indicators (on a daily level) with movements of monthly indicators in the areas of trade, tourism and manufacturing, as well as links between electricity consumption and temperature with trends in manufacturing. These estimates were particularly important in an environment when the standard short-term GDP projection models have a diminished predictive power due to highly volatile economic flows.

When it comes to the labour market, we continued to monitor and analyse all available indicators, while placing focus on their impact on inflation on the demand side (wages and employment) and the cost component of inflation (productivity and unit labour costs). The labour market was also fraught with uncertainty – as

economies were fully or partially locked down, trends in the labour market were significantly changed (work from home, impossibility to seek employment etc.), which reflected on standard indicators in this field.

In terms of the balance of payments, the analyses and projections of current and financial account components continued to be made. Within the current account, a particular emphasis was placed on foreign trade, dynamics, structure and growth factors of goods and services imports and exports, and terms of trade. To more accurately estimate export growth, we analysed data on the stringency of anti-epidemiological measures in countries that are our key trade partners, and we created a composite stringency index based on the share in Serbia's exports. Particular focus was placed on the analysis of specific factors that negatively affected foreign trade, such as the introduction of quotas on steel exports to the EU and taxes on the placement of goods and services in Kosovo and Metohija. As regards the financial account, we carefully followed the dynamics and structure of FDI inflows and their effect on the growth in industrial production and exports, as well as long-term effects on the growth in the production potential. The international investment position, i.e. the balance of foreign assets and liabilities of the country, was analysed and assessed from the viewpoint of external debt sustainability and preservation of financial stability.

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. We particularly analysed the effects of fiscal support – two packages of economic measures adopted in 2020, in the pandemic environment, i.e. their impact on the preservation of production capacities, the labour market, disposable income and overall business and consumer confidence. We kept a close eye on the developments in the money, loan and capital markets, and regularly analysed the liquidity of the banking sector and prepared loan and deposit projections. We assessed the effects of the undertaken monetary measures and analysed the need to introduce additional measures to support further economic recovery, without prejudice to price and financial stability.

Last year, economic developments abroad were particularly important as the pandemic rapidly swept across the world. As in the past period, we continuously monitored the indicators of economic activity, prices, labour market, balance of payments, fiscal trends, and we followed the decisions of leading central banks. In the new environment, particular attention was devoted to the measures undertaken by individual countries to fight the pandemic and to the projections of leading international financial institutions and central banks. The focus of the analyses was on the euro area, the largest euro area economies, the economies of the region, and the leading global economies (the USA, China). Also analysed were trends in commodity markets, primarily the markets of oil, base metals and cereals, which significantly influence inflation and economic and foreign trade developments in Serbia, and which, during the pandemic, displayed high volatility.

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 and activities of the central bank.** 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.

In addition, the *Report* contains text boxes on various current topics, which, in 2020, concerned mainly the economic effects of the pandemic – given the importance of these trends for all other developments and the fact that the health crisis triggered an economic shock unprecedented in recent history. The text boxes contained the first estimates of the pandemic's impact on macroeconomic trends in Serbia and the world, the analyses of economic measures adopted in Serbia and globally to counter the economic fallout from the pandemic, and comparisons of Serbia's macroeconomic position on the eve of the previous economic crisis and the current crisis. Relevant conclusions were also made. A particular focus was placed on the pandemic's impact on inflation and trends in the automobile industry at home and abroad, the disbursement of loans under the Guarantee Scheme and the financing conditions of micro, small and medium-sized enterprises, and the robustness of the interest rate channel. As the pandemic unfolded, the text boxes dealt with comparisons of expected and actual macroeconomic trends in Q2, when the pandemic's impact was the strongest (but still smaller than initially estimated), and the NBS GDP growth projection in late 2020, including the revision of the projection during the year and comparisons with projections of international financial institutions. It was underscored that, despite the uncertainties that marked last year, the NBS GDP projection was achieved. In addition to the economic effects of the pandemic, the text boxes focused on the dynamics and structure of costs of the domestic economy in 2014–2019, the dynamics and structure of fixed investment, movement of the risk premium and its determinants, impact of the base effect on inflation in 2020 etc.

To strengthen the transparency of monetary policy conduct and the efficiency of communication with the public, which gained in importance amid uncertainty caused by the pandemic, the NBS continued to prepare and publish the monthly *Report on the Results of the Inflation Expectations Survey*. It continued to carry out the survey on bank lending activity, which is the main source of data concerning credit conditions, standards and demand. As before, the survey results were published on a quarterly basis in the *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, conditions of corporate and household borrowing and an assessment of loan supply and demand.

In the context of pursuing inflation targeting as a monetary strategy, the NBS prepared the Monetary Policy Programme of the National Bank of Serbia in 2021, which was adopted at the December 2020 meeting of the NBS Executive Board. As

stated in the Programme, the NBS will maintain necessary monetary policy flexibility when using available instruments, in order to preserve the adequate level of banks' liquidity and ensure efficient functioning of the monetary policy transmission mechanism, as well as to support economic recovery from the pandemic. At the meeting of the NBS Executive Board in December 2020, the medium-term inflation target was set at  $3\pm 1.5\%$  until 2023, which was preceded by an in-depth analysis of inflation and its components in Serbia, and the analysis of the achieved degree of Serbia's price convergence to the EU.

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, rating agencies, investors etc.

When the pandemic broke, research seminars were suspended. The seminars had been organised in cooperation with the Faculty of Economics. They gathered leading experts from European and US universities, other central banks and international institutions.

### *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.

**The coronavirus pandemic and the counter-measures undertaken in 2020 did not impact the scope and quality of statistical data collected and published by the NBS**, largely because operations were adjusted to the extraordinary circumstances and modern communications means were used by the NBS and reporting units. Already at the start of the pandemic, reporting units were explained the importance of timely and reliable data for the creation and adoption of measures to counter the impact of the pandemic, and the monitoring of the effects of those measures. As a result, the calendar of publication of statistical data under the NBS remit remained unchanged and was complied with in its entirety. For the NBS to gain insight into the effects of the moratorium and other measures that alleviated the pandemic's impact on the Serbian economy, in 2020 banks began to submit more granular data within the existing reports.

In 2020 the NBS continued to cooperate with other official statistics producers and government institutions in preparing the Programme of Official Statistics for 2021–2025 and the Official Statistics Plan for 2021, and aligning its 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 UN SDG indicators, providing the data and metadata under its remit.

To broaden fiscal reporting, in 2020 the NBS and the Statistical Office relied on IMF technical assistance within the SECO project. The development of government finance statistics and reporting under the excessive deficit procedure (EDP) took place through the MB IPA 2019 project. The NBS also participated in the project aimed at the development of capacities of external sector statistics for Western Balkan economies, initiated by the IMF and financed through the IPA 2017 project.

In regard to monetary statistics, in 2020 the NBS continued with regular reporting and alignment of its regulations with relevant ECB regulations. To maintain a high level of quality of reporting data, the NBS maintained constant communication with banks and submitted to them relevant instructions on several occasions. Moreover, to continue the practice of transparent informing of the public, banks' interest rates, published since 2005 and calculated according to the methodology applied until 2011, are now available in monthly dynamics since 2001.

In the area of statistics of the balance of payments and the international investment position, in 2020 the NBS regularly published data on external economic relations. It complied with all deadlines of reporting to international institutions in this field. The data coverage and submission method were assessed as highly compliant with EU regulations.

In the field of government finance statistics, the NBS continued to implement activities concerning the broadening of the EDP report which is, in cooperation with the Statistical Office, submitted to Eurostat in April and October. The NBS continued with regular quarterly reporting to the World Bank and the IMF on the stock of debt of the budget of the Republic of Serbia under securities and loans.

#### IV.4.2 International cooperation

##### *Relations with international institutions and the European Union*

In 2020, the NBS continued to cooperate with international financial institutions, most notably with the IMF, World Bank, EBRD, EIB and BIS.

**Cooperation with the IMF continued also through the fourth and fifth (last) reviews of the economic programme supported by the Policy Coordination Instrument (PCI).** The IMF approved this form of cooperation to the Republic of Serbia in July 2018. The PCI was of advisory nature, did not envisage the drawing of funds and lasted for 30 months.

Even amid the pandemic, the NBS continued to implement activities concerning the **EU integration process**. The results were recognised in the European Commission's assessments within the annual Progress Report for Serbia for 2020. The NBS also gave a significant contribution to the Republic of Serbia's activities concerning EU integration by participating in the bodies set up to monitor the implementation of the Stabilisation and Association Agreement, and in the annual Ministerial Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. The NBS continued to prepare important contributions for the national strategic document – the Economic Reform Programme, and to fulfil the obligations defined by the third revised National Programme for the Adoption of the *Acquis*.

In 2020, the **IPA project** “Strengthening of the Institutional Capacities of the National Bank of Serbia in the Process of EU Accession” **was successfully completed** as all twelve planned project objectives were fulfilled.

### *International Monetary Fund*

To assess the economic results achieved in 2019 and analyse the priorities of economic policy in 2020, an IMF mission stayed in Belgrade from 24 to 28 February. The mission's visit marked the start of activities within the fourth review of the results of Serbia's economic programme supported by the PCI. It was concluded that Serbia's growth outlook in 2020 was positive, owing to low and stable inflation, maintained fiscal discipline, a low general government deficit and a continued downward public debt trajectory. Also emphasised was the continuous improvement of the resilience of the Serbian financial system. Still, the mission stated that the risks were elevated, particularly those from the international environment, which was confirmed in mid-March when the coronavirus pandemic was declared.

**Within the fourth review of the PCI-supported economic programme, talks with the IMF mission were held from 24 June to 3 July in virtual format.** This time, the focus was on the package of measures adopted to mitigate the pandemic's effects on macroeconomic, fiscal and monetary developments and projections against the background of the unexpected shock triggered by the pandemic.

The IMF mission positively assessed the Serbian authorities' timely and robust response, which covered a wide range of fiscal measures and aimed to mitigate the economic and social consequences of the pandemic. The NBS also gave a significant contribution by cutting the key policy rate, injecting liquidity into the banking system, introducing moratoria on the repayment of credit liabilities, and undertaking other measures geared at preserving monetary and financial stability.

**On 26 August, the IMF Executive Board adopted the decision on the successful conclusion of the fourth review of the results of the economic programme supported by the PCI.** It assessed that Serbia continued to successfully implement its economic programme. In an effort to fight the

pandemic, the Serbian authorities adopted, in an early phase, strict containment measures and a large-scale package of measures. The IMF Executive Board assessed such response of Serbian economic policy makers as highly positive, robust, timely and comprehensive. It stated that the fiscal package adopted in response to the crisis was one of the largest in the region and that it provided necessary support to households, enterprises and the health system. It also noted that the NBS pursued adequate, accommodative monetary policy and that it preserved low inflation and a stable exchange rate.

Owing to the earlier ensured upward trend of economic growth and the measures undertaken by Serbian policy makers in an environment of a global shock, the IMF Executive Board did not change its growth projections for Serbia for 2020, issued at the start of the pandemic, while it did change them for many other countries. In fact, the IMF stated that it expects strong recovery of the Serbian economy in 2021 and 2022.

**Within the fifth, last semi-annual review of the PCI-supported programme, talks with the IMF mission were held from 5 to 16 October in virtual format.** The IMF mission reiterated that Serbia faced the pandemic-induced crisis in a much better position than the previous, global economic crisis, which was an important precondition for an adequate response from the very start of the crisis.

The mission's main conclusions were that, despite the pandemic, the economic programme was still being successfully implemented. The mission reiterated its assessments that the measures of Serbian economic policy makers were well-calibrated, which is why it was justified to adjust the programme's aims to reflect the current challenges. Agreement was reached that fiscal policy in 2021 should continue to support economic recovery. The key budget parameters for 2021 were also agreed, including the objectives to maintain public debt sustainability and speed up structural reforms. However, risks associated with the unpredictable course of the pandemic were recognised, including the risks of economic shocks in countries that are Serbia's key trade partners.

It was assessed that reforms in the coming period should focus on the continued enhancement of the Tax Administration, public investment management, fiscal risks management and the reform of the public sector employment and wages framework. It was also agreed to improve corporate governance in public enterprises and to continue to develop the capital market in Serbia.

Concerning the IMF's initiative for member countries to support **Somalia's debt relief** under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, the NBS prepared a proposal of the conclusion of the Government, which the Government adopted on 30 January. Under the Conclusion, the Government consented that Serbia's share in the funds accumulated within the IMF's burden-sharing mechanism be transferred to Somalia's administered account, in accordance with the decision of the IMF Executive Board of 18 December 2019 (EBS/19/112).

On 31 January, NBS Governor Jorgovanka Tabaković, who serves as the Republic of Serbia's Governor at the IMF, informed the IMF about Serbia's decision to support the HIPC Initiative. On 25 March 2020, SDR 675,326 or EUR 843,698 was transferred to Somalia's administered account.

In an environment of the coronavirus pandemic, the **Spring Meetings** of the World Bank Group and the IMF were held in virtual format, from 17 to 19 April. The **Annual Meetings** of the World Bank Group and the IMF were also held in virtual format – NBS Governor Tabaković participated in the plenary meeting of the International Monetary and Financial Committee on 15 October.

Under the resolution of the IMF Board of Governors (official Fund business) adopted in November 2020, NBS Governor Jorgovanka Tabaković became a member of the **Joint Procedures Committee, with a mandate lasting until the following Annual Meetings of the World Bank Group and the IMF**. The activities of the Joint Procedures Committee are of advisory nature and concern the aspects of the IMF's operations on the agenda of the Board of Governors. The governors of 22 countries will be the Committee's members, including governors from Serbia, the USA, China, France, Germany, Russian Federation, Saudi Arabia, Great Britain, Canada.

### *World Bank*

From March 2002 until end-2020, the World Bank approved to the Republic of Serbia funds for programme and project loans worth EUR 3.1 bn, of which EUR 2.55 bn was used.

In 2020, cooperation with the World Bank continued within the World Bank Country Partnership Framework for fiscal years 2016–2020. Due to the pandemic, country frameworks near expiry were extended, i.e. negotiations on new cooperation programmes were postponed until more stable conditions were created globally.

Responding to the pandemic, in May, the IBRD, as an affiliated agency of the World Bank, approved to Serbia a loan worth USD 100 mn to tackle pandemic-related challenges.

**On the occasion of publishing the Western Balkans Regular Economic Report, in April, World Bank representatives assessed that the Serbian Government quickly responded to the economic challenges triggered by the pandemic**, as it adopted an aid programme aimed at safeguarding employment and supporting SMEs and overall liquidity. According to the Report, the Serbian economy will recover in 2020 provided this ambitious programme is fully implemented and harmonised with long-term structural reforms.

**The Systematic Country Diagnostic: Update<sup>74</sup> published by the World Bank for Serbia in April, registered progress achieved compared to the first**

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<sup>74</sup> The Systematic Country Diagnostic (SCD) examines the key constraints and opportunities of a country to sustainably accelerate poverty reduction and boost shared prosperity.

**document from 2015 – Serbia’s Potential for Sustainable Growth and Shared Prosperity.** This Report also represents a framework for a future form of cooperation with our country, i.e. for the future strategic programme for the Republic of Serbia. The Diagnostic contains an estimate that Serbia’s economic indicators improved, including fiscal trends, exports and FDI. Still, the resilience to repeated shocks, productivity growth and a more inclusive labour market remain significant challenges.

**In October, the World Bank published its Western Balkans Regular Economic Report: An Uncertain Recovery, stating that GDP would decline in Serbia less than in the rest of the region, and that despite the slowdown in the domestic economy, the unemployment rate in Q2 2020 was at a historical low of 7.3%, owing to the government fiscal stimuli.**

In October, the Republic of Serbia settled the first 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 1.9 mn. Serbia’s total financial liabilities on this account equal around USD 9.6 mn and the funds are provided from the budget of the Republic.

#### *Activities arising from the NBS’s role as a depository with other international financial organisations*

In 2019, the Republic of Serbia became a member of the Asian Infrastructure Investment Bank (AIIB), with the NBS performing the role of a depository in this Bank. In August 2020, Serbia paid from the budget USD 200,000 as the second instalment of its stake in AIIB’s capital.

#### *European Union*

In 2020, the NBS continued to actively participate in the process of Serbia’s EU accession. The most important activities concerned the intensive preparation of contributions for the annual Progress Report for Serbia for 2020, and the participation of NBS representatives in the bodies established to monitor the implementation of the Stabilisation and Association Agreement.

**Serbia’s continuous progress in the EU integration process was confirmed in the Progress Report,** published on 6 October within the enlargement package. Due to the pandemic, the Report covered for the first time a period longer than a year (from May 2019 to October 2020). The publication of the Report was preceded by four cycles of preparation of written contributions of Serbia, in which the NBS actively participated.

