UNITED NATIONS
SERBIA

SDG FINANCING LANDSCAPE IN SERBIA

Brief assessment

February 2025

CONTENTS

Introduction 2
An Overview of Different Sources of Finance 3
International Public Finance 4
International Private Finance 5
Domestic Public Finance 7
Domestic Private Finance 12
Conclusions and Recommendations 14

ACKNOWLEDGEMENTS This report was authored by Mr. Nemanja Sormaz, Executive Director at Center for Advanced Economic Studies (CEVES), in his capacity as a consultant to the Resident Coordinator's Office in Serbia, with guidance by Ms. Lorenza Jachia, Senior Economist, Resident Coordinator's Office in Serbia. The contribution of Mr. Lazar Ivanović, economist at CEVES, is also appreciated. Comments by Ms. Matilde Mordt, Resident Coordinator, and Desanka Obradovic, Economist, Office of the IMF in Belgrade Serbia are gratefully acknowledged.

The views expressed in documents, articles, or contributions are solely those of the authors and do not represent the views of the United Nations or its agencies.

INTRODUCTION

In recent years, Serbia has made strides in aligning its financial landscape with the Sustainable Development Goals (SDGs), yet significant challenges remain. This report provides a comprehensive assessment of the SDG financing landscape in Serbia, focusing on both international and domestic financial flows. Building on previous analyses, including those by the United Nations, the report explores key sources of financing—international and national, public and private—using the UNDP methodology. It highlights gaps in financing, particularly for vulnerable populations, and examines the alignment of these flows with Serbia's national development priorities and the SDGs. As the UN in Serbia prepares for the next Cooperation Framework (2026-2030), this analysis will play a vital role in shaping strategic priorities.

This report is prepared on the basis of the United Nations Development Program (UNDP)'s Development Finance Assessment (DFA) Guidebook (INFF, 2021).[1]

Its underlying methodology categorizes key sources of financing into four main blocks: international public, international private, domestic public, and domestic private finance (Table 1).

Table 1. Four components of the SDG financing landscape and its structure as per the UNDP methodology

	PUBLIC	PRIVATE
DOMESTIC	Fiscal revenue	Private borrowing (domestic)
	Government borrowing (domestic)	Private investment
	Public investment	
	Development Fund	
INTERNATIONAL	Government borrowing (international)	Remittances
	ODA funds	FDI

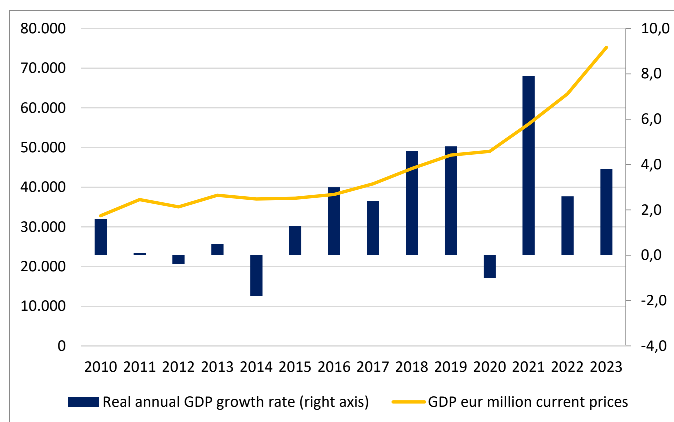
Data sources are provided throughout the text, and unless stated otherwise the analysis is the consultant's, and all figures are presented in constant EUR millions.

[1] INFF, Assessment and diagnostics: Financing landscape, 2021. UNDP, 2021,

AN OVERVIEW OF DIFFERENT SOURCES OF FINANCE

Between 2010 and 2023, Serbia's economy grew at a compounded annual rate of 2.1%, with stronger growth in 2018 and 2019. During the COVID-19 pandemic in 2020, Serbia experienced one of the smallest economic contractions in Europe due to the sectoral composition of its economy, as agriculture and manufacturing were less affected, along with relatively mild lockdown measures. In 2021, the economy rebounded strongly with 7.1% real growth, but growth slowed down in 2022 and 2023 and remains below the targeted 5% necessary for Serbia to close the GDP per capita gap with the EU as early as 2043[2] (World Bank 2023). For reference, closing the gap with Bulgaria, the EU country with lowest GDP per capita, would take 6 years if Serbia was growing at 5% per year. To sustain higher growth, enhancing the quantity and quality of funding sources, along with spending efficiency, will be crucial.

Figure 1. Serbia's GDP in current prices and its real annual growth (right axis) between 2010 and 2023



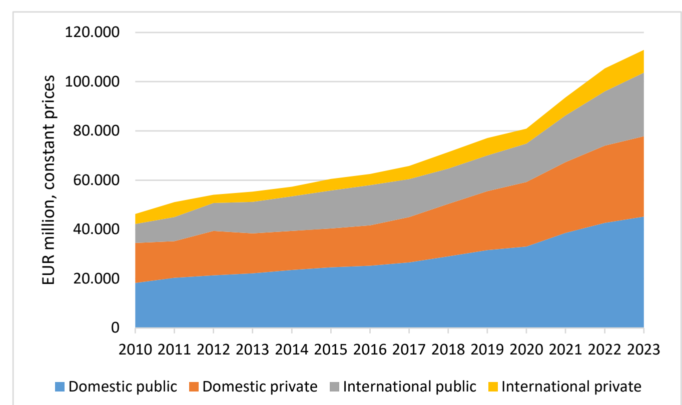
Source: SORS

The Serbian Government's latest Fiscal Strategy (Ministry of Finance, 2024) forecasts GDP growth of 3,8% in 2024 and 4.2% in 2025, compared to 1.0% and 1.6% in the EU, respectively (European Union 2024)[3] , largely driven by the continuation and acceleration of major capital infrastructure projects, particularly in preparation for the EXPO 2027 exhibition, as well as a steady inflow of foreign direct investment (FDI). However, domestic private investments, which are essential drivers of sustainable economic growth, are notably absent from the strategy as potential contributors to growth and development in the near future.

As shown in Figure 3, public domestic finance has consistently been the primary source of SDG funding in Serbia, accounting for around 40% through the whole period. Over the past decade, it has expanded at an average rate of 7.2% per year. In comparison, international public finance, which makes up 23% of the total, has shown the most significant increase. This growth is mainly due to the rise in the government's external debt, which has been growing at an annual rate of 9.7%, increasing its share from 16% in 2010.

On the other hand, the share of international private finance decreased slightly by 1 percentage point, while the share of domestic private finance dropped significantly from 37% to 29%. This not only highlights the inadequate institutional environment to support the growth of the domestic business sector but also reflects the government's strategic decision to focus on attracting large foreign investors and major capital investments, which will be discussed in more detail in the following sections.

Figure 2. Sources of finance for spending and investment, trends (2010–2023)



Source: Author's calculations based on data by SORS, National bank of Serbia, Ministry of Finance, and World bank

Note: The 2023 data for ODA funds received by Serbia is not yet publicly available. Therefore, we have provided an approximation based on previous yearly growth rates.

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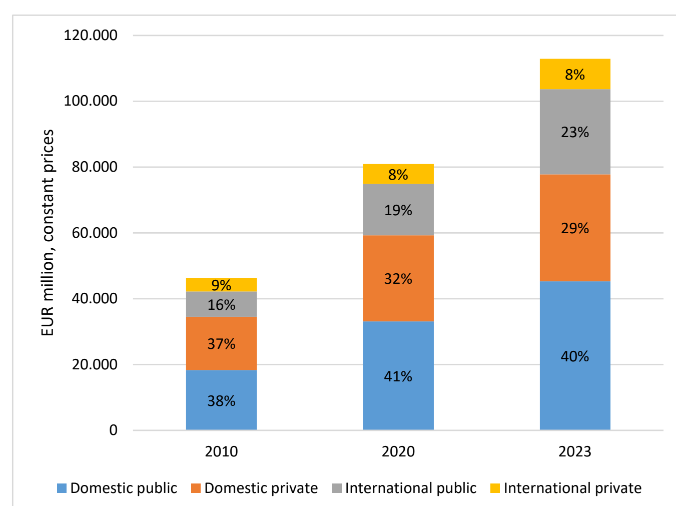
[2] World Bank, World bank, [Reforming Serbian State-Owned Enterprises May Unleash Growth and Investments](#) 2023.