**In terms of fulfilment of economic criteria for EU membership, the Report states that Serbia made some progress and is at a good level of preparation in developing a functional market economy, which is a better assessment compared to last year’s Report.** As assessed by the European Commission, the macroeconomic policy mix remained adequate, helping maintain macroeconomic

stability and resilience of economic activity. The Commission also stated that the Serbian Government and the NBS promptly responded to the pandemic, by undertaking a number of important fiscal and monetary measures to mitigate the negative economic effects. As in the earlier years, **the European Commission concluded that banking sector stability was preserved, and that lending activity stepped up and access to funding sources improved.**

In the part of the Report containing the assessment of the ability to assume the obligations of EU membership, in the fields falling under the NBS remit, it was concluded that **the greatest progress was achieved in Chapter 9 – Financial services** (where the NBS is the lead institution). Also, the institutions of the Republic of Serbia competent for this area largely fulfilled the recommendations from last year's Report. In addition, in the part of the Report concerning Chapter 17 – Economic and monetary policy, also led by the NBS, the European Commission concluded that Serbia established a solid institutional and administrative framework in this area, and that the **legal framework for the NBS is well developed.**

In regard to Chapter 4 – Free movement of capital, where the NBS is the second-lead institution, the European Commission assessed that interchange fees were reduced with the adoption of the Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions. It also emphasised the volume and value of transactions carried out in the NBS instant payment system. A high degree of compliance with the EU *acquis* was also determined in respect of Chapter 32 – Financial control, i.e. the part concerning the protection of the euro against counterfeiting, where the NBS plays an important role.

Progress in the achievement of membership criteria in the areas under the NBS remit was also confirmed at the meetings of the bodies established to monitor the implementation of the Stabilisation and Association Agreement. Due to the pandemic, these meetings were held in a changed format.

On 18 June, the NBS participated in the seventh meeting of the Subcommittee on Internal Market and Competition. The European Commission placed focus on banking, insurance and other financial services, protection of financial service consumers and the protection of competition.

The NBS continued to actively participate in the EU accession process by taking part in the meeting of the Subcommittee on Economic and Financial Issues and Statistics, held on 27 October. Within preparations for the meeting, from the aspect of its competences, the NBS participated in drafting contributions for the following topics: economic developments and outlook in the Republic of Serbia, progress in implementation of ERP 2020 and preparations for ERP 2021, implementation of measures and obligations under Chapter 17 – Economic and monetary policy, protection of the euro against counterfeiting, capital movement and liberalisation, statistics.

During the meeting, the European Commission stated Serbia's progress in fulfilling the economic criteria for EU membership, highlighting that solid progress

was achieved in all negotiation areas which fall under the NBS remit and are in the Commission's focus (Chapter 4 – Free movement of capital, Chapter 17 – Economic and monetary policy, Chapter 18 – Statistics, and Chapter 32 – Financial control). After examining in detail Serbia's macroeconomic and fiscal trends and prospects, the European Commission commended the timely and adequate measures of the Serbian Government and the NBS undertaken amid the crisis triggered by the coronavirus pandemic.

After the meetings of all seven Subcommittees, a meeting of the Committee for the Implementation of the Stabilisation and Association Agreement was held on 17 November. During the discussion of economic criteria, the European Commission praised again the swift, robust and timely response of the Serbian Government and the NBS aimed at mitigating the economic fallout from the pandemic. The Republic of Serbia was invited to align its response to the pandemic in the coming period with the principles of the EU recovery plan, with an emphasis on green and digital transition.

**NBS Governor dr Jorgovanka Tabaković participated in the regular, annual Ministerial Economic and Financial Dialogue between the EU and the Western Balkans and Turkey.** The Dialogue was held on 19 May within the Economic and Financial Affairs Council (ECOFIN). The Joint Conclusions and recommendations for the Western Balkans and Turkey were adopted at the meeting. Given the current situation, they concerned primarily the mitigation of the pandemic's negative impact on economic growth and employment through fiscal policy measures, an increase in investment to support economic recovery, and monitoring the pandemic-related challenges to financial stability. During the meeting, it was assessed that the NBS pursued an adequate monetary policy, consistent with the achievement of the inflation target, and that the banking sector was well-capitalised and liquid, with the NPL ratio significantly reduced. The only recommendation concerning the NBS competences related to the continued support to the dinarisation process.

The adoption of the Joint Conclusions implied the start of the new, **seventh cycle of preparation of the Economic Reform Programme for 2021–2023**. As in the previous cycles, the NBS, even in the pandemic conditions, significantly contributed to the preparation of this strategic document, specifically the chapters Medium-term macroeconomic scenario and Fulfilment of ECOFIN's recommendations from 2019 and 2020.

In 2020, the NBS continued to regularly implement measures and activities envisaged by the third, revised National Programme for the Adoption of the *Acquis*, for the purpose of establishing or further strengthening institutional structures and administrative capacities relevant for the transposition and application of the EU *acquis*.

### *High-level dialogue between the NBS and the ECB*

**On 25 November, NBS Governor dr Jorgovanka Tabaković participated in the annual bilateral dialogue with the ECB.** The dialogue was led by Fabio Panetta, a member of the ECB Executive Board in charge of international and European relations, market operations and payment system oversight.

During this year's dialogue, particular attention was paid to digitalisation and innovations. The representatives of both institutions also presented current macroeconomic trends, monetary policy and trends in financial systems, as well as the measures adopted to mitigate the negative effects of the coronavirus pandemic.

### *Implementation of IPA projects*

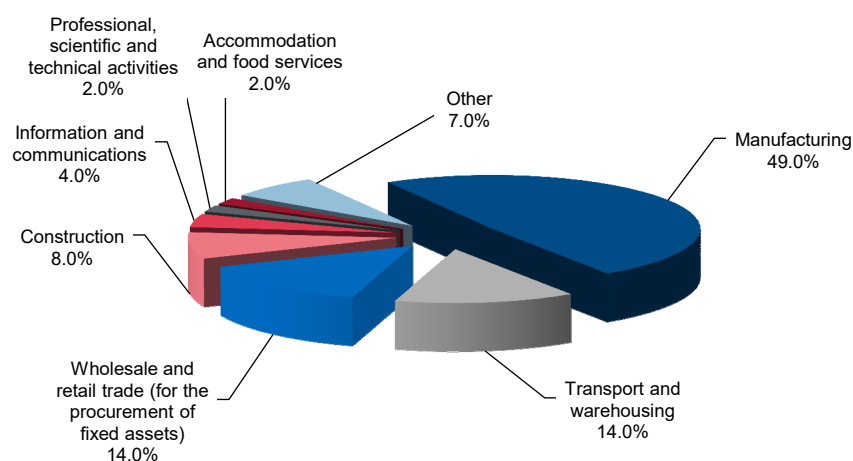
**The IPA project “Strengthening of the Institutional Capacities of the National Bank of Serbia in the Process of EU Accession”,** which began on 10 September 2018, **was successfully concluded on 9 March 2020.** On this occasion, an official closing ceremony was held, hosted by NBS Governor dr Jorgovanka Tabaković. The ceremony was attended by Head of EU Delegation to the Republic of Serbia Ambassador Sem Fabrizi, Minister of European Integration at the Serbian Government Jadranka Joksimović, member of the Executive Board of the Deutsche Bundesbank Burkhard Balz, and representatives of the embassies of Germany, Romania and Croatia. The project was implemented in cooperation with the Consortium of the German Bundesbank, National Bank of Romania and Croatian National Bank. Its aim was to ensure that the NBS is prepared in the best possible way to join the ESCB. In the course of 18 months of project's duration, all planned objectives were achieved – all 12 activities were successfully implemented within ten areas of NBS operation: economic research, financial stability, FX reserves management, financial reporting, insurance, international cooperation, liberalisation of capital flows, protection of financial service consumers, accounting and IT reporting and management. The results were presented at a professional seminar held on 31 January 2020.

### *Revolving Fund of the Republic of Serbia*

Funds of the Serbian Revolving Credit Fund (initially EU grant) were used during 2020 to finance SMEs and entrepreneurs. A total of 1,260 loans worth EUR 127.2 mn were disbursed through 14 intermediary banks (an increase by five banks). It was envisaged that the loans would create 3,227 jobs.

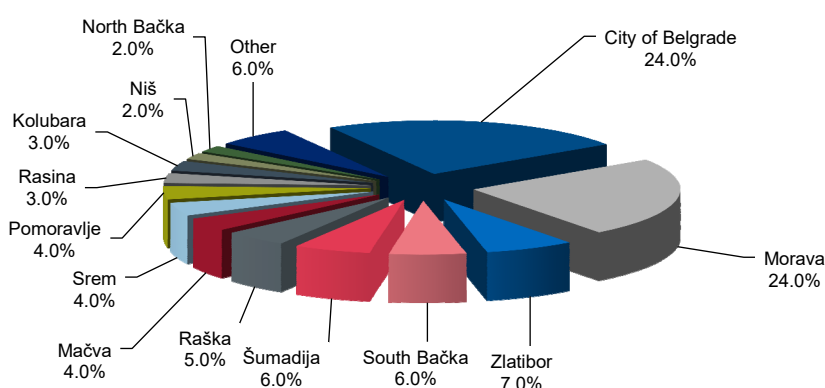


Chart IV.4.2.1 **RS Revolving Credit Fund – classification of activity**  
(as at 31 Dec. 2020)



Source: NBS.

Chart IV.4.2.2 **RS Revolving Credit Fund – breakdown by territory**  
(as at 31 Dec. 2020)



Source: NBS.

### *European Bank for Reconstruction and Development*

The EBRD has been providing assistance to Serbia since 2001. By 31 December 2020 loans worth EUR 5.94 bn were approved, of which EUR 5.45 bn were used. Significant funds were approved for infrastructure projects, support to financial institutions, bolstering economic activity, and projects in the energy sector.

Cooperation with the EBRD takes place in accordance with the Serbia Country Strategy 2018–2023, adopted by the EBRD in February 2018. The Strategy was defined in accordance with the main reform goals of the Serbian Government relating to EU accession, macroeconomic stability, financial sector strengthening, dinarisation, acceleration of the process of privatisation and restructuring of SOEs, improvement of the business environment, entrepreneurship development and advancing innovations and digitalisation.

The priorities of the new EBRD Strategy for Serbia are the following: 1) foster competitiveness and governance by increasing the capacities of private companies and reforming SOEs and public enterprises; 2) enhance integration by improving the transport network, supporting regional economic connectivity and advancing energy interconnections; 3) support the green economy by strengthening energy efficiency, using renewable energy sources, and promoting sustainable practices.

### *Bank for International Settlements*

The NBS is a BIS member and holds 2,920 shares of this oldest international financial institution. NBS representatives participate in regular annual general meetings and the meetings of the various BIS committees (held in virtual format in 2020 due to the pandemic), whose principal aim is to contribute to ensuring monetary and financial stability, and to improving international cooperation of central banks in these areas.

**In June 2020, NBS Governor dr Jorgovanka Tabaković participated in the BIS 90<sup>th</sup> 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 discussed. During 2020, the NBS Governor also took part in bimonthly All Governors' Meetings and in the 19<sup>th</sup> BIS Annual Conference, organised as a series of webinars in November and December 2020.

The NBS is an active member of the Central Bank Governance Network within the BIS, whose aim is to improve the flow of information on governance among the 60 central bank members of this institution.

### *European Investment Bank*

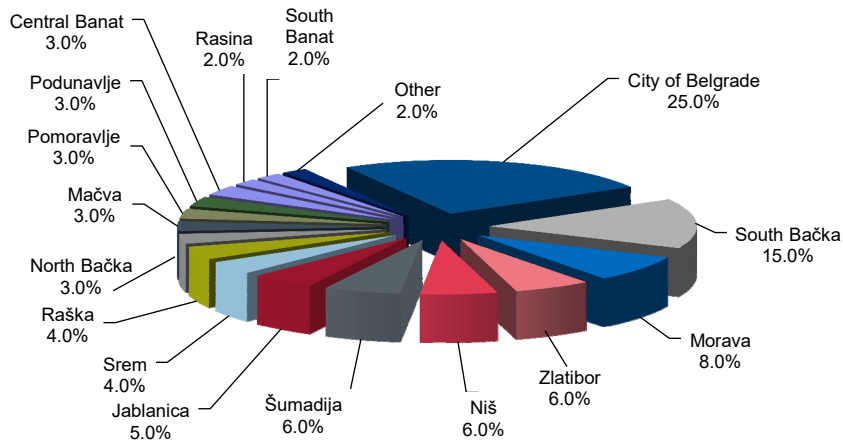
From 2001 to end-2020, the EIB provided to Serbia's public and private sectors financial support worth EUR 5.19 bn, of which EUR 4.51 bn was disbursed. Infrastructure was the priority area. Significant support was also provided for the development of SMEs, whereby this institution contributes to economic growth and job creation.

To disburse the second tranche of the fifth Apex loan for SMEs and other priorities worth EUR 150 mn, 14 new projects worth EUR 0.6 mn were submitted to the EIB for approval in 2020.

Until the end of the year, funds worth EUR 144.3 mn were drawn for 134 projects, and the creation of 1,371 jobs was planned.

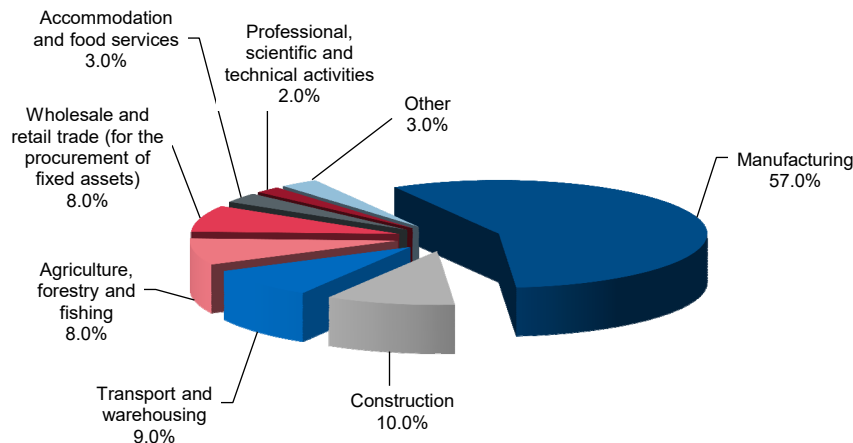
The deadline to draw the loan funds expired on 15 December 2020, and ten intermediary banks involved in its realisation can use the funds drawn until December 2032, for new projects of final beneficiaries based on the re-employment of funds.

Chart IV.4.2.3. Disbursement of Apex Loan III B – breakdown by territory (as at 31 Dec. 2020)



Source: NBS.

Chart IV.4.2.4. Disbursement of Apex loan III B – classification of activity (as at 31 Dec. 2020)



Source: NBS.

### *Relations with the Paris Club creditors*

Within the Paris Club creditors, **further activities were taken relating to the conclusion of the new bilateral agreement with the Russian Federation.**

### *Bilateral financial cooperation*

On 3 and 4 March 2020, at the initiative of the Central Bank of the Russian Federation, the Conference of Russian and Serbian Banks was held under the auspices of the NBS. It gathered the representatives of central banks of Serbia and

Russia, a number of commercial banks and banks' associations of the two countries. The aim was to present the financial messaging system (FMS) of the Central Bank of Russia and to examine the possibilities of involving Serbian banks in the FMS. Also discussed was the conclusion of a new, comprehensive bilateral cooperation agreement. It was agreed that the Central Bank of Russia should submit for consideration the new draft agreement on cooperation of the two central banks.

The NBS concluded the Agreement on Correspondent Banking Services (which replaced the Agreement from 2003) with its main correspondent for Canadian dollar transactions – Bank of Montreal, Toronto. The NBS also concluded correspondent RMA arrangements (Relationship Management Application) with the following five banks: Komerčni Banka AS Prague, Wells Fargo Bank NA New York, Delavska Hranilnica DD Ljubljana, China Bohai Bank CO LTD, Tianjin and Turkiye Vakıflar Bankası TAO, Istanbul.

For the purpose of meetings with representatives of Serbian government authorities with officials from other countries, numerous briefs under the NBS remit were prepared and submitted. These briefs concerned various aspects of cooperation of the Republic of Serbia with individual countries (information on bilateral-financial cooperation, overviews of goods trade by year etc.). Meetings with representatives of embassies were also held.

In November 2020, the Government of Japan approved to the Serbian Government non-refundable aid worth JPY 100 mn (around USD 1 mn) for the procurement of medical equipment intended for countries hit by the coronavirus, based on the Donation Agreement, i.e. the exchange of notes between the Serbian and Japanese Governments of 5 August 2020. For the purpose of implementation of the Agreement, on 1 September 2020, the NBS and MUFG Bank, Ltd. concluded a banking arrangement, based on which a non-resident JPY deposit account was opened, to be used exclusively for receiving and making payments under the Agreement.

Within the scope of its competences, the NBS provided professional assistance to the Embassy of the Republic of Serbia to Sweden in relation to the decision of Svenska Handelsbanken AB on banning cross-border payment operations with the Republic of Serbia, whereby the Embassy's financial operation in the territory of Sweden was hindered. In early September, NBS Governor Tabaković sent letters to Sveriges Riksbank and the Swedish supervisory authority Finansinspektionen, and asked for assistance in resolving the problem that the Serbian Embassy faced without a valid reason. As the request was well-substantiated, the account was reopened and the Serbian Embassy to Sweden continued to operate smoothly.

To define the areas of cooperation between China and Central and Eastern European countries (China–CIEZ) in 2021, in December 2020 the NBS submitted the proposal that the list of projects should also include the project implemented in cooperation with the Chinese company UnionPay International, whose primary focus is the growth and development of the Chinese national card system at the global level.

NBS Governor Tabaković participated in the 17<sup>th</sup> China International Finance Forum (CIFF), held in Shanghai on 17–18 December 2020. She spoke on the topic **“Financial Services in the Era of Digital Economy” and was one of the keynote speakers at the opening ceremony**. Her address was released in video format. The forum gathered more than 300 participants – distinguished government officials of China, representatives of international organisations and financial institutions, central banks, banking associations and representatives of multinational corporations and eminent world economists.

#### IV.4.3 Foreign exchange operations and foreign credit transactions

##### Foreign exchange operations

In 2020, pursuant to the Decision on Terms and Conditions under Which Residents May Hold Foreign Exchange in Bank Accounts Abroad, the NBS **adopted 688 decisions approving to residents to hold foreign exchange in banks abroad**. Of those decisions, 430 concerned the financing of investment works abroad (EUR 87.6 mn), 242 decisions related to the payment of current spending of representative offices/branches abroad and services in international goods and passenger transport (EUR 7.6 mn), three decisions were issued for exploration works abroad (EUR 4,7 mn), two decisions pertained to a foreign financial loan intended for payments abroad (EUR 3.9 mn), nine decisions concerned the return of tax generated abroad (EUR 7.2 mn), and two decisions related to balance responsibility of participants in the energy transport system (EUR 0.9 mn).

On requests of legal and natural persons, **109 opinions were prepared in relation to the application of regulations in the field of FX operations**.

In the performance of these activities, it was ascertained that there was reasonable suspicion that 14 residents (companies and natural persons) acted in breach of the law governing FX operations, and the procedure was launched for on-site supervision of FX operations of those persons.

As part of its regulatory activities, the NBS amended the following regulations:

- Decision Amending the Decision on Terms and Conditions under Which Residents May Hold Foreign Exchange in Bank Accounts Abroad<sup>75</sup> – it is now permitted to hold foreign exchange in bank accounts abroad for the purpose of settlement of obligations relating to balance responsibility of a resident performing energy transport through a system abroad, and for the purpose of the collection of refund of funds invested in a company incorporated abroad (e.g. the sale of such company), investment income etc.;

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<sup>75</sup> RS Official Gazette, No 13/2020.

- Decision Amending the Decision on Terms and Manner of Performing Exchange Operations<sup>76</sup>, defining, among other things, the concept of temporary cessation of exchange operations, which may last up to six months, and may be extended for another year. In order not to mislead citizens, in its exchange office, an authorised exchange dealer may not display the logo or inscription of the NBS, other than the NBS's authorisation issued to that exchange office. Furthermore, the amendments clearly stipulated data that the NBS decision on the issuance of authorisation to perform exchange operations must contain when an economic entity intends to perform exchange operations at an ATM;
- Guidelines Amending the Guidelines for Implementing the Decision on Terms and Conditions of Performing Foreign Payment Transactions<sup>77</sup>. The new Guidelines envisage new fields in pay-in and pay-out orders, goods exports and imports – mandatory data are the number, year and value of the invoice or pro-forma invoice. The change is effective as of 1 April 2021. The Guidelines were amended to ensure an IT connection between goods flows (the Customs Administration electronically submits data on goods customs) and money flows (banks electronically submit data on collections and payments). This will create conditions for more efficient off-site supervision of FX operations in respect of regular exports and imports, which are the most commonplace form of foreign trade, i.e. the above data will enable the control of money flows and determine whether goods customs are accompanied with relevant monetary transactions.

### *Supervision of foreign exchange operations*

**In 2020, the procedure of on-site supervision of FX operations was initiated in 73 residents** (five banks, 62 companies and six natural persons) to verify and determine the legality and regularity of FX operations of the entities subject to supervision in accordance with regulations governing FX operations. Eighty reports on on-site supervision of FX operations were compiled, as well as 14 reports on the impossibility to carry out supervision of FX operations as residents could not be found at the addresses entered in the Company Register of the Business Registers Agency, and 12 decisions ordering the supervised entity to enable supervision of FX operations. Seventy six reports ascertained one or several violations of regulations governing FX operations. During on-site supervision of FX operations, the NBS actively cooperated with the Ministry of Interior – Criminal Police Directorate, Service for the Fight against Organised Crime, Prosecutor's Office for Organised Crime, Republic Public Prosecutor's Office and Administration for the Prevention of Money Laundering of the Ministry of Finance. The aim of such cooperation is the exchange of information and joint

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<sup>76</sup> RS Official Gazette, No 53/2020.

<sup>77</sup> RS Official Gazette, No 98/2020.

action aimed 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 213 procedures of off-site supervision of FX operations.** It compiled 115 reports ascertaining one or several violations of regulations governing FX operations, and 98 official notes ascertaining – after the collection, analysis, monitoring and verification of the submitted data and reports and the documentation from NBS databases – that supervised entities reported to the NBS in accordance with regulations.

#### *Supervision of exchange operations*

**The procedure of on-site supervision of exchange operations was carried out in 186 authorised exchange dealers** for the purpose of verifying the legality and regularity of exchange operations in accordance with relevant regulations. The total of 191 reports was compiled on the completed on-site supervision of exchange operations – 116 reports recorded the violation of regulations governing exchange operations. Thirty six decisions were adopted ordering authorised exchange dealers to remove illegalities and irregularities in their operation.

**The procedure of off-site supervision of exchange operations was carried out in 690 authorised exchange dealers** for the purpose of verifying the legality and regularity of exchange operations in accordance with relevant regulations, and in relation to the request of authorised dealers for permanent cessation of exchange operations. Supervision was also carried out in those authorised dealers whose software licences expired and dealers who failed to inform the NBS about the temporary cessation of their operations. In this regard, 461 reports were compiled on completed off-site supervision of exchange operations, where the violation of regulations on exchange operations was ascertained. In addition, 229 official notes were compiled.

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

As at 31 December 2020, the total number of authorised exchange dealers was 2,277, and the number of exchange offices 3,270.

**In 2020, on the request of economic entities, 410 decisions were passed on the issuance of authorisations for the performance of exchange operations** (134 decisions concern new authorised exchange dealers, 83 new exchange offices, 53 relocation of the exchange office, and 140 decisions pertain to the change of other data) and 242 decisions on the revocation of authorisations (145 decisions were adopted on the request of exchange dealers for permanent cessation of exchange operations, and 97 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, in 2020 the NBS organised 17 training cycles and testing of candidates who applied for the certificate. Due to the epidemiological situation, the online training was recorded and 16 tests were held for the candidates who had previously attended online training. The testing committee met 14 times in 2020 and checked the tests of 788 candidates. The NBS issued 787 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 2020, 377 requests for the initiation of misdemeanour procedures were filed with competent misdemeanour courts – 199 requests in respect of irregularities determined in the supervision of FX operations and 178 requests in respect of irregularities determined in the supervision of exchange operations (163 requests concerning the violation of the Law on FX Operations, 14 requests concerning the violation of the Law on the Prevention of Money Laundering and the Financing of Terrorism, one request concerning the violation of the Law on FX Operations and the Law on the Prevention of Money Laundering and the Financing of Terrorism).

Three criminal charges were filed with the competent public prosecutor's 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 from abroad or abroad in the amount exceeding EUR 100,000 based on false documents.

Six charges were filed for an economic offence concerning the violation of the Law on the Prevention of Money Laundering and the Financing of Terrorism.

The total of 289 complaints was filed against the decisions of misdemeanour courts due to an inadequate misdemeanour sanction, violation of valid regulations and material violations of provisions of misdemeanour procedures, and the incompletely or inaccurately ascertained factual state.

### *Orders for enforcement of final court decisions*

Based on final and enforceable decisions, 100 orders were issued for the enforcement of 87 court decisions in respect of foreign exchange that the Customs Administration temporarily seized from 87 natural persons who were leaving/entering Serbia: 81 orders for enforcement of the protective measure of seizing the object of misdemeanour – FX assets, based on which, in accordance with Article 66 of the Law on FX Operations, EUR 1,422,859.00 in the dinar equivalent were paid to the budget; 18 orders for the refund of temporarily seized FX assets, based on which EUR 335,665.00 were returned to natural persons; and



one order for the return of temporarily seized cheques, based on which 60 cheques were returned to a natural person, in the dinar equivalent of EUR 256,808.00.

### *Documentary control and foreign payment transactions*

In 2020 as part of regular activities, documentary control and foreign payment transactions were carried out for the needs of budget beneficiaries through the system of the consolidated treasury FX account and other special-purpose FX accounts, kept with the NBS in accordance with law.

The NBS also implemented other activities concerning the provision of coverage for foreign payment orders for budget beneficiaries and for the needs of the NBS, relating to collections and payments under foreign loans, transfers based on banks' FX required reserves and transactions of the Central Securities Depository and Clearing House, purchase of foreign currency from banks in line with laws governing temporary payment operations with AP Kosovo and Metohija, and transfers in respect of donations.

Also, activities concerning the opening of documentary letters of credit for goods imports were carried out, as well as the payment of services for budget beneficiaries. In this context, letters of credit worth EUR 240.49 mn were opened in 2020, while total payments amounted to EUR 191.28 mn.

In line with the banking arrangement between the NBS and Vnesheconombank from May 2013, signed on the basis of the agreement concluded in January 2013 between the Governments of the Russian Federation and the Republic of Serbia on approval to the Serbian Government of a state export loan worth USD 800 mn, payments totalling USD 109.50 mn were made based on the opened letters of credit.

Under the banking arrangement between the NBS and the state development corporation VEB.RF concluded in December 2019 and signed based on the agreement concluded in October 2019 between the Russian and Serbian Governments on the approval to the Serbian Government of a state export loan worth EUR 172.5 mn, letters of credit worth EUR 22.82 mn were opened.

Under the banking arrangement between the NBS and MUFG Bank Ltd., Tokyo, Japan, concluded based on the exchange of notes between the Japanese and Serbian Governments in 2020, a Japanese donation worth JPY 100 mn was approved. The donation concerns medical equipment intended for countries hit by the coronavirus, in accordance with the Economic and Social Development Programme.

Activities were carried out in line with the Protocol on the Manner and Conditions of Maintaining Bank Accounts Opened with the National Bank of Serbia for the Purpose of 2014–2020 IPA Programme Management, concluded with the Ministry of Finance in April 2017, as well as activities concerning the disbursement of non-refundable aid of the IBRD for the agricultural sector. Thirty special-purpose FX accounts were opened in 2020 for the needs of ministries of the Serbian Government.

The above operations performed by the NBS for the Republic of Serbia in accordance with law were carried out timely and in line with domestic regulations, as well as international banking standards and practices.

## Foreign credit transactions

**In 2020, 794 borrowing transactions of domestic persons abroad** in the amount of EUR 3.78 bn **were recorded**, at the average interest rate of 2.28% and the average repayment period of four years and three months. Of the total contracted amount, company borrowing amounted to EUR 2.88 bn, of which EUR 1.47 bn were intended for conversion into dinars, EUR 841.80 mn for the imports of goods and services, and the remaining EUR 573.50 mn for other purposes. Bank borrowing amounted to EUR 892.70 mn. By activity, most debtors were from the financial sector and insurance (31%), followed by manufacturing (27%) and mining (13%).

**In 2020, 132 lending transactions of domestic persons abroad** in the amount of EUR 249.28 mn **were recorded**, at the average interest rate of 2.89% and the average collection period of four years and six months. Companies approved to non-residents EUR 135.42 mn and banks EUR 113.7 mn. Creditors from the financial sector and insurance made up the largest share (47%), while wholesale and retail trade creditors accounted for 19% 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 499.00 mn at end-2020. Of this, EUR 380.50 mn related to the unpaid imports of goods and services and EUR 118.50 mn to advance payments for which exports were not carried out.

Total receivables arising from defaults in foreign trade operations not completed within a period longer than one year amounted to EUR 480.50 mn at end-2020. Of this, EUR 376.50 mn related to the unpaid exports of goods and services and EUR 104.00 mn to advance payments for which imports were not carried out.

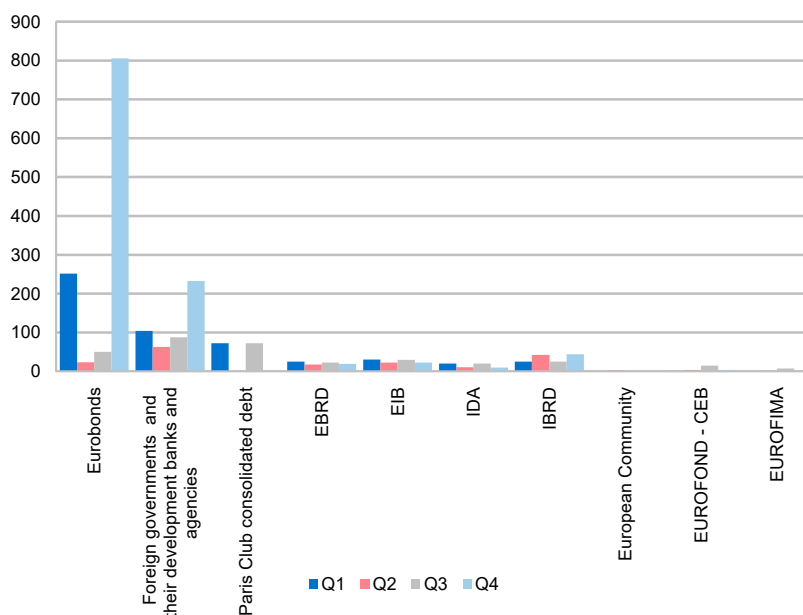
**In 2020, 18 opinions were prepared concerning the implementation of regulations in the field of foreign credit operations.**

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

**During 2020, liabilities under all foreign loans in respect of which the Republic of Serbia is the debtor or guarantor and the NBS the agent were serviced in time, as well as all liabilities under loans in respect of which the NBS is the debtor.** In 2020, in the capacity of the Government's agent, the NBS paid EUR 2.18 bn (EUR 1.78 bn was the principal and EUR 403.88 mn interest and other expenses). Based on engagement costs, around EUR 2.88 mn were paid in respect of the unused funds under approved loans.

In 2020, loans worth EUR 206.76 mn, granted by international financial organisations (EBRD, World Bank, EIB and CEB) were disbursed.

Chart IV.4.3.1 **Settled foreign credit liabilities of the Republic of Serbia in respect of which the NBS is the agent, in 2020 – by creditor and quarter** (in EUR bn)



Source: NBS.

On 4 February 2020, the Republic of Serbia settled its debt to the Slovak Republic, in entirety and in the form of one-time payment. The debt originated from the clearing period and was worth USD 7.21 mn.

In respect of the third issue of eurobonds in the international financial market, worth USD 1.5 bn, on 25 February 2020 Serbia repaid USD 210.34 mn. With the two early payments made in 2019 (USD 700 mn and USD 589.66 mn), this debt was settled in its entirety.

In May 2020, Serbia issued in the international financial market long-term securities worth EUR 2 bn (sixth issue) for the refinancing of due obligations arising from public debt and for the financing of the budget deficit, including the provision of funds for the implementation of economic measures aimed at mitigating the effects of the coronavirus pandemic. The securities are due on 15 May 2027, and the coupon is paid once a year, starting from 15 May 2021, at the interest rate of 3.125%.

Based on the Government's decision<sup>78</sup> of 26 November 2020, the seventh issue of government bonds took place. Based on Government's decision<sup>79</sup> of 26 November 2020, on 1 December 2020 the Republic of Serbia, by means of offsetting, carried out a partial early buyback, from the above funds, of long-term

<sup>78</sup> 05 No 424-9547/2020-1.