[3] Ministry of Finance, [Revised Fiscal strategy for 2023 with projections for 2024 and 2025](#), 2024; European Commission, [Spring 2024 Economic Forecast](#), 2024

Figure 3. Sources of finance for spending and investment, snapshots for 2010, 2020 and 2023



Source: Author's calculations based on data by SORS, National bank of Serbia, Ministry of Finance, and World bank

INTERNATIONAL PUBLIC FINANCE

Development aid. In Serbia, international public developmental aid providers play an important role in supporting the country's socio-economic transformation, aligning their efforts with Serbia's developmental priorities and the Sustainable Development Goals (SDGs). The Instrument for Pre-accession Assistance (IPA) by the European Union (EU) is a major contributor, focusing on key areas such as governance reform, infrastructure development, environmental protection, and rural development. IPA funding is crucial for Serbia's EU accession process, simultaneously promoting numerous SDGs with a focus on SDG 9 (Industry, Innovation and Infrastructure), SDG 12 (Responsible Consumption and Production), and SDG 16 (Peace, Justice and Strong institutions). IPARD, a subcomponent of IPA, is specifically designed to aid rural development, supporting agricultural modernization, sustainable farming, and rural economic diversification, aligning with SDG 12 and SDG 2 (Zero Hunger).

According to experts, while Serbia's utilization of IPA funds has been intensive, reaching up to 100% in some years, it has recently declined to as low as 30%.[4] These funds have been effectively applied in transportation, energy, and infrastructure projects, such as constructing roads, bridges, and landfills. However, the use of IPARD funds, targeted at rural and agricultural development, has been less successful. Out of 175 million euros allocated for agriculture between 2014 and 2024, less than 70 million euros have been used.[5] Challenges include limited administrative capacity and inadequate outreach to local farmers about accessing these funds.

Other key development players in Serbia include the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), KfW Development Bank, and the Council of Europe Development Bank (CEB). The EBRD focuses on fostering private sector growth, financing infrastructure projects, and promoting green energy initiatives, addressing SDG 7 (Affordable and Clean Energy) and SDG 9 (Industry, Innovation, and Infrastructure). The EIB complements these efforts by investing in transportation, energy, and education infrastructure. KfW is mostly involved in sustainable energy and environmental protection projects, supporting Serbia's energy transition and resource management, while the CEB invests primarily in social infrastructure such as healthcare, educational and penal institutions, contributing

Table 2. Major international public development aid and financing providers and their allocations by key areas since their establishment in Serbia

EUR million	Total allocated funds	Infrastructure	Financial institutions	Private sector (including agriculture)	Democracy and Governance	Other
Loans	**21.568**	**10.927**	**6.259**	**3.167**	**301**	**913**
EBRD	9.237	4.434	2.679	2.125	0	0
EIB	8.030	3.776	2.807	774	0	673
KfW	2.079	1.164	774	62	47	32
CEB	1.664	1.250	0	206	0	208
AFD	558	304	0	0	254	0
Grants	**5.713**	**1.993**	**0**	**1.320**	**1.383**	**1.015**
IPA I	1.344	384	0	208	307	444
IPA II	1.404	368	0	309	632	96
Multi-Country IPA	803	410	0	0	0	393
IPA III	1.400	594	0	312	444	49
IPARD II	175	0	0	175	0	0
IPARD III	384	69	0	315	0	0
CEB	202	169	0	0	0	33
Total	**27.281**	**12.920**	**6.259**	**4.486**	**1.684**	**1.929**

Source: author calculations based on publicly available data from the European Commission, EBRD, EIB, KfW, CEB and AFD.

[4] European Western Balkans, How much money Serbia receives from the EU an how much it risks to lose?, 2022.

[5] Ministry of agriculture of the RS, Second meeting of the IPARD 3 Monitoring Committee, 2024.

to SDG 1 (No Poverty), SDG 4 (Quality Education) and SDG 11 (Sustainable Cities and Communities).

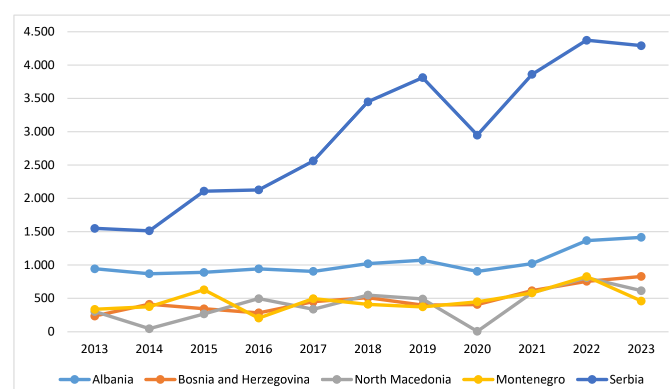
Box 1. The New Growth Plan for the WB and Serbia's reform agenda[6]