<sup>79</sup> 05 No 48-9567/2020.

government securities from the first issue of securities in the international financial market (“2021”) in the amount of USD 962.72 mn (EUR 805.08 mn).

On 30 December 2020, the Republic of Serbia made early payment, through the account of the NBS as the Government’s agent, of debt under the loan received from the Government of Azerbaijan in the amount of EUR 173.45 mn (EUR 172.73 mn in respect of principal and EUR 0.72 mn in respect of interest, calculated for the period from 23 November to 31 December 2020). It thereby saved EUR 25.19 mn in respect of interest since the last instalment under the regular repayment schedule was due on 23 November 2027.

#### IV.4.4 Legislative activities

##### Current legislative activity

In the course of 2020, the NBS took part in preparing and giving opinion on the following drafts and proposals of laws: Draft Law on the Budget of the Republic of Serbia for 2021, Draft Law Amending the Law on the Budget of the Republic of Serbia for 2020, Draft Law on Consumer Protection, Draft Law on the Ratification of Additional Protocol 6 on Trade in Services, Draft Law Amending the Law on the Prevention of Money Laundering and Terrorism Financing, Draft Law on Digital Assets, Draft Law on Fiscalisation, Draft Law Amending the Law on the Capital Market, Draft Law on Crowdfunding, Draft Law Amending the Law on Public Debt, Draft Law Amending the Law on the Settlement of the Public Debt of the Republic of Serbia Arising from Unpaid Foreign Exchange Savings of Citizens Deposited with Banks Having Their Head Office in the Territory of the Republic of Serbia and Their Branches in the Territories of Former SFRY Republics, Draft Law on Establishing a Guarantee Scheme as a Measure of Support to the Economy for Mitigating the Effects of the COVID-19 Pandemic Caused by the SARS-CoV-2 Virus, Draft Law Amending the Law on the Budget System, Draft Law Amending the Law on Corporate Income Tax, Draft Law Amending the Law on Personal Income Tax, Draft Law Amending the Law on Value Added Tax and Draft Law on the Register of Administrative Procedures.

**In 2020, the NBS enacted 72 by-laws** published in the RS Official Gazette – of which 68 decisions and five guidelines. These regulations cover the following functions and activities of the NBS:

- **monetary policy operations** (determining the 2021 Monetary Policy Programme, the terms and manner of operation of the FX market, terms and manner of conducting open market operations, terms and manner of extending short-term liquidity loans to banks against the collateral of securities, implementation of the Decision on Banks’ Required Reserves with the NBS, terms and manner of extending daily liquidity loans to banks against the collateral of securities);
- **financial stability** (temporary measures for preserving financial stability, temporary measures for lessors for preserving financial

stability, measures aimed at maintaining and strengthening financial stability, temporary measures for banks for mitigating the consequences of the coronavirus pandemic aimed at preserving financial stability, temporary measures for banks to facilitate access to financing for natural persons, temporary measures for lessors for mitigating the consequences of the coronavirus pandemic aimed at preserving financial stability);

- **foreign transactions** (reporting on foreign credit transactions, terms and the manner under which residents may extend financial loans to non-residents and issue guaranties and other collateral under foreign credit transactions between non-residents);
- **foreign exchange operations** (terms and manner under which residents may hold foreign exchange in bank accounts abroad, terms and manner of performing exchange operations, implementing the Decision on the Terms and Manner of Performing Foreign Payment Transactions);
- **payment system and payment services operations** (money payment and transfer fees in payment operations for the purpose of receiving donations in the fight against the coronavirus epidemic, the form, manner and use of payment order forms for the execution of dinar payment transactions, general rules for performing instant credit transfers);
- **bank supervision** (detailed terms and manner of bank supervision and special bank audit, bank reporting, reporting on the capital adequacy of banks, risk management by banks, capital adequacy of banks, deadlines for aligning banks' internal acts about risk management and for submitting bank reports, managing the concentration risk based on bank exposure to certain types of products, identification of default, temporary measures for adequate credit risk management in conditions of the coronavirus pandemic, Chart of Accounts and contents of accounts in the Chart of Accounts for banks, layout and content of financial statement forms for banks, layout and content of the statistical report for banks);
- **insurance supervision** (system of governance in an insurance/reinsurance undertaking, main criteria of the bonus-malus system, data required for its application and the maximum bonus, Chart of Accounts and contents of accounts in the Chart of Accounts for insurance undertakings, content and layout of financial statement forms for insurance undertakings, layout and content of the statistical report form for insurance undertakings, investment of insurance funds);
- **supervision of VPFs** (Chart of Accounts and contents of accounts in the Chart of Accounts for VPF management companies, Chart of

- Accounts and contents of accounts in the Chart of Accounts for VPFs, layout and content of financial statement forms for VPF management companies, layout and content of financial statement forms for VPFs, layout and content of the statistical report for VPF management companies and VPFs);
- **financial leasing supervision** (Chart of Accounts and contents of accounts in the Chart of Accounts for lessors, layout and content of financial statement forms for lessors, layout and content of the statistical report for lessors, management of a lessor's risk arising from the introduction of new products/services, temporary measures for lessors for the purpose of adequate credit risk management in conditions of the coronavirus pandemic);
  - **money issuance and cash management** (putting in circulation 1-, 2- and 5-dinar coins, manner of conducting operations regarding foreign cash between the NBS and banks, handling suspected counterfeit money);
  - **accounting activities** (Chart of Accounts and contents of accounts in the Chart of Accounts for the NBS, layout and content of financial statement forms for the NBS, layout and content of the statistical report for the NBS);
  - **enforced collection activities** (manner of performing enforced collection from the client's account, detailed terms, contents and manner of keeping the register of bills of exchange and mandates);
  - **supervision of the implementation of regulations in the area of combating money laundering and terrorist financing in supervised financial institutions** (detailed terms and the manner of keeping the Single Register of Safe-deposit Boxes, detailed terms and the manner of keeping the Single Register of Money Remittance Beneficiaries, conditions and manner of establishing and verifying the identity of a natural person using means of electronic communication, guidelines for the application of the provisions of the Law on the Prevention of Money Laundering and Terrorism Financing for obligors supervised by the NBS);
  - **single tariff** used by the NBS to charge fees for the services provided.

## Court representation

In the course of 2020, 20 administrative proceedings were conducted before the Administrative Court. Proceedings conducted before commercial courts included nine litigations and seven enforcement proceedings, of which five were disposed, 44 were bankruptcy proceedings, two liquidation proceedings, and 28 economic offence proceedings. A total of 37 litigations, nine non-litigious proceedings, seven enforcement and six criminal proceedings were conducted before general

jurisdiction courts, six of them being finally disposed. Twenty four proceedings were conducted before misdemeanour courts. Five litigations and one bankruptcy proceeding were conducted before foreign courts.

## Compliance

**In 2020, 25 general internal acts were adopted by the NBS** in the area of labour relations, office administration, procurement, internal organisation and job classification, etc.

In the period under review, the NBS continued examining the compliance certain segments of its operations in order to identify compliance risks and formulate the relevant mitigating measures.

Necessary activities were undertaken to ensure regular annual reporting of organisational units on identified and assessed compliance risks.

The NBS performed activities to improve ethical conduct and standards of professional behaviour of its staff, as well as activities aimed at ensuring that the NBS fulfils obligations under the Law on the Anti-Corruption Agency.

Due to the state of emergency in Serbia caused by the coronavirus epidemic, the NBS timely adopted adequate internal general acts which defined appropriate sanitary and health care prevention measures.

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

**In 2020, the NBS received 53 requests for access to information of public importance**, of which 43 were granted or partially granted and 10 denied.

The majority of requests were submitted by citizens (26), the media (6), NGOs and other civic organisations (6), political parties (1) and others (14). A total of 11 complaints were filed in relation to the above requests, seven for being rejected, one for not addressing the request and three for other reasons.

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 2020 for the purposes of implementing the said Law.

## IV.4.5 Enforced collection

Since 2003, the NBS performs enforced collection pursuant to Article 57 of the Law on Payment Transactions.

In 2020, the NBS received, checked and recorded 315,157 execution titles issued by Tax Administration units, customs, courts, public bailiffs and other competent bodies, which is down by 31.85% from the previous year. At the same

time, 22,107 decisions were returned to the issuing bodies due to their inadequacy, which is 28.55% less than the year before. The lower number of received and returned execution titles in 2020 is attributable to the smaller volume of activities and work of Tax Administration units, customs and courts during the emergency state in 2020 declared because of the coronavirus pandemic.

Somewhat more than four-fifths of the received execution titles (84.0%) were submitted by commercial, basic and misdemeanour courts, and public bailiffs. Observed by type of court decisions received, a significant proportion related to the postponement and suspension of enforcement (14,750). Of the decisions received from state-level tax administration, a large number pertain 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 9,583).

In addition to the said decisions, the NBS also enforces court decisions on the institution, suspension and closing of bankruptcy proceedings against debtors. In 2020, the NBS received 366 decisions on instituting bankruptcy proceedings, 337 decisions on closing, 14 decisions on suspension and 47 decisions on suspension of the proceedings because of the sale of the bankruptcy debtor. In addition, it received 33 decisions on instituting a preliminary bankruptcy procedure with security measures, and 18 decisions on the adoption of the pre-pack reorganisation plan.

Pursuant to the Law on Companies, in 2020 the NBS submitted 5,159 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 been keeping the Single Register of Accounts of Natural Persons – Consumers in accordance with the Law on Payment Services. Based on 1,348 requests received from authorised persons and bodies in 2020, the NBS submitted account data for 1,458 natural persons. The number of received requests decreased additionally (by 92.3% relative to 2019), as a result of the signing of the Protocol on Electronic Exchange of Data from the Single Register of Accounts between the Ministry of Justice and the NBS, whereby as of H2 2019, judicial bodies are able to download data about account numbers of natural persons – consumers through the Judicial Information System.

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

#### IV.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 Dafiment banka a.d. Beograd and Banka privatne privrede Crne Gore DD Podgorica – Jugoskandik, as well as under economic development loan.



**In 2020 payments of matured bonds of A2002–2016 series issued based on frozen FX savings continued, with an evident downward trend.** The payments were made from budget funds transferred to special accounts with the NBS opened for that purpose. For these payments, the NBS made advance transfers of funds upon banks' requests, monitored on a daily basis the reports on the conversion of savings into bonds and payments of bonds, i.e. made accounting records of public debt changes in off-balance sheet records.

From 26 August 2002 until 31 December 2020 the total amount of FX savings converted to bonds was EUR 3,720.0 mn (of which EUR 0.6 mn in 2020). Series A2002–A2016 bonds were paid (upon or before maturity) in the nominal amount of EUR 3,656.3 mn. In 2020, EUR 0.25 mn and RSD 289.0 mn was secured from the budget for the payment of matured bonds in the amount of EUR 2.9 mn. The payment of bonds of the Republic of Serbia issued on account of the loan for economic development of Serbia also continued to be monitored.

In 2020, 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 *Dafiment banka a.d. Beograd* undergoing liquidation and citizens who deposited their FX assets, based on the Contract on Business and Technical Cooperation with *Jugoskandik d.d. Beograd*, with the *Banka privatne privrede Crne Gore d.d. Podgorica*. 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 the citizens of the Republic of Serbia, former SFRY republics and other countries on 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.

#### IV.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 networks.

By issuing press releases, answering journalist queries, engaging in interviews, television and radio appearances, organising press conferences and posting information on social networks, the central bank informs the general public about its activities in a responsible, consistent and timely manner. **In 2020, 131 press releases were issued and 404 answers provided to journalist queries.** As many as 69 statements and 14 interviews were given for both the print and electronic media. Also, 54 television and radio appearances were made by the Governor, Vice-Governors and other members of NBS staff. The NBS published 2,162 tweets on its official Twitter account and 650 posts on its Facebook account.

Due to the coronavirus pandemic and Government measures and recommendations aimed at preventing the spread of the coronavirus, one of the

planned four *Inflation Report* public presentations was organised (the remaining three *Inflation Reports* were presented through press releases and publication on NBS website); the Governor held one extraordinary press conference, and there was a video shooting of the start of the plenary meeting with the IMF mission during their visit to Serbia.

In 2020, the NBS used its website, regular publications, statistical analyses and press releases to transparently inform the public about the instruments and measures applied to preserve and strengthen financial stability, as well as about the instruments and measures of the monetary and foreign exchange policies. The NBS also presented its activities in the field of supervision of financial institutions, payment services providers and electronic money institutions. The NBS published the *Annual Report on Activities and Results*, *Annual Financial Stability Report*, *Annual Monetary Policy Report for 2019* and *Semi-Annual Monetary Policy Report for 2020*, 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, and activities in the field of financial consumer protection. Quarterly publications included the *Inflation Report* and the *Report on Dinarisation of the Financial System*. Available to the public were also the following quarterly reports: *Trends in Lending*, *Counterfeit Currency Report*, *Report on the Results of the Bank Lending Survey*; monthly *Report on Inflation Expectations*; and annual *Payment System Oversight Report*. Printed and electronic materials intended for the public are available in both Serbian and English.

The NBS published on its homepage a form which all interested persons may use to ask a question in any area of NBS competence. Furthermore, a form for filing complaints against financial service providers is also available. The questions are answered as soon as possible by the organisational units in charge of the area in question.

#### **A new NBS website was launched in September 2020.**

Through its subdomains –Tvoj novac – [www.tvojnovac.nbs.rs](http://www.tvojnovac.nbs.rs) and Visitor Centre – [www.centarzaposetioce.nbs.rs](http://www.centarzaposetioce.nbs.rs), the NBS informed the public about its activities in the field of financial consumer protection and education, exhibitions and cultural events for pupils and students.

In the course of 2020, exhibitions, educational and cultural programmes of the NBS intended for the public recorded a turnout of 1,963 visitors – exhibition and educational programmes were attended by 773 and the gallery by 300 citizens. Educational workshops were attended by 890 pupils. **The NBS pays special attention to the financial education of children and youth.** Financial education programmes focus on developing awareness of 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, observing the Government measures aimed at the prevention of the coronavirus spread. Exhibition and educational halls of the NBS (Kralja Petra 12 and Nemanjina 17 buildings) have been closed for the public since

16 March 2020. Applying the necessary epidemiological measures, the NBS took part in marking the “Global Savings Week”.

The NBS also participated in marking the cultural manifestation “March - Francophonie Month”, and manifestations “Museums for 10”, “European Heritage Days”, having prepared video contents for the public on those occasions. In 2020, two exhibitions were organised in the Slavija building exhibition hall.

#### IV.4.8 Social responsibility

Cultivating philanthropy, in 2020 the NBS organised humanitarian activities in the head and branch offices and provided assistance to those in need in line with the recommended epidemiological measures. Employees engaged actively in humanitarian campaigns aimed at collecting funds, food and clothes for socially vulnerable groups, children with developmental challenges, children deprived of parental care and the elderly. Owing to the cooperation with charities, 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 2020 amounted to RSD 863,745.**

In the humanitarian campaign “Let’s help those in need”, employees of the Niš Branch collected money that they donated to an outstanding student of the third year of the Medical High School living without parental care. Employees from the Kragujevac Branch collected money for the medical treatment of a little girl, their fellow-citizen suffering from spinal muscular atrophy.

In the traditional corporate social responsibility campaign of collecting food for the consumers of soup kitchens of the Serbian Orthodox Church “Humaneness against hunger in times of corona”, NBS employees collected around 200 kg of canned food and ready-made meals.

Ahead of the New Year’s holidays, the NBS head office organised humanitarian exhibitions of artwork made by children and youth with developmental challenges, in order to collect funds for the programmes supporting their development. As part of the traditional humanitarian campaign “A present for an unknown friend”, NBS employees donated 285 New Year’s gifts and clothes to children and youth with developmental challenges from the Day Care Centre “Neven” from Pančevo and the Children and Youth Residential Centre “Sremčica” in Belgrade, as well as the School and Centre for Children and Youth with Hearing Impairments in Kragujevac. Eighty three parcels of sweets and snacks were also collected and donated to the “Circle of Serbian Sisters” from Kragujevac.

By selling secondary waste (paper and PET packaging), which its employees sorted in their offices last year, the NBS collected an amount of RSD 385,945. The funds collected in this way are intended for humanitarian purposes and donated to non-profit organisations, associations, educational or health institutions. In 2020 the funds were donated to the organisation “Mali veliki ljudi” with which the NBS has been cooperating for years.

In 2020, in the ecological and humanitarian campaign “Bottle cap for handicap”, NBS employees gathered 1,700 kg of plastic bottle caps, and helped the purchase of a wheelchair and a tricycle - orthopaedic aids for people with disabilities.

Donations are regulated by the Decision on Establishing the Committee for Review of Applications for Donations and Humanitarian Assistance and Setting the Conditions, Mechanisms and Criteria of Award. On the basis of that Decision, funds for donations and humanitarian assistance, fixed assets, intangible assets and inventory no longer in use, in accordance with the act determining the criteria for technical and technological deterioration of NBS resources, as well as small inventory, consumables and supplies, may be granted or donated to legal persons, local government units, educational and cultural institutions, social and health care institutions, non-profit organisations and associations, humanitarian organisations and other institutions.

**In 2020, the NBS donated RSD 2,328,000.00 as financial assistance.** The Institute for Manufacturing Banknotes and Coins – Topčider made and donated plaquettes to the “Dositej Obradović” Foundation.

In 2020, the NBS continued to behave responsibly to the community and the environment. Waste formed in the process of current and investment maintenance of facilities and equipment is handled in accordance with the Law on Waste Management. Agreements on the provision of services for the collection, transport and treatment of waste of several index numbers have been concluded with the authorised companies. The sorted waste is properly and temporarily stored in a dedicated packaging, and then handed over to the authorised companies for final disposal. Records on the waste generated and handed over are kept regularly, and measures are taken to reduce it.

As in the past years, NBS employees continued sorting waste in their offices (paper, PET packaging and mixed waste). From paper selling, the NBS collected RSD 157,840.20, while income from PET packaging recycling came at RSD 78,397.30. The funds collected in this way will be directed to humanitarian purposes.

The Institute for Manufacturing Banknotes and Coins – Topčider is committed to environmental causes and is continuously monitoring, controlling and measuring the quality of all aspects of its impact on the environment. Environmental activities of the Institute comply with regulations and standard requirements, including waste water processing, control of groundwater quality and measuring of atmospheric emissions. The ongoing procedure of introducing natural gas as new source of energy will be completed around the middle of the next year, which will enable ecological generation of heat energy.

Waste management has been recognised as very important for improving the responsible behaviour, with a view creating minimum quantities of waste and increasing the recycling rate. In 2020, 32,000 kg of hazardous and 148,264 kg of non-hazardous waste were taken care of.

In line with the principles of responsible behaviour, the NBS is constantly raising awareness of its employees about the significance of environmental protection.

## IV.5 Management

### IV.5.1 Human resources management

#### Organisational changes and number of employees in 2020

The Rulebook on Internal Organisation of the NBS was amended in 2020 as follows:

- the main organisational unit – Reporting and Analysis Centre was abolished;
- a smaller organisational unit – Analytic Support Unit was established in the Governor’s Office;
- smaller organisational units – Group for Public Procurement Implementation and Group for Low Value Public Procurements were abolished from the Public Procurements Division in the Procurement Department.

Table IV.5.1.1 **Comparative overview of the number of staff**

Organisational unit	31 December 2019			31 December 2020			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	1,425	104	1,529	1,423	101	1,524	-0.33
Belgrade Branch	89	1	90	84	6	90	0.00
Novi Sad Branch	100	6	106	100	16	116	9.43
Niš Branch	37	1	38	36	11	47	23.68
Kragujevac Branch	41	6	47	46	3	49	4.26
Užice Branch	44	-	44	44	1	45	2.27
Institute for Manufacturing Banknotes and Coins	534	2	536	499	2	501	-6.53
<b>Total in NBS:</b>	<b>2,270</b>	<b>120</b>	<b>2,390</b>	<b>2,232</b>	<b>140</b>	<b>2,372</b>	<b>-0.75</b>

Source: NBS.

#### Staff qualification and age structure

In terms of staff qualification structure, as at 31 December 2020, the employees with secondary education (41.71%) and employees with an MSc/MA degree

(39.65%) accounted for the dominant share of NBS employees, while employees with a PhD degree accounted for 0.90%.

**Table IV.5.1.2 Staff qualification structure**

31 December 2020						
Organisational unit	Higher education			Secondary education	Primary education	Total
	PhD	MSc/MA	BSc/BA			
Main organisational units	18	729	203	420	53	1,423
Belgrade Branch	2	8	15	59	-	84
Novi Sad Branch	-	18	10	68	4	100
Niš Branch	-	14	3	18	1	36
Kragujevac Branch	-	10	9	26	1	46
Užice Branch	-	9	8	24	3	44
Institute for Manufacturing Banknotes and Coins	-	97	68	316	18	499
<b>Total in NBS:</b>	<b>20</b>	<b>885</b>	<b>316</b>	<b>931</b>	<b>80</b>	<b>2,232</b>

Source: NBS.

As regards the gender structure, women (56.72%) continued to outnumber their male colleagues (43.28%).

**Table IV.5.1.3 Staff gender structure by organisational unit**

31 December 2020				
Organisational unit	Men		Women	
	No of staff	%	No of staff	%
Main organisational units	555	39.00	868	61.00
Belgrade Branch	24	28.57	60	71.43
Novi Sad Branch	38	38.00	62	62.00
Niš Branch	16	44.44	20	55.56
Kragujevac Branch	23	50.00	23	50.00
Užice Branch	14	31.82	30	68.18
Institute for Manufacturing Banknotes and Coins	296	59.32	203	40.68
<b>Total in NBS:</b>	<b>966</b>	<b>43.28</b>	<b>1,266</b>	<b>56.72</b>

Source: NBS.

In terms of age structure, as in the several previous years, the two most prevalent age groups in 2020 were 50–60 (36.60%) and 40–50 years (28.67%). The average age was 48.95 years.

Table IV.5.1.4 Staff age structure

Organisational unit	31 December 2020						Total	Average age
	Up to 20	20-30	30-40	40-50	50-60	Over 60		
Main organisational units	-	100	244	447	473	159	1,423	47.89
Belgrade Branch	-	3	6	13	43	19	84	53.57
Novi Sad Branch	-	3	15	18	39	25	100	51.56
Niš Branch	-	-	5	7	13	11	36	52.92
Kragujevac Branch	-	3	7	13	16	7	46	50.00
Užice Branch	-	4	6	13	10	11	44	48.89
Institute for Manufacturing Banknotes and Coins	-	9	78	129	223	60	499	50.24
<b>Total NBS:</b>	<b>-</b>	<b>122</b>	<b>361</b>	<b>640</b>	<b>817</b>	<b>292</b>	<b>2,270</b>	<b>48.95</b>
In %	-	5.47	16.17	28.67	36.60	13.08	100.00	

Source: NBS.

## Education, professional development and training of NBS employees

Successful performance of the tasks entrusted to the NBS requires application and continuous improvement of employees' professional knowledge, skills and abilities. One of the strategic priorities of the NBS involves commitment to realisation and development of professional potential and raising of the level of staff competencies.

### IV.5.1.5 Education, professional development and training of employees

2020	
Type of education, professional development and training	Number of employees
<b>Education</b>	
Graduate studies	3
MSc/MA studies	2
Doctoral studies	2
<b>Professional development</b>	<b>19</b>
<b>Training</b>	
Seminars, workshops, counselling and conferences in the country	27
Seminars, workshops, counselling, study visits and conferences abroad	30
Online professional training	188
<b>Summer internship</b>	
Internship for students of Serbian universities	104

Source: NBS.

In this context, employees were enabled 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.

Seminars, conferences, specialised courses and workshops on various topics of central banking attended by employees in the country and abroad in Q1 2020, were adapted to the current and future challenges faced by central banks while performing their statutory tasks. Lecturers were central banking experts, experts of the IMF, BIS, ECB, European Commission, national insurance supervision agencies, etc.

Due to the outbreak of the coronavirus pandemic, local training providers, as well as central banks and international institutions organising professional development courses abroad, **changed the format of planned seminars as of March 2020, organising them as online seminars and courses, i.e. webinars, which were attended by 188 NBS employees in total.** The majority of online training courses were organised by Banque de France, Bundesbank and the IMF.

The NBS organised internship under the programme “NBS Talent Management” for 104 students. In this way, talented students were given an opportunity to supplement theoretical knowledge acquired in university with practical work experience.

#### IV.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 audits are submitted to managers of the audited organisational units, to the Governor and the NBS management in charge of the audited operations. The Council of the Governor is also informed about internal audit activities on a quarterly basis through the Audit Committee.

**A total of 18 audits were conducted in 2020**, in the following fields: FX reserves, procurements, payment systems, maintenance of facilities and equipment, exchange transactions, public debt servicing, on-site supervision of insurance companies, prevention of conflicts of interest, numismatics, foreign credit transactions, operations of the Institute for Manufacturing Banknotes and Coins – Topčider, information technologies and accounting.

The results of the audits indicate that risks in business processes have lessened further and that internal controls have strengthened. **There were no high-risk findings in the processes audited in 2020**, while 26 recommendations were agreed upon with the management of the main organisational units in charge of implementing the recommendations.

The status of implementation of 42 recommendations from prior years was verified in 2020. It was determined that 36 of them were implemented. The number



of closed recommendations reflects efforts invested by organisational units to regulate business processes properly and to implement internal controls consistently.

### IV.5.3 Information and communications technologies

The NBS successfully adapted the use of its information and communications resources to ensure smooth operation in the COVID-19 pandemic, in line with the measures of the Crisis Response Team and its own specific business requirements. Conditions were created to implement both planned activities and the additional activities required due to the pandemic.

**Four application, infrastructure and multidisciplinary ICT projects were implemented for the needs of the NBS and external users in 2020.** Among other things, this included a redesign of the NBS's Internet presentation and the exchange of data with financial institutions via SFTP protocol. In cooperation with the Treasury Administration and Tax Administration of the Ministry of Finance, activities were taken to enable payment of direct benefits to economic entities in the private sector and one-off financial assistance to Serbian citizens of legal age to mitigate the negative economic consequences of the pandemic.

Also, upgrades were made to the ICT infrastructure of primary data centres and disaster recovery locations for key business processes in the NBS. Particular attention was paid to multi-layered protection of the information and communications system of the NBS. Work from home was introduced due to the pandemic to ensure smooth performance of key business processes, but it was vital that such work should be equally secure as work in the business premises of the NBS. Software components of infrastructure systems were regularly updated, achieving a higher level of security, and new functionalities were obtained. Newer versions of some ICT systems were installed, such as systems for e-mail communication and database management.

Within application development, in 2020 the NBS implemented new and upgraded existing application solutions for supporting business processes, in line with legal regulations. Business sectors submitted 264 applications for change and upgrade of applications in 2020, while 294 applications submitted in 2020 and prior years were implemented.

In 2020, technical support recorded and responded to 2,332 simpler requests, 5,658 more complex requests and 1,266 incidents reported by internal and external users in connection with installation, use and maintenance of software for exchange transactions.

Fees were charged in 2,233 cases for the activation, use and maintenance of the standard desktop version and in 39 cases for the network version of software for exchange transactions



# V FINANCIAL STATEMENTS

## V.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 stable conditions for doing business and investing.**

The statement of financial position of the NBS as at 31 December 2020 (Balance Sheet) discloses 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 1,856.0 bn.

On the assets side, the bulk of total assets or 85.5%, were FX reserves managed by the NBS. Depending on the form in which they are held, FX reserves are disclosed in the following balance sheet positions: cash and current accounts held with banks (RSD 383.5 bn), deposits with banks (RSD 199.3 bn), gold (RSD 207.0 bn), securities (RSD 788.9 bn) and SDR holdings (RSD 7.7 bn), while the remainder, disclosed in positions cash and current accounts with banks (RSD 10.9 bn) and securities (RSD 131.2 bn), refers to dinar assets and foreign-currency equity securities. In addition to FX reserves, balance sheet assets also include the IMF membership quota of the Republic of Serbia disclosed as placement denominated in SDR, as well as the value of property, plant, equipment, investment property, intangible and other assets used by the NBS in its operations.

**Table V.1.1 Balance sheet**  
(RSD thousand)

	31 December 2020	31 December 2019
<b>ASSETS</b>		
Cash and current accounts held with banks	394,424,179	339,485,874
Gold and other precious metals	208,078,233	158,084,189
Deposits	199,312,402	207,598,412
Derivative receivables	6,959	5,259
Securities	920,174,460	884,779,127
Loans and placements	16,375,557	982,245
IMF membership quota and SDR holdings	91,475,050	96,333,002
Intangible assets	288,428	154,306
Property, plant and equipment	19,157,663	19,125,957
Investment property	407,692	407,692
Other assets	6,315,841	5,079,908
<b>TOTAL ASSETS</b>	<b>1,856,016,464</b>	<b>1,712,035,971</b>
<b>LIABILITIES</b>		
Liabilities		
Derivative liabilities	69,442	4,809
Deposits and other liabilities to banks and other financial organisations	748,773,102	651,514,126
Deposits and other liabilities to the government and other depositors	404,601,318	397,401,344
Liabilities to the IMF	91,585,239	96,448,924
Provisions	1,516,661	1,713,081
Current tax liabilities	379,091	533,905
Cash in circulation	266,698,917	209,567,662
Other liabilities	2,348,795	2,037,178
<b>Total liabilities</b>	<b>1,515,972,565</b>	<b>1,359,221,029</b>
Capital		
State-owned capital	187,698,256	178,253,299
Reserves	160,572,376	137,331,122
Loss/profit	(8,226,733)	37,230,521
<b>Total capital</b>	<b>340,043,899</b>	<b>352,814,942</b>
<b>TOTAL LIABILITIES</b>	<b>1,856,016,464</b>	<b>1,712,035,971</b>

Source: NBS.

**In 2020, total NBS assets increased by 8.4% (RSD 143.9 bn) relative to 2019.** Within liabilities, disclosed liabilities of the NBS came at RSD 1,516.0 bn and its capital at RSD 340.0 bn. The NBS liabilities as at 31 December 2020 related primarily to:

- liabilities to banks and other financial organisations, arising mainly from the conduct of monetary policy (determining bank required reserves and implementing open market operations) in the amount of RSD 748.8 bn or 14.9% 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 404.6 bn, up by 1.8% from a year earlier;
- liabilities to the IMF in the amount of RSD 91.6 bn or 5.0% less than in 2019, and
- liabilities to transactors for cash in circulation in the amount of RSD 266.7 bn or 27.3% more than a year earlier.

**The NBS Income Statement for 2020 discloses loss of RSD 8.2 bn.** The most significant income and expenses which the NBS generated in 2020 by carrying out its legal mandate as stipulated in the Law on the National Bank of Serbia were interest income and expenses. Interest income came at RSD 14.0 bn and interest expenses at RSD 4.3 bn. **In 2020, net interest income equalled RSD 9.7 bn,** up by RSD 0.7 bn relative to 2019.

The NBS also recorded fee and commission income in the total amount of RSD 5.0 bn, mostly from payment of fees and commissions laid down in the Decision on Uniform Fees Charged for Services Provided by the NBS. Of total other operating income of the NBS in the amount of RSD 5.6 bn, income from business operations of the Institute for Manufacturing Banknotes and Coins – Topčider accounted for RSD 5.2 bn.

**Table V.1.2 Income statement**

(RSD thousand, 1 January – 31 December)

	2020	2019
Interest income	13,989,388	13,819,737
Interest expenses	(4,272,933)	(4,791,022)
<b>Net interest income</b>	<b>9,716,455</b>	<b>9,028,715</b>
Fee and commission income	4,998,408	5,278,587
Fee and commission expenses	(536,144)	(399,376)
<b>Net fee and commission income</b>	<b>4,462,264</b>	<b>4,879,211</b>
Net gains/(losses) from financial instruments measured at fair value through profit and loss	(49,747)	238,803
Net loss from derecognition of financial assets measured at fair value through other comprehensive income	(2,802,286)	(1,648,710)
Net exchange rate gains/(losses) and gains/(losses) from currency clause effects	(16,548,851)	24,557,536
Net gains from reversal of impairment/(losses) from impairment of financial assets	(46,774)	107,047
Other operating income	5,595,301	6,640,257
Salaries, compensations and other employee-related expenses	(5,208,114)	(4,836,290)
Depreciation expenses	(1,256,823)	(1,041,398)
Other income	1,735,234	4,114,586
Other expenses	(3,444,301)	(4,275,331)
<b>(LOSS)/ PROFIT BEFORE TAX</b>	<b>(7,847,642)</b>	<b>37,764,426</b>
Profit tax	(379,091)	(533,905)
<b>(LOSS)/ PROFIT AFTER TAX</b>	<b>(8,226,733)</b>	<b>37,230,521</b>

Source: NBS.