In October 2024, the Government of Serbia approved its Reform Agenda, outlining 98 measures tied to the disbursement of €1.58 billion as part of the EU's Growth Plan for the Western Balkans. This funding, comprising one-third grants and the remainder as affordable loans, depends on the implementation of these reforms. The Growth Plan, launched by the European Commission with €6 billion for the region, aims to expedite alignment with EU standards, addressing the prolonged accession process. However, Serbia's civil sector has criticized the plan as overly ambitious given the limited resources available. Spread over four years, Serbia expects around €425 million annually, approximately 0.6% of its 2023 GDP. Achieving the EU's vision of doubling GDP within a decade would require an improbable 7% average annual growth rate. Despite these challenges, the agenda is crucial from a Finance for Development perspective, focusing on mobilizing domestic and international resources to create an efficient and transparent financial system that supports sustainable development. By emphasizing reforms that improve governance, accountability, and stakeholder engagement, Serbia could not only stimulate economic growth but also ensure that the benefits of this growth are equitably distributed among its citizens. Finally, given the absence of key strategic documents in Serbia, such as a Development Plan and an Investment Plan, this initiative offers an opportunity for Serbia to establish a well-structured development framework.

INTERNATIONAL PRIVATE FINANCE

Foreign direct investments. In recent years, Serbia has attracted a significant amount of foreign direct investment (FDI), consistently exceeding EUR 3.5 billion annually since 2018, except during the pandemic year of 2020. FDIs in Serbia have been consistently higher compared to other Western Balkan countries, positioning Serbia as a regional leader in attracting foreign capital (Figure 4). This is driven by factors such as political stability, a relatively developed infrastructure, and incentives offered to foreign investors, particularly in sectors like manufacturing and automotive industries. In contrast, other Western Balkan face more challenges in drawing FDIs due to smaller market sizes and less developed infrastructure.

Figure 4. Net inflows of foreign direct investment in Serbia and other WB countries from 2013 to 2023 (EUR million)

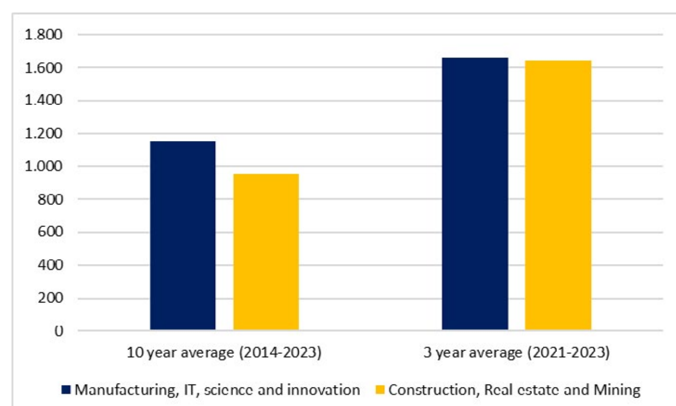


Source: The World bank

Examining the sectoral composition, shows that average inflows to manufacturing, IT, scientific and innovative activities have predominated over construction, real estate, and extractive industries over the past decade (EUR 1.152 billion vs. EUR 953 billion), but in the last three years these two large groups have nearly equalized (EUR 1.659 billion vs. EUR 1.646 billion) (Figure 5). These industries typically offer fewer developmental benefits, as they generate lower added value and have a smaller employment multiplier compared to the manufacturing sector, which may affect progress toward SDG 8 (decent work) and SDG 9 (industry, innovation, and infrastructure). Additionally, these sectors are often allegedly associated with issues such as corruption, money laundering, and the irregular employment of foreign workers (in construction and real estate), as well as environmental pollution and poor working conditions in mining, weakening progress towards SDG 12 (responsible consumption and production) and SDG 16 (peace, justice, and strong institutions).

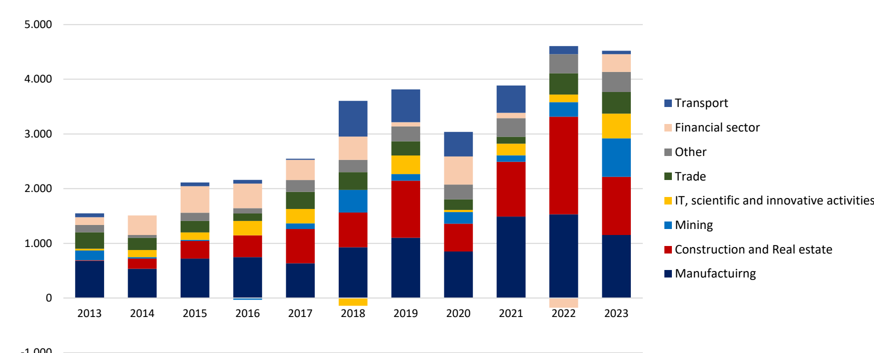
[6] CEVES, Novi Plan rasta za Zapadni Balkan – stidljivim koracima ka (evropskoj) budućnosti (SRB only), 2024, European Commission on Growth Plan: Most money planned to support infrastructure projects, 2024.

Figure 5. Average inflows of FDI into key tradable and non-tradable sectors (10 year average vs 3 year average) in EUR million



Source: National bank of Serbia

Figure 6. Foreign direct investment in Serbia by sectors in EUR million (2013-2023)



Source: National bank of Serbia

In the manufacturing industry, a significant portion of financial inflows—approximately one-third—is driven by direct subsidies for investment and employment, according to data published by the Ministry of Economy and the National Bank of Serbia.[7] These subsidies, while contributing to inflows, raise concerns regarding their cost-effectiveness and long-term impact on the sector. From 2015 to the end of 2023, the average share of subsidies in the total value of investments and gross wages defined by subsidy agreements stood at 14%. This percentage has risen in recent years, reaching 16% in 2022 and 17% in 2023, compared to just 12% in 2020 and 2021. These figures suggest that rather than fostering a shift toward technologically advanced and capital-intensive industries, subsidies are predominantly allocated to labor-intensive, low-value activities.

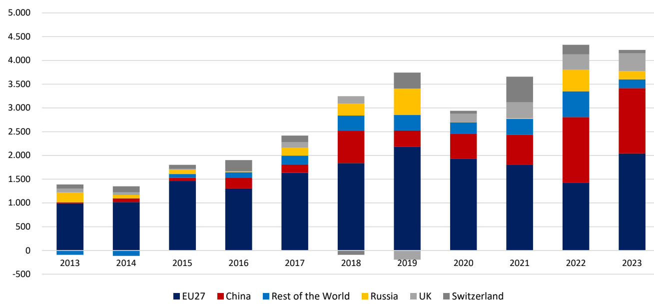
This allocation pattern indicates limited progress in building a more innovative and self-sustaining industrial base. If subsidies were effectively driving technological advancement and productivity growth, we would expect their share in total investment to decline over time. Such a decrease would reflect the increasing ability of businesses to finance higher-value projects independently, leveraging gains in innovation and efficiency. Instead, the continued reliance on subsidies underscores a lack of transformative impact, particularly in industries like textiles, rubber, and cable manufacturing. These sectors offer limited added value and fail to provide dignified, high-quality employment opportunities, contrary to the goals of Sustainable Development Goals (SDGs) 8 (decent work) and 9 (industry, innovation, and infrastructure).

Given Serbia's markedly lower unemployment rates compared to 15 years ago, the justification for subsidizing low-value, labor-intensive industries is increasingly questionable. A strategic reallocation of subsidies toward sectors with higher potential for innovation, productivity, and technological sophistication could yield far greater benefits for the economy, fostering sustainable development and enhancing Serbia's competitiveness on the global stage.

When it comes to the structure of FDI by country, there is a noticeable trend in recent years where the relative share of investments from the EU has been decreasing in favor of those from China (Figure 2). However, lack of detailed information about investments from China makes it difficult to properly understand their structure— specifically, which companies are investing, in what sectors, and their economic impact. On the other hand, some of the largest Chinese investments, which are also among the largest FDI in Serbia, such as the Ling Long tire factory, the steel plant in Smederevo, and the Bor mine, have been associated with controversies, including reports of labor rights concerns and environmental issues like air pollution, all of which presents a challenge to achieving sustainable and responsible industrial growth.

[7] Ministry of Economy, Overview of Subsidized Projects, 2024; National bank of Serbia, Foreign direct investments – sectoral view, 2024,

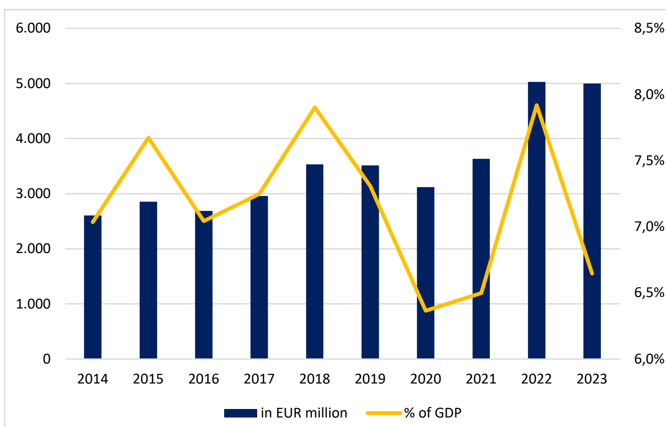
Figure 7. Foreign direct investment in Serbia by country of origin in EUR million (2013-2023)