In 2020, the NBS recorded net loss from derecognition of financial assets measured at fair value through other comprehensive income in the amount of RSD 2.8 bn. Net expenses of RSD 16.5 bn were recorded in respect of gains/losses from exchange rate and currency clause effects. Other operating expenses recorded by the NBS include: salaries, compensations and other employee-related expenses (RSD 5.2 bn), depreciation expenses (RSD 1.3 bn) and other operating expenses (RSD 3.4 bn), largely comprising production expenses of the Institute for Manufacturing Banknotes and Coins – Topčider.

## V.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 the recognition, valuing and disclosure of the most significant balance sheet and income statement items in 2020 is given 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 credit-impaired financial asset (*impairment stage 3*) is calculated by applying the effective interest rate on 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 cash flows arising from such assets.**

The NBS classifies its financial assets into 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 is 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.

## **V.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 of the National Bank of Serbia, 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. On the basis of these Guidelines, the NBS's Investment Committee prepares the 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 credit risk inherent in the NBS portfolio is performed in accordance with generally accepted methods, including minimum credit rating requirements.

Table V.3.1 **Concentration of credit risk of financial assets by country and region**  
(RSD thousand, as at 31 December 2020)

	Serbia	Europe	USA and Canada	Other	Total
Cash and current accounts held with banks	10,932,911	147,928,135	591,497	12,908	159,465,451
Deposits	30,434	143,749,193	55,532,775	0	199,312,402
Securities	119,725,851	501,639,814	183,142,963	104,165,584	908,674,212
Loans and placements	16,375,557	-	-	-	16,375,557
IMF membership quota and SDR holdings	-	-	7,700,392	-	7,700,392
Other assets	1,161,667	594	1,260	-	1,163,521
<b>Total 31 Dec 2020</b>	<b>148,226,420</b>	<b>793,317,736</b>	<b>246,968,887</b>	<b>104,178,492</b>	<b>1,292,691,535</b>
<b>Total 31 Dec 2019</b>	<b>14,693,089</b>	<b>834,135,986</b>	<b>288,949,015</b>	<b>96,405,641</b>	<b>1,234,183,731</b>

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.** 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 V.3.2 Exposure to liquidity risk

(RSD thousand, as at 31 December 2020)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without specified maturity	Total
Cash and current accounts held with banks	394,424,179	-	-	-	-	-	394,424,179
Deposits	93,978,292	79,781,981	23,516,040	16,863	-	2,019,226	199,312,402
Derivative receivables	-	-	-	-	-	6,959	6,959
Securities	13,579,691	68,433,899	257,686,277	548,219,929	20,754,415	11,500,249	920,174,460
Loans and placements	8,730	13,814,506	1,617,049	2,228	402,579	530,465	16,375,557
IMF membership quota and SDR holdings	7,700,392	-	-	-	-	83,774,658	91,475,050
Other assets	431,440	117,000	-	-	-	615,081	1,163,521
	510,122,724	162,147,386	282,819,366	548,239,020	21,156,994	98,446,638	1,622,932,128
Derivative liabilities	-	-	-	-	-	69,442	69,442
Deposits and other liabilities to banks and other financial organisations	478,814,396	-	-	-	-	269,958,706	748,773,102
Deposits and other liabilities to the government and other depositors	316,052,927	-	-	-	-	88,548,391	404,601,318
Liabilities to the IMF	1,353	-	-	-	-	91,583,886	91,585,239
Cash in circulation	-	-	-	-	-	266,698,917	266,698,917
Other liabilities	1,786,509	-	-	112,750	-	215,547	2,114,806
	796,655,185	-	-	112,750	-	717,074,889	1,513,842,824
<b>Maturity mismatch as at 31 Dec 2020</b>	<b>-286,532,461</b>	<b>162,147,386</b>	<b>282,819,366</b>	<b>548,126,270</b>	<b>21,156,994</b>	<b>-618,628,251</b>	<b>109,089,304</b>
<b>Cumulative mismatch as at 31 Dec 2020</b>	<b>-286,532,461</b>	<b>-124,385,075</b>	<b>158,434,291</b>	<b>706,560,561</b>	<b>727,717,555</b>	<b>109,089,304</b>	<b>-</b>
<b>Maturity mismatch as at 31 Dec 2019</b>	<b>-233,884,856</b>	<b>141,728,598</b>	<b>290,123,161</b>	<b>498,790,376</b>	<b>2,262,651</b>	<b>-525,476,326</b>	<b>173,543,604</b>
<b>Cumulative mismatch as at 31 Dec 2019</b>	<b>-233,884,856</b>	<b>-92,156,258</b>	<b>197,966,903</b>	<b>696,757,279</b>	<b>699,019,930</b>	<b>173,543,604</b>	<b>-</b>

Source: NBS.

## Interest rate risk

The NBS sets the key policy rate and 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. In addition, the Government and government institutions hold their dinar and FX deposits with the NBS.

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.**

Table V.3.3 Exposure to interest rate risk

(RSD thousand, as at 31 December 2020)

	Interest-bearing items	Non-interest-bearing items	Total
<b>Financial assets</b>			
Cash and current accounts held with banks	148,360,856	246,063,323	394,424,179
Deposits	199,267,463	44,939	199,312,402
Derivative receivables	-	6,959	6,959
Securities	920,174,460	-	920,174,460
Loans and placements	15,880,343	495,214	16,375,557
IMF membership quota and SDR holdings	7,700,392	83,774,658	91,475,050
Other assets	-	1,163,521	1,163,521
	<b>1,291,383,514</b>	<b>331,548,614</b>	<b>1,622,932,128</b>
<b>Financial liabilities</b>			
Derivative liabilities	-	69,442	69,442
Deposits and other liabilities to banks and other financial organisations	408,712,818	340,060,284	748,773,102
Deposits and other liabilities to the government and other depositors	25,883,427	378,717,891	404,601,318
Liabilities to the IMF	7,807,364	83,777,875	91,585,239
Cash in circulation	-	266,698,917	266,698,917
Other liabilities	-	2,114,806	2,114,806
	<b>442,403,609</b>	<b>1,071,439,215</b>	<b>1,513,842,824</b>
<b>Net exposure as at:</b>			
<b>31 December 2020</b>	<b>848,979,905</b>	<b>-739,890,601</b>	<b>109,089,304</b>
<b>31 December 2019</b>	<b>817,279,942</b>	<b>-643,736,338</b>	<b>173,543,604</b>

Source: NBS.

## 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.

To minimise currency risks over the medium run, the NBS makes efforts to match the currency structure of its assets with expected foreign currency-denominated liabilities. Over the short run, this may result in exchange rate gains or losses, which are recorded in the income statement.

Table V.3.4 **Currency risk exposure of financial assets and liabilities**

(RSD thousand, as at 31 December 2020)

	EUR	USD	SDR	Other currencies	Total foreign currencies	RSD	Total
<b>Financial assets</b>							
Cash and current accounts held with banks	369,964,401	4,302,135	-	9,224,700	383,491,236	10,932,943	394,424,179
Deposits	81,142,024	112,084,886	-	6,068,618	199,295,528	16,874	199,312,402
Derivative receivables	-	-	-	0	-	6,959	6,959
Securities	459,900,716	286,622,262	11,499,578	42,426,053	800,448,609	119,725,851	920,174,460
Loans and placements	-	-	-	0	-	16,375,557	16,375,557
IMF membership quota and SDR holdings	-	-	91,475,050	0	91,475,050	-	91,475,050
Other assets	28,659	516,521	-	536	545,716	617,805	1,163,521
	<b>911,035,800</b>	<b>403,525,804</b>	<b>102,974,628</b>	<b>57,719,907</b>	<b>1,475,256,139</b>	<b>147,675,989</b>	<b>1,622,932,128</b>
<b>Financial liabilities</b>							
Derivative liabilities	-	-	-	-	-	69,442	69,442
Deposits and other liabilities to banks and other financial organisations	276,349,864	464,286	-	5,898	276,820,048	471,953,054	748,773,102
Deposits and other liabilities to the government and other depositors	153,428,177	42,318,872	1,532	782,844	196,531,425	208,069,893	404,601,318
Liabilities to the IMF	-	-	91,585,239	-	91,585,239	-	91,585,239
Cash in circulation	-	-	-	-	-	266,698,917	266,698,917
Other liabilities	624,495	194,548	-	407,824	1,226,867	887,939	2,114,806
	<b>430,402,536</b>	<b>42,977,706</b>	<b>91,586,771</b>	<b>1,196,566</b>	<b>566,163,579</b>	<b>947,679,245</b>	<b>1,513,842,824</b>
<b>Net exposure as at:</b>							
<b>31 December 2020</b>	<b>480,633,264</b>	<b>360,548,098</b>	<b>11,387,857</b>	<b>56,523,341</b>	<b>909,092,560</b>	<b>-800,003,256</b>	<b>109,089,304</b>
<b>31 December 2019</b>	<b>546,446,515</b>	<b>436,204,910</b>	<b>10,981,512</b>	<b>55,981,566</b>	<b>1,049,614,503</b>	<b>-876,070,899</b>	<b>173,543,604</b>

Source: NBS.

## V.4 Independent auditor's report



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TRANSLATION

# Independent Auditor's Report

## To the Council of The Governor of Narodna banka Srbije

### Opinion

We have audited the accompanying financial statements of Narodna banka Srbije (the "Bank"), which comprise:

— the balance sheet as at 31 December 2020;

and, for the period from 1 January to 31 December 2020:

- the statement of profit or loss;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of cash flows;

and

— notes, comprising a summary of significant accounting policies and other explanatory information;

(the "financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").



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**Basis for Opinion**

We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia, and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the financial statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants 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 of financial statements that give a true and fair view in accordance with IFRS, 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.

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 the Law on Auditing of the Republic of Serbia and applicable auditing standards in the 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.

As part of an audit in accordance with the Law on Auditing of the Republic of Serbia, and applicable auditing standards in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism 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



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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;

- 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.

## KPMG d.o.o. Beograd

*Signed on the Serbian original*

Nikola Đenić  
Licenced Certified Auditor

Belgrade, 5 April 2021

*This is a translation of the original Independent Auditor's Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail. We assume no responsibility for the correctness of the translation of the Bank's financial statements.*

## KPMG d.o.o. Beograd

Nikola Đenić  
Licenced Certified Auditor

Belgrade, 5 April 2021



## V.5 Annual financial statements<sup>80</sup>

### Balance sheet

TRANSLATION

NATIONAL BANK OF SERBIA

**BALANCE SHEET**  
As at 31 December 2020  
(in RSD thousand)

	Note	December 31, 2020	December 31, 2019
<b>ASSETS</b>			
Cash and current accounts held with banks	16, 3.4	394,424,179	339,485,874
Gold and other precious metal	17, 3.5	208,078,233	158,084,189
Deposits	18, 3.3	199,312,402	207,598,412
Receivables for derivatives	3.3	6,959	5,259
Securities	19, 3.3	920,174,460	884,779,127
Loans and placements	20, 3.3	16,375,557	982,245
IMF membership quota and SDR holdings	21, 3.3	91,475,050	96,333,002
Intangible assets	22, 3.7	288,428	154,306
Property, plant and equipment	22, 3.7	19,157,663	19,125,957
Investment property	22, 3.7	407,692	407,692
Other assets	23	6,315,841	5,079,908
<b>TOTAL ASSETS</b>		<b>1,856,016,464</b>	<b>1,712,035,971</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Liabilities under derivatives	3.3	69,442	4,809
Deposits and other liabilities to banks and other financial organisations	24	748,773,102	651,514,126
Deposits and other liabilities to Government and other depositors	25	404,601,318	397,401,344
Liabilities to the IMF	26, 3.3	91,585,239	96,448,924
Provisions	27, 3.11	1,516,661	1,713,081
Current tax liabilities	28, 3.9	379,091	533,905
Dinars in circulation	29	266,698,917	209,567,662
Other liabilities	30	2,348,795	2,037,178
<b>Total liabilities</b>		<b>1,515,972,565</b>	<b>1,359,221,029</b>
<b>Equity</b>			
State-owned capital		187,698,256	178,253,299
Reserves		160,572,376	137,331,122
Retained earnings		(8,226,733)	37,230,521
<b>Total equity</b>	31	<b>340,043,899</b>	<b>352,814,942</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,856,016,464</b>	<b>1,712,035,971</b>

Notes on the following pages form an integral part of these financial statements.

These financial statements were approved by the Governor:

Jorgovanka Tabaković, PhD  
Governor

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<sup>80</sup> The Annual Financial Statements for 2020, together with Notes which are integral thereto, are submitted to the National Assembly by 30 June 2021, and published on the NBS website.

## Income statement

TRANSLATION		NATIONAL BANK OF SERBIA	
INCOME STATEMENT			
For the period from 1 January to 31 December 2020			
(in RSD thousand)			
	Note	2020	2019
Interest income		13,989,388	13,819,737
Interest expenses		(4,272,933)	(4,791,022)
<b>Net interest income</b>	4, 3.1	<b>9,716,455</b>	<b>9,028,715</b>
Fee and commission income		4,998,408	5,278,587
Fee and commission expenses		(536,144)	(399,376)
<b>Net fee and commission income</b>	5, 3.1	<b>4,462,264</b>	<b>4,879,211</b>
Net (loss)/gains from financial instruments measured at fair value through profit and loss	6	(49,747)	238,803
Net losses from derecognition of financial instruments measured at fair value through other comprehensive income	7	(2,802,286)	(1,648,710)
Net exchange rate(loss)/gains and from contractual currency clause	8, 3.2	(16,548,851)	24,557,536
Net (expense) of impairment/income from decrease in impairment of financial assets	9, 3.3, 32	(46,774)	107,047
Other operating income	10	5,595,301	6,640,257
Salaries, salary compensations and other personal expenses	11, 3.10	(5,208,114)	(4,836,290)
Depreciation costs	12, 3.7	(1,256,823)	(1,041,398)
Other income	13	1,735,234	4,114,586
Other expenses	14	(3,444,301)	(4,275,331)
<b>(LOSS)/PROFIT BEFORE TAX</b>		<b>(7,847,642)</b>	<b>37,764,426</b>
Income tax	28, 3.9	(379,091)	(533,905)
<b>(LOSS)/PROFIT AFTER TAX</b>	31	<b>(8,226,733)</b>	<b>37,230,521</b>

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## Statement of other comprehensive income

TRANSLATION

NATIONAL BANK OF SERBIA

**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**In the period from 1 January to 31 December 2020**  
**(in RSD thousand)**

	<u>2020</u>	<u>2019</u>
<b>(Loss)/Profit for the period</b>	<b>(8,226,733)</b>	<b>37,230,521</b>
<b>Components of other comprehensive income which cannot be reclassified to profit or loss:</b>		
Increase in revaluation reserves based on intangible assets and fixed assets	-	8,559
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	402,181	778,612
Actuarial gains/(losses)	179,412	(245,197)
<b>Components of other comprehensive income that may be reclassified to profit or loss:</b>		
Positive/(Negative) effects of change in value of debt instruments measured at fair value through other comprehensive income	<u>3,745,188</u>	<u>(181,890)</u>
<b>Other comprehensive income for the period</b>	<b>4,326,781</b>	<b>360,084</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>(3,899,952)</u></b>	<b><u>37,590,605</u></b>

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## Statement of changes in equity

## NATIONAL BANK OF SERBIA

## TRANSLATION

STATEMENT OF CHANGES IN EQUITY  
For the year ended 31 December 2020.  
(in RSD thousand)

	State owned capital	Special reserves	Revaluation reserves	Fair Values Reserves	Actuarial gains (losses)	Retained earnings (losses)	Total
<b>Balance as at 1 January, 2019</b>	<b>171,128,873</b>	<b>104,711,573</b>	<b>13,903,869</b>	<b>4,117,780</b>	<b>49,505</b>	<b>30,581,204</b>	<b>324,492,804</b>
Distribution of profit from previous year (Note 31)	7,124,426	14,188,311	-	-	-	(30,581,204)	(9,268,467)
Increase in revaluation reserves based on intangible assets and fixed Assets	-	-	8,559	-	-	-	8,559
Increase in fair value reserve of equity instruments measured at fair value through other comprehensive income	-	-	-	778,612	-	-	778,612
Actuarial losses	-	-	-	-	(245,197)	-	(245,197)
Decrease in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	(181,890)	-	-	(181,890)
Net profit for the current year	-	-	-	-	-	37,230,521	37,230,521
<b>Balance as at 31 December, 2019</b>	<b>178,253,299</b>	<b>118,899,884</b>	<b>13,912,428</b>	<b>4,714,502</b>	<b>(195,692)</b>	<b>37,230,521</b>	<b>352,814,942</b>
<b>Balance as at 1 January, 2020</b>	<b>178,253,299</b>	<b>118,899,884</b>	<b>13,912,428</b>	<b>4,714,502</b>	<b>(195,692)</b>	<b>37,230,521</b>	<b>352,814,942</b>
Distribution of profit from previous year (Note 31)	9,444,957	18,914,473	-	-	-	(37,230,521)	(8,871,091)
Increase in fair values reserve of equity instruments measured at fair value through other comprehensive income	-	-	-	402,181	-	-	402,181
Actuarial gains	-	-	-	-	179,412	-	179,412
Increase in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	3,745,188	-	-	3,745,188
Net loss for the current year	-	-	-	-	-	(8,226,733)	(8,226,733)
<b>Balance as at 31 December, 2020</b>	<b>187,698,256</b>	<b>137,814,357</b>	<b>13,912,428</b>	<b>8,861,871</b>	<b>(16,280)</b>	<b>(8,226,733)</b>	<b>340,043,899</b>