Source: National bank of Serbia

Remittances. Remittances from abroad have been on the rise in recent years, surpassing the levels of foreign direct investment over the past two years (Figure 7). This growing inflow of remittances reflects increasing emigration flows from Serbia. However, this surge in emigration is leading to a labor shortage in the domestic market, placing Serbia in a situation where future investors may be discouraged due to a lack of the necessary workforce which may undermine SDG 8. As shown in Figure 8, the government consistently incurs high trade deficits, while outflows from investment returns and employee compensation (primary income) also reflect a steady outflow trend. On the other hand, high remittance inflows combined with robust foreign direct investment support Serbia's balance of payments, preventing it from turning negative and underscoring the country's significant reliance on funds from abroad, reflecting a mixed balance of payments scenario. As in previous years, the majority of remittances in 2023 came from countries where the largest portion of the Serbian population traditionally resides, namely from: Germany (27%), Switzerland (13%), Austria (10%), France (6%), and Croatia (5%).[8]

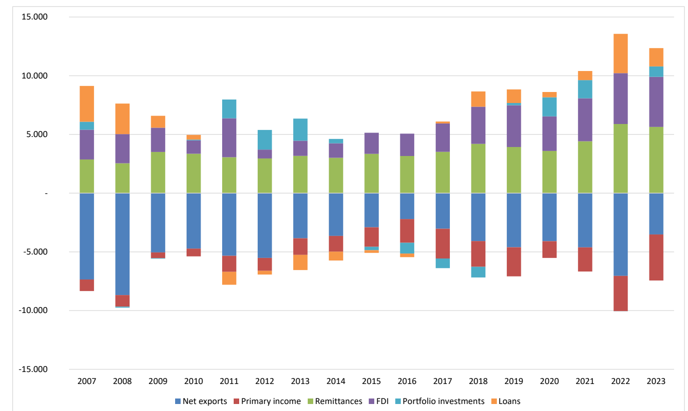
Figure 8. Remittances from abroad to Serbia in EUR million and as a percentage of GDP (right axis)



Source: National bank of Serbia

[8] National bank of Serbia

Figure 9. Serbia's Balance of Payments' composition from 2007 to 2023 (EUR million)



Source: National bank of Serbia

DOMESTIC PUBLIC FINANCE

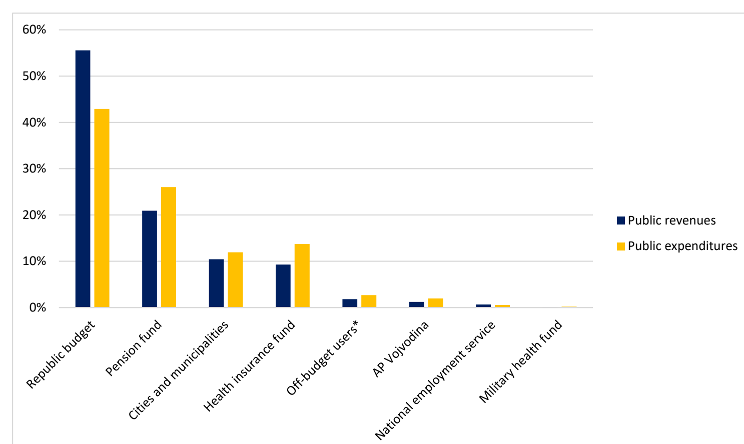
General government. The General government has two levels: central and local. At the local level, it includes municipalities, cities, and the autonomous province of Vojvodina. The central level comprises three parts: the republic budget, funds (pension fund, civilian health insurance fund, military personals health insurance fund, National Employment Service) and extra-budgetary users (e.g. public enterprises that manage public highways) as well as agencies and institutes.