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Jorgovanka Tabaković, PhD  
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## Statement of cash flows

TRANSLATION

NATIONAL BANK OF SERBIA

### CASH FLOW STATEMENT In the period from 1 January to 31 December 2020

<b>(in RSD thousands)</b>	<b>2020</b>	<b>2019</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Interest receipts	13,673,217	14,372,474
Fee and commission receipts	5,478,083	5,363,829
Inflows from sales of products and services (Institute for Manufacturing Banknotes and Coins)	6,117,860	7,483,851
Inflows from other operating activities	2,076,487	3,723,447
Receipts from dividends and profit sharing	-	103,539
<i>Cash inflow from operating activities</i>	<u>27,345,647</u>	<u>31,047,140</u>
Interest payments	(3,378,889)	(6,540,126)
Fee and commission payments	(534,024)	(503,196)
Payments for operating expenses	(10,701,611)	(10,678,589)
<i>Cash outflow from operating activities</i>	<u>(14,614,524)</u>	<u>(17,721,911)</u>
Net inflow in deposits received	116,553,387	162,535,160
Net inflow/(outflow) in loans and placements	8,363,538	(63,154,978)
Net outflow in securities and other financial assets not intended for investment	(34,772,415)	(104,492,117)
Net increase from operating activities before income tax	102,875,633	8,213,294
Income tax paid	(533,905)	(426,343)
Payment of the distributed result-transfer to the budget of the Republic of Serbia	(8,871,090)	(9,268,467)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>93,470,638</b>	<b>(1,481,516)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Inflows from sales of intangible assets, property, plant and equipment	-	203
Outflow for sale of intangible assets, property, plant and equipment	(1,538,978)	(1,251,591)
<b>Net cash outflow from investing activities</b>	<b>(1,538,978)</b>	<b>(1,251,388)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Net outflow from short-term borrowings	(1,034,094)	(954,373)
<b>Net cash outflow from financing activity</b>	<b>(1,034,094)</b>	<b>(954,373)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>90,897,566</b>	<b>(3,687,277)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>347,603,811</b>	<b>344,451,334</b>
Foreign exchange gains/(losses), net	(36,376,806)	6,839,754
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 2d)</b>	<b>402,124,571</b>	<b>347,603,811</b>

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## V.6 Institute for Manufacturing Banknotes and Coins – Topčider

Total income of the Institute for Manufacturing Banknotes and Coins – Topčider (ZIN) in 2020 amounted to RSD 5,606.9 mn and total expenses – RSD 3,482.4 mn. Despite specific market circumstances caused by the coronavirus pandemic in 2020, the advantages of ZIN's production potential were capitalised in 2020, and **the net financial result of the business year again exceeded RSD 2 bn** (RSD 2,124.5 mn).

Table V.6.1 Total income and expenses of ZIN

(RSD mn)

	2019	2020	Index 2020/2019
Total income of ZIN	7,620.9	5,606.9	73.6
Operating income	7,545.7	5,369.1	71.2
Products for the NBS	1,283.9	158.5	12.3
Products for the domestic market	6,244.2	5,157.7	82.6
Export products	17.6	52.9	300.6
Other (financial) income:	75.3	237.8	316.0
Total expenses of ZIN	4,046.3	3,482.4	86.1
<b>Income-to-expense ratio</b>	188.3	161.0	-

Source: NBS.

Thanks to the joint efforts made by ZIN employees to overcome new circumstances and their maximum commitment to optimising processes and harmonising the rules and standards of intermediate goods consumption, significant progress was achieved in planning and organising production, and making savings. The stability and continuity of achieving a net positive financial result in the past several years, resulting from ZIN's main activity and its diversified portfolio, enable ZIN to continue prosperous technological development.

**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 realised sale did not experience oscillations, remaining relatively high. 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 2020, ZIN posted a positive financial result, even 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 the interim result did not exclude the costs of their production, i.e. the 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 5,157.7 mn or 92% of total income) in the domestic market**, while income earned from exports measured RSD 52.9 mn or 0.9% of total income.

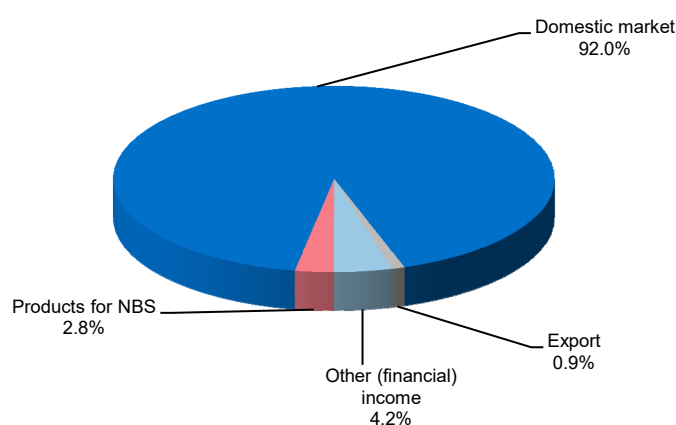
Table V.6.2 **Structure of total income**  
(RSD mn)

	2019	2020	Index 2020/2019
<b>Total income of ZIN</b>	7,620.9	5,606.9	73.6
Operating income	7,545.7	5,369.1	71.2
<b>Products for the NBS</b>	1,283.9	158.5	12.3
Banknotes	1,019.1	-	-
Circulating coins	254.3	132.8	52.2
Commemorative coins	-	-	-
Other products and services for the NBS	10.5	25.7	244.5
<b>Domestic market and exports</b>	6,261.8	5,210.6	83.2
Pre-production services	5.4	37.8	697.0
Banknotes and other products	2.4	2.9	119.9
Circulating and commemorative coins	4.5	2.2	49.1
Other coined products and services	610.9	503.8	82.5
Valuables	974.7	978.4	100.4
Secured products	2,665.4	1,510.6	56.7
Books, publications and promotional material	7.1	5.8	80.7
Other products	801.5	778.1	97.1
Personalisation	1,189.8	1,390.9	116.9
<b>Other (financial) income</b>	75.3	237.8	316.0

Source: NBS.

The breakdown of operational income generated in the domestic and foreign markets shows the predominance of income from the manufacturing and personalisation of payment cards and from products with security features.

Chart IV.6.2 **Structure of ZIN's total income in 2020**



Source: NBS.

Internal income, i.e. income from products manufactured for the NBS, measured RSD 158.5 mn or 2.8% of total income, which is much lower than a year

earlier as a result of implementation of the NBS's plan and programme of manufacturing and issuing banknotes and coins.

The percentage of collection of receivables remained very high. Receivables past due comprised less than 0.2% of the total invoiced value in 2020.

## Structure of expenses

**Operating expenses were dominant within total expenses in 2020**, most notably basic material and energy (44.5%), gross wages and other employee-related expenses (31.5%) and depreciation (14.1%).

Table V.6.3 **Structure of total expenses**

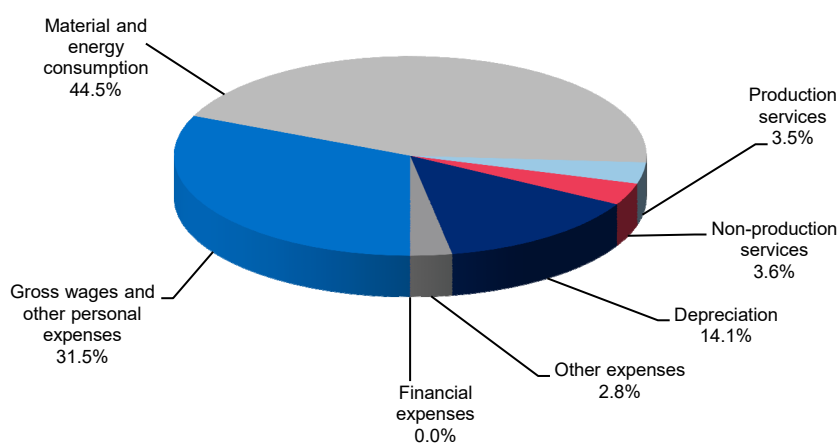
(RSD mn)

	2019	2020	Index 2020/2019
Total expenses	4,046.3	3,482.4	86.1
Financial expenses	0.9	0.3	38.9
Gross wages and other employee-related expenses	1,033.2	1,098.3	106.3
Material and energy costs	1,901.4	1,549.9	81.5
Production services	154.2	120.3	78.0
Intangible costs	102.5	124.2	121.1
Depreciation	471.7	490.4	104.0
<b>Other expenses</b>	<b>382.5</b>	<b>99.0</b>	<b>25.9</b>

Source: NBS.

The share of the above expenses in total expenses in 2020 decreased from prior years.

Chart IV.6. **Structure of ZIN's total expenses in 2020**



Source: NBS.



## Pandemic and pandemic-related measures

During the state of emergency, ZIN had a designed plan of action based on an assessment of technical and personnel requirements to ensure smooth performance of all activities necessary to maintain core business processes. The plan focused on identifying priority products and services from ZIN's spectrum, and assessing the number of employees required to implement the planned activities.

An optimal number of employees was maintained throughout the pandemic ensuring continuity in production and delivery of ZIN's products and services. As in this way ZIN timely ensured three-month inventories of all products required by citizens (ID cards, passports, driving licences and vehicle registration certificates, etc.), there were no delays in product delivery.



## VI PLANS FOR THE FUTURE PERIOD

*Going forward, maintenance of price and financial stability, together with support to fastest possible economic growth and further rise in employment, will remain our monetary policy priority.*

The NBS pursues an inflation targeting strategy and 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 2021 Monetary Policy Programme of the NBS. As so far, full coordination of monetary and fiscal policy measures will continue in order to preserve the achieved price and financial stability and ensure sustainable economic recovery from the pandemic-induced crisis.

**Despite the pandemic, inflation remained low and stable, as in the past seven years, which will continue to represent the main objective of the NBS. Going forward, according to the NBS estimate, inflation will move within the bounds of the 3±1.5% target tolerance band,** and monetary policy will remain consistent with achieving this objective. The key challenges will continue to stem from the international environment, as the pandemic still greatly affects global economic developments. In particular, challenges relate to the speed of recovery of global trade and economic growth, most notably in the euro area, movements in global prices of primary commodities and capital flows to emerging economies. Many countries began this year with a tightening of containment measures, which dented global growth. The world's economy will, however, grow more than initially expected this year, as containment measures had a weaker impact on consumption, while optimism that the global economy is slowly emerging from the crisis is fuelled by further fiscal measures, particularly in the USA, and the vaccination process. Most central banks worldwide do not view faster than anticipated economic rebound as a reliable signal of sustainable recovery and are therefore not lifting their stimuli, fuelling market expectations that they will also be ready to accept higher inflation. Central banks judge that the factors behind higher inflation rates this year are temporary and that monetary easing will continue. This

should have a positive impact on capital flows to emerging economies, including Serbia.

Though at present Serbia is much more integrated in global production and trade chains, it has been able to minimise the economic fallout from the pandemic thanks to the pursuit of a responsible economic policy in the prior period and coordinated and timely measures of the NBS and the Serbian Government. Production capacities were preserved and the investment cycle begun in 2015 continued, enabling a return of industrial production and exports to their pre-crisis levels already in mid-2020. As a result, GDP declined by only 1% in 2020 and returned to its pre-crisis level in Q1 2021 already – a quarter earlier than expected. If Serbia carries on with its excellent performance in implementing infrastructure projects and attracting FDI, GDP might grow by more than 6% this year, supported by continued successful vaccination.

The preservation of macroeconomic and financial stability has been the bulwark of Serbia's economic performance, placing it among the few global economies which have reached their pre-crisis activity levels. It is important to note that the NBS did not allow anything to threaten the stability of the domestic currency, even in such uncertain global environment. Inflation expectations also remained anchored, reflecting monetary policy credibility.

**The NBS will continue to carefully monitor the movement and impact of key factors from the domestic and international environment on inflation, financial stability and the speed of economic recovery and to adapt its measures accordingly in the interest of our economy and households.** Full coordination of monetary and fiscal policy measures will continue in order to maintain the achieved price and financial stability and ensure sustainable economic recovery from the pandemic-induced crisis.

*In order to maintain FX reserves at an adequate level and ensure a high degree of their safety and liquidity, the NBS will remain committed to keeping the risk of its investment portfolio at a very low level.*

**Adequate FX reserves, both with regard to their volume and composition, are an important warranty of safety, particularly in times of crises,** while at the same time serving 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. Continued substantial FDI inflows from the start of the year and net inflow in respect of portfolio investments, together with a current account surplus recorded in Q1 for the first time since 2007, induced a further rise in FX reserves, additionally bolstering resilience to external risks. In 2021, the NBS will remain committed to keeping its FX reserves at an adequate level, and will be guided by principles of safety and liquidity in their management.

*The NBS will continue to implement activities aimed at increasing the use of the dinar in the financial system.*

In the conditions of extreme uncertainty and challenges from the international environment, monetary policy measures taken by the NBS have helped **preserve price stability, relative stability of the dinar exchange rate against the euro and financial system stability, as a key precondition for achieving even greater confidence in the dinar in the period ahead.** To that end, the NBS will continue to consider and, if needed, take new regulatory and prudential measures to boost dinar use.

With its required reserves policy so far, the NBS has stimulated banks to make greater use of dinar sources of funding. **The policy of stimulating required reserve ratios for dinar sources of funding and higher remuneration for allocated dinar required reserves will be continued** in the period ahead. Also, to support further financial market development, the NBS will continue to implement measures and activities aimed at strengthening the credibility of interest rates in the interbank money market as a basis for upgrading the domestic money and capital markets, with particular attention paid to further development of FX risk hedging instruments.

*As a financial sector supervisor, the NBS will continue with ongoing and timely monitoring of the operations of financial institutions, by carrying out on-site and off-site supervision and, as needed, enacting regulations aimed at preserving asset quality and financial stability.*

**In the area of supervision of banks,** (re)insurance undertakings, financial lessors and VPF management companies, the NBS will take activities aimed at further upgrading the supervision process and the current legislation and its harmonisation with the EU *acquis*. With regard to banking supervision, the following activities have been planned for 2021: implementation of the plan of supervisory activities for 2021; continuous monitoring and analysis of operations of banks and financial lessors and proposal of adequate regulations; continuous off-site supervision of banks and financial lessors; on-site supervision of banks and financial lessors according to the adopted plan; improvement of communication with the public, banks and financial lessors, in order to promote a better understanding of the supervisory function, etc. Special attention will be paid to monitoring the effects of measures taken to preserve financial system stability amid the coronavirus pandemic, in the interest of both households and corporates.

Since the **insurance sector** has an important role in providing protection to insurance holders against the consequences of the coronavirus and it is important to ensure the continuity of insurance services in the conditions of the crisis, the NBS's activities in 2021 will be directed at preserving insurance sector stability (by implementing the plan of on-site supervisions, ongoing off-site supervision of supervised entities and amendment of regulations) and improving the supervisory function, with the aim of protecting insurance holders, insurance beneficiaries and third damaged parties. Along with regular off-site supervision of **management**

**companies and VPFs and licensing operations**, on-site supervision procedures will also be implemented, in line with the plan of on-site supervisions for 2021. Given the pandemic-induced circumstances, the NBS will focus in particular on preserving VPF sector stability and protecting the interests of fund members.

During February and March 2021, as part of the regular annual cycle of updating resolution plans, **new updated resolution plans for banks and banking groups** were prepared and adopted, **and new minimum requirements for own funds and eligible liabilities were defined**.

It has been planned that, during 2021, the NBS will **continuously monitor the ways in which financial institutions assess and manage the information system risks**, through on-site and off-site supervision, according to needs and in line with the supervision plan.

During 2021, the NBS will **continue to monitor the implementation of regulations on FX operations, and to supervise FX and exchange operations in order to control and determine the legality and regularity of their performance** in accordance with regulations on FX operations, with a view to protecting the financial and economic system against unlawful actions, as part of its pre-emptive and supervisory function.

In April 2020, the NBS issued a separate instruction for banks enabling authorised exchange dealers to continue meeting their prescribed obligations during the state of emergency as well, most notably the sale of foreign cash to banks, payment of cash in dinars to the current account with a bank, etc. In 2021, the NBS will continue to consider the best possible solutions in the area of exchange transactions, especially considering the course of the pandemic, and will make sure that the performance of these transactions is as efficient as possible in the given circumstances. The NBS will therefore continue to upgrade operations relating to the issuance and revocation of authorisation 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, cheques and securities (orders for enforcement of safeguard measure of seizing and/or returning the above assets, temporarily seized under the Law on Foreign Exchange Operations).

*Within the financial service consumer protection function, the mechanism of collective protection will be upgraded.*

Given the current focus on **developing the function of financial service consumer protection** in Europe and internationally, it is the NBS's commitment, **in addition to regular activities aimed at protecting individual rights and interests of financial service consumers** (through procedures in respect of consumers' complaints), to **direct maximum attention at the mechanisms of collective protection of these consumers** (by identifying unfair business practices and unfair contractual provisions and conducting on-site and off-site supervision). The above collective protection mechanisms have proved to be more efficient and

effective, as they allow the identified irregularity in the actions of financial service providers to be eliminated at the same time for all consumers whose rights and interests have been breached. For this reason, the NBS will employ extensive resources to conduct off-site (as a rule, targeted) and on-site (comprehensive) bank supervision.

The NBS plans to continually upgrade standards with regard to banks' market behaviour, identify the best market practice in individual segments particularly important from the aspect of financial services consumer protection (such as the provision of information in the pre-contractual stage, right to early repayment, etc.) and improve good business customs by issuing instructions binding for all banks.

From the aspect of financial services consumer protection, it is important to note that the NBS responded readily to the challenges posed by the current pandemic. Even before the changes caused by the pandemic, in order to ensure more efficient consumer protection the NBS had introduced electronic communication with financial institutions so as to shorten the period for resolving complaints and develop advanced communication channels through which consumers can submit electronically their complaints to the work of financial institutions and complete documentation. The NBS also upgraded the system of electronic forms via which financial service consumers can ask questions to the NBS and receive answers in the shortest possible time. In this way, **financial services consumer protection activities were performed smoothly and without suspension even during the pandemic, as the NBS did not allow consumers' rights to be threatened in the conditions of an uncertain environment.**

*The NBS will carry on its activities aimed at modernising and increasing the efficiency of payment systems.*

In 2021, the NBS will continue to participate in the implementation of the Serbian Government's programme of economic assistance to economic entities in the private sector and to households in the Republic of Serbia. In March 2021, the NBS coordinated the opening of special-purpose accounts for the payment of direct benefits in accordance with the Decree on Establishing the Programme of Direct Benefits from the Budget of the Republic of Serbia to Economic Entities in the Private Sector in Order to Mitigate the Economic Consequences Caused by the Epidemic of COVID-19 Disease Caused by SARS-CoV-2 Virus, adopted by the Government of the Republic of Serbia on 11 February 2021. The above Decree establishes the Programme of Direct Benefits from the Budget of the Republic of Serbia to Economic Entities in the Private Sector, that is the receipt, manner and procedure for payment, terms of use and loss of right to direct benefits, as well as the legal consequences of losing the right to direct benefits to economic entities in the private sector for the purpose of mitigating the consequences caused by the COVID-19 epidemic.

In addition, the NBS supported the Ministry of Finance and the Treasury Administration in drafting regulations on the one-off financial assistance to all

legal-age citizens of the Republic of Serbia in the amount of EUR 60 in the dinar equivalent value at the NBS middle exchange rate.

Since February 2021, together with representatives of the Government, ministries, competent agencies, World Bank, science and technology parks, ICT clusters and IT hubs, NALED and the “Digital Serbia” Initiative, etc., the NBS has participated in the Working Group for drawing up Draft Strategy for Development of the Startup Ecosystem of the Republic of Serbia in the 2021 – 2025 Period. The Working Group’s tasks include, inter alia, the definition of policy priorities for accelerated development of the startup ecosystem with emphasis on public and private investment, enabling access to venture capital and improving local and regional connectivity of the domestic startup ecosystem.

In order to maintain and improve safe and sound payment system operation as part of its supervisory function, plans for 2021 include: continuation of regulatory activities relating to the upgrade of legislation and internal acts on stable and sound payment system operation; continuation of activities on assessing compliance of the important payment system with the law governing payment services and regulations enacted under that law to maintain its safe and sound operations and adequate risk management; performance of continuous off-site supervision of payment system operations through collecting and analysing reports and other documents and data submitted by the operator to the NBS, under the law governing payment services and regulations enacted pursuant to that law.

Activities within the supervisory function will also focus on monitoring the further course of implementing instant payments at POS, as well as at the “Transfer” service and deep-link technology with emphasis on pre-emptive action, in order to ensure financial infrastructure stability and to minimise the possibility of payment market disruptions.

***The NBS will be active in the area of anti-money laundering – as both the regulator and the supervisor.***

In the area of anti-money laundering, the NBS will work on further upgrading its supervisory activities in order to timely monitor exposure to money laundering and terrorism financing risk in entities under its supervision, implement the plan of on-site supervision of money laundering and terrorism financing risk management for 2021 and ensure continuous monitoring of international standards in this area.

**The NBS will also aim to further upgrade its cooperation with relevant government authorities** (especially with the Administration for the Prevention of Money Laundering) and the entities it supervises in the area of prevention of money laundering and terrorism financing.

Focus will be placed on further implementation of activities defined in the Action Plan for Implementing the National Strategy against Money Laundering and Terrorism Financing for the 2020–2024 Period.

In 2021, the NBS will take an active part in preparing the National Money Laundering and Terrorism Financing Risk Assessment on the basis of data for the



period 1 January 2018 to 31 December 2020. Subject to the Decision on Establishing a Working Group for Updating the National Money Laundering and Terrorism Financing Risk Assessment,<sup>81</sup> an NBS representative is appointed a coordinator of the “Financial Sector” Subgroup.

In 2021, together with other authorities, the NBS will report to the Moneyval Committee about the progress made by the Republic of Serbia in the area of anti-money laundering and terrorism financing, that is on technical harmonisation and effective implementation of regulations in this area in the Republic of Serbia, which will be considered at the 62<sup>nd</sup> Plenary Meeting of the Committee in September 2021.

*The NBS will continue to adjust the legal regulations coming under its remit to ensure efficient functioning of the entire system.*

In 2021, the NBS will take all necessary measures under its remit to help moderate the consequences of the current pandemic. **It will, therefore, draw up temporary measures to preserve financial system stability and other measures, depending on the course of the pandemic and a further assessment of its consequences.**

Plans for H1 2021 include **the enactment of by-laws under the NBS’s remit to regulate digital asset transactions in more detail.** Guidelines for the Application of the Provisions of the Law on the Prevention of Money Laundering and Terrorism Financing for Obligors Supervised by the National Bank of Serbia<sup>82</sup> will be harmonised with amendments and supplements to the Law on the Prevention of Money Laundering and the Financing of Terrorism. The adoption of these by-laws will complete the legal framework and create regulatory requirements for smooth implementation of the Law on Digital Assets, in the drafting of which NBS representatives took part.

Work will also continue on creating legal and other preconditions for the use of e-bills of exchange in legal and business transactions in the Republic of Serbia, in order to upgrade conditions for and create new possibilities for economic development.

Plans also include the taking of adequate measures to improve the drafting of laws and other regulations under the NBS’s remit and monitor EU regulations, as well as upgrading the activities of representing the NBS before courts and ensuring operational compliance. The application of business conduct standards in the NBS is continuously considered, as is their possible regulatory improvement.

*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, bilateral financial cooperation, disbursement of the Revolving Credit Fund of the Republic of Serbia and the*

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<sup>81</sup> RS Official Gazette, No 19/21.

<sup>82</sup>These guidelines are prescribed by the Decision on Guidelines for the Application of the Provisions of the Law on the Prevention of Money Laundering and Terrorism Financing for Obligors Supervised by the National Bank of Serbia (RS Official Gazette, Nos 13/2018, 103/2018, 57/2019 and 137/2020).

***grant of the Kingdom of Denmark – Program of Local Economic Development in the Balkans (LEDIB Program).***

In early January 2021, the IMF Executive Board made the decision on successful completion of the fifth and final semi-annual review of the results of Serbia's economic programme supported by the 30-month Policy Coordination Instrument. This is a confirmation of successful cooperation with this international financial institution. In April 2021, regular consultation under Article IV of the IMF's Articles of Agreement took place, and **talks were initiated on the foundations of a new economic programme to be supported by the IMF through a non-financial, advisory arrangement.** The Mission stressed that agreement was reached about policies and reforms that could be supported by a new Policy Coordination Instrument (PCI). The agreement must be approved by the IMF Board of Governors and the Executive Board, and the latter is scheduled to discuss the agreement most likely in the second half of June 2021.

Key activities in the process of European integration in 2021 will focus on adjusting the Republic of Serbia's negotiating framework and coordination structure to the revised EU enlargement methodology. As the application of the third revised National Programme for the Adoption of the EU *Acquis* ends in 2021, the fourth review of this strategic document will be organised going forward, in line with the revised EU enlargement methodology.

NBS representatives will take part in mixed committees/commissions for economic cooperation with individual countries.

In connection with the disbursement of the Revolving Credit Fund of the Republic of Serbia, in cooperation with the Ministry of Economy and the Ministry of Finance, the NBS plans to include new banks in the disbursement of the Fund in 2021 and to expand the list of eligible Fund beneficiaries.

In 2021, as the agent of the Republic of Serbia and in cooperation with the Ministry of Economy, the NBS plans to resume the disbursement of the grant of the Kingdom of Denmark – Programme of Local Economic Development in the Balkans.

As in 2020 the NBS was not able to conduct the planned supervision of the authorised use of loans approved to final beneficiaries under Apex loan to SMEs and other priorities III/B and the Revolving Credit Fund of the Republic of Serbia due to the coronavirus pandemic, it has been planned to conduct this supervision electronically in 2021.

***The NBS will continue to upgrade its analytical framework, as a supporting tool in monetary and macroprudential policy decision-making.***

In the current year as well, the NBS will continue to develop its analytical framework and work on **further upgrading existing and introducing new models for inflation and GDP projection purposes and analysing the monetary policy transmission mechanism.** The basic medium-term projection model will be developed further so as to include the fiscal impulse as a demand-side factor,

having in mind the significant impact of fiscal assistance packages on inflation and GDP movement in the conditions of the pandemic. In addition, the NBS will further **upgrade the dynamic stochastic general equilibrium (DSGE) model**, used to assess the credit channel of monetary policy transmission in the conditions when much of this channel is associated with euro and euro-indexed loans. **Implementation of new high-frequency economic activity indicators in the short-term GDP projection model** will continue as well.

In order to further strengthen its financial stability function, in 2021 the NBS plans the following activities: **analysis of different indicators to estimate the credit-to-GDP gap** as a key indicator of excess lending; **analysis of the credit and business cycle synchronisation** in order to improve the modality for forecasting financial crises; **analysis of border values for groups of indicators in order to determine the signalling threshold**, i.e. warning with regard to introduction of the countercyclical capital buffer; **processing and analysis of production of macroprudential stress tests with regard to the impact of climate changes on real and financial sector indicators**, etc. Also, capital buffer rates for domestic systemically important banks (at annual level) and CCyB rates (on a quarterly level) will be set in 2021.

*In order to preserve a high level of public confidence in the activities 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. **Efficient public communication is particularly important at times of challenges such as the current pandemic.** For this reason, **the NBS aims at clear and active communication not only with the professional community but also with the public at large.** The NBS will continue to inform the public in a responsible and timely manner on its operations and activities through active cooperation with the media. Due to the pandemic, the NBS has placed the focus of its activity in this area on providing to the public as detailed as possible information via its Internet presentation and social networks, as well as by providing exhaustive answers to media and public questions in electronic form. As so far, the NBS will regularly inform the public about its monetary policy decisions and issue press releases after Executive Board meetings (held once a month), 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. Depending on the course of the pandemic in the remainder of the year, in addition to providing detailed information via its Internet presentation and social networks, the NBS will also consider reinstating media conferences of the Governor held customarily at the time of publishing the *Inflation Report* and the *Financial Stability Report*, in order to inform the public about the situation and risks in the financial system, as well as to timely indicate potential systemic risks. In 2021, the NBS will continue to develop its internet domain and subdomains and

implement exhibition and educational activities depending on the course of the pandemic, ensuring full compliance with the prescribed epidemiological measures.

*The NBS will continue to upgrade its activities relating to statistics, given its importance for successful conduct of monetary, macroprudential and microprudential policy.*

In 2021, the NBS will continue to upgrade its activities in producing official statistics, given the importance of high-quality and timely data for successful conduct of economic policy at large, and monetary, macroprudential and microprudential policy in particular. In line with the National Programme for the Adoption of the EU *Acquis* and the criteria defined in the Negotiating Chapter 18 – Statistics, in the area of government finance statistics, plans include the start of regular quarterly reporting on general government debt under Maastricht criteria. In accordance with undertaken obligations, harmonisation of methodologies with EU regulations in the area of monetary, financial and balance of payments statistics will continue, as will regular reporting to Eurostat in the area of balance of payments statistics, excessive deficit procedures (EDP), reporting to the ECB on interest rate statistics of banks and regular statistical reporting to the IMF and the World Bank.

*Plans of the Institute for Manufacturing Banknotes and Coins include further technological development of production processes, along with optimisation of operating costs.*

**The Institute for Manufacturing Banknotes and Coins – Topčider (ZIN)**, as a production organisational unit of the NBS, is ready to strive towards further progress and achieving even higher-quality and better results by finding new ways to employ human and technological potentials. The ZIN's progress is also reflected in the innovations and business ideas, as well as its ability to manage complex production processes through adequate planning, organisation and control.

It is clear that ZIN has a vision of progress and a firm commitment to making intensive and extensive use of its capacities. Also evident is the adoption of new models, technological and applicative enhancements and identification of the right approach to raising employees' awareness. ZIN has become a modern business unit which, hand in hand with large global institutions, is moving towards further development and global positioning.

*Adequate level and composition of cash in circulation will be sustained.*

Demand for cash increased notably amid the current pandemic. **The NBS took activities under its remit to ensure smooth performance of cash payment transactions.** For this purpose, the NBS supplied its branches in Belgrade, Kragujevac, Niš, Novi Sad and Užice with a sufficient quantity and denominational structure of banknotes and coins and was at all times able to respond to banks'

demand for cash (which justifies the holding of cash reserves in the NBS's vaults in the approximate relation of 50% of currency in circulation).

To meet strategic and operational objectives relating to the **provision of 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 2021 include the production of 108.4 mn pieces of banknotes (in denominations of 10, 20, 1000, 2000 and 5000 dinars) and 85 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, an individual agreement was signed on the production of 210,000 pieces of **numismatic coins with the portrait of Nikola Tesla** in the denomination of 100 dinars in 2021. Independently from this, and based on the identical design, 500 pieces of numismatic coins with the portrait of Nikola Tesla have been planned to be produced in 2021 for the needs of the numismatic market in the Republic of Serbia. In addition, the remaining quantity, not produced in the prior years, of numismatic coins with the portrait of Nikola Tesla, with 2018 and 2019 as the year of issue, will be produced in the quantity of 250 pieces each, as will 500 pieces of coins with 2020 as the year of issue.

*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's most valuable assets are its employees. **Constant education and development of the NBS's staff are of particular significance** for enhancing current business processes and strengthening professional capacities in new areas of operation. The NBS invests efforts to make the most efficient use of its other business resources as well.

In the area of information and communications technologies, in addition to regular activities, plans for 2021 also include continuation of infrastructure and application projects and upgrade of management functions, in line with the good practice and experience of the ESCB, including inter alia, the **upgrade of management and use of disaster recovery locations for key business processes**. The NBS also plans to continue its activities on **training in the area of information and communications system security** in line with the requirements of the ISO 27001<sup>83</sup> standard, SWIFT requirements for mandatory security controls and other specific needs of the NBS's information and communications system.

Plans for 2021 include **external assessment of the quality of work of Internal Audit**, which was not conducted in 2020 due to the pandemic, and further performance of audit activities according to the adopted plan. As so far, the NBS will be **socially responsible** and committed to numerous activities contributing to the welfare of the broader community.

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<sup>83</sup>Information security management system.

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