The structure of the general government's revenues and expenditures across different levels of government as of July 2024 is illustrated in Figure 10. The republic budget accounts for 56% of total fiscal revenues, yet it constitutes only 43% of total expenditure. On the other hand, virtually all other levels of government spend more than they collect. For instance, the Pension Fund, which receives 21% of the total budget from social contributions, incurs expenditures amounting to 26%. Similarly, the Health Insurance Fund collects health insurance contributions that represent 9% of the total fiscal revenues, while its expenditures amount to 15%. Cities and municipalities generate 10% of total fiscal revenues but incur slightly higher expenditures of 12%.[9] The difference is financed through borrowing and transfers from the national budget. This reliance on external funding may limit local self-government

[9] Ministry of finance, Macroeconomic data, 2024.

units' ability to invest in sustainable projects and maintain essential services, potentially affecting their long-term fiscal sustainability.

Figure 10. Structure of the general government budget by different government levels as of July 2024 (% of total public revenues and expenditures)



Source: Ministry of Finance, author's calculations

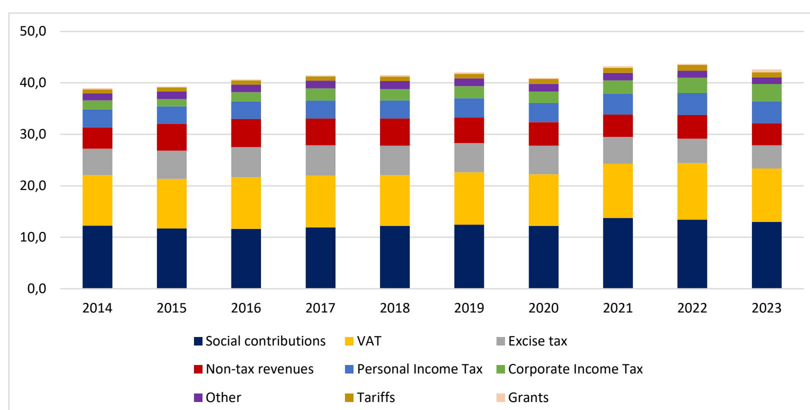
Note: Off-budget users include Public Enterprise Roads of Serbia, Corridors, agencies, and institutes.

Fiscal revenue. Revenue collection by the general government has significantly improved over the last 10 years. Between 2014 and 2023, total government revenues relative to GDP increased by 3.6 percentage points. During this period, revenues from corporate income tax nearly doubled, rising from 1.7% to 3.3% of GDP. Additionally, revenue from other major fiscal sources, including VAT and payroll taxes, has also increased relative to GDP. In contrast with this positive trend, the Government decided in 2022 to reduce excise duties on fuel, In response to rising oil prices on the global market and in an effort to preserve the standard of living for its citizens. This measure is leading not only to a significant drop in excise revenues - from 5,3% of GDP in 2021 to 4,8% and 4,5% in 2022 and 2023, respectively[10] - but also acts as an incentive to fossil fuel use, rather than discouraging it.

The government also forgoes a substantial portion of its revenues through a tax credit of about 200-300 million euros per year, which since 2014 has been applied only to large companies that have investments in fixed assets in excess of 8.5 million euros. Serbia is the only country in Europe that offers this type of tax exemption exclusively to large companies and not to the SME sector, thereby creating an uneven playing field.[11]

In contrast, countries with comparable corporate tax rates and development levels have adopted inclusive models that support a broader range of businesses. Estonia (20% corporate tax) offers a 100% tax credit on investments, while Lithuania (15%) provides a similar model with a four-year carry-forward period. Slovenia (19%) grants a 40% credit on investments, including software and licensing since 2022, to encourage digitalization and green transformation. Slovenia also incentivizes hiring students and interns in high-demand fields and first-time job seekers to retain talent. Although Croatia provides higher subsidies for larger investments, it also supports SMEs by halving the tax rate for ten years on investments over EUR 50,000. Hungary (9%) previously had a tax relief model similar to Serbia's, but since 2021, it has offered up to 80% tax relief with thresholds set at EUR 130,000 for small enterprises and EUR 260,000 for medium-sized ones.

Figure 11. Fiscal revenue components as a % of GDP (2014-2023)



Source: Ministry of Finance

Fiscal expenditures. Since the fiscal reform in 2014, there has been a significant reduction in the shares of wages and pensions in total expenditures, from 11.0% and 12.2% to 9.5% respectively.[12] However, the reform's main goal, introducing uniform wage grades in the public sector, remains unachieved. This reform, included in major strategic documents, aimed to establish a single wage base and a unified coefficient

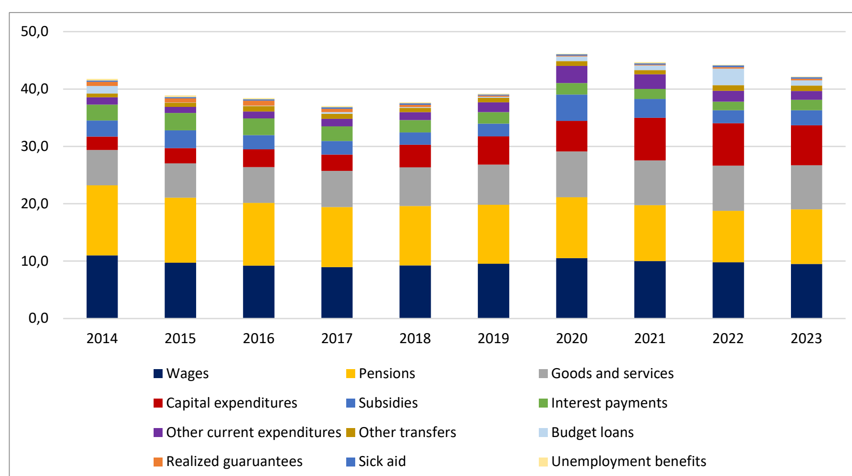
[10] Ministry of finance, Macroeconomic data, 2024.

[11] CEVES, Zašto Srbija ima tako puno stranih, a tako malo domaćih investicija? (SRB only), 2024.

[12] Ministry of finance, Macroeconomic data, 2024.

matrix across the entire public sector to enhance fairness and transparency in the salary system.[13] Although the legal foundation for this reform is largely established, it has never been implemented, and the necessary subordinate legislation has not been adequately developed. As a result, salary increases in the public sector are primarily determined by ministry affiliation rather than job complexity. For instance, an accountant in the Ministry of Interior received a 46% raise from 2015 to 2021, while those in other ministries saw increases of less than 27%, despite performing the same job.[14]

Figure 12. Fiscal expenditure components as a % of GDP (2014-2023)



Source: Ministry of Finance

Overall, the current public wage system is outdated and lacks transparency and consistency. In the critical sector of education (SDG 4), for example, the average wage is only 95% of the national average. In the health (SDG 3), although overall wages are around the national average, they are only 83% for all qualification levels below the highest.[15] Furthermore, healthcare wages in Western Europe and even many neighboring countries are more competitive, which could lead to an outflow of healthcare professionals from Serbia.[16]

In October 2024, the IMF and Serbian authorities have reached an agreement on a 36-month Policy Coordination Instrument (PCI) to continue advancing Serbia's fiscal and structural reforms. The PCI will focus on maintaining fiscal discipline while allowing essential spending on public investment, particularly in infrastructure, social, and defense sectors, aiming to sustain economic growth and keep public debt on a declining trajectory. Public sector wages and pensions will be adjusted according to fiscal rules established in 2022 to ensure stable and sustainable public finances.[17]

Over the last decade, Serbia's capital expenditures have more than tripled, peaking at 7.4% of GDP in 2021 and 2022, and slightly less at 7.0% in 2023, making them the third largest expenditure after wages and pensions.[18] This rise reflects a significant shift given Serbia's history of underinvestment in infrastructure, which previously hovered around a low 3% of GDP. Both domestic and international analyses, including those by the Fiscal Council and the IMF, have criticized the inefficiency and sluggishness of public administration in managing capital projects, citing delays at every stage of implementation—from the initial selection, planning, and preparation of works to their execution. In 2018, the Serbian government resorted to "alternative" methods to enhance public investments without improving transparency or institutional integrity. This involved executing infrastructure projects through bilateral agreements with other countries or through the adoption of *lex specialis*, both of which involve exemptions from standard laws on public procurement, expropriation, planning, and construction, all of which is detrimental to achieving SDG 16. The most notable example involves the investment in the EXPO 2027 project, estimated to cost nearly 18 billion euros.[19] Moreover, there has been a significant increase in spending on the security sector, primarily on armaments and equipment, also exempt from standard procurement rules, raising investments from traditionally 0.2-0.3%

[13] Government of the RS, Public Administration Reform Strategy in the Republic of Serbia, 2018.

[14] Fiscal council, Assessment of the budget rebalance proposal for 2021 and recommendations for 2022, 2021

[15] SORS, Database, 2024.

[16] Demostat, Serbian doctors have the lowest salaries in the region, 2024.

[17] IMF, IMF Staff Reaches Staff-Level Agreement with Serbia on the Fourth Review under the Stand-By Arrangement and on a 36-Month Policy Coordination Instrument Request, 2024.

[18] Ministry of finance, Macroeconomic data, 2024

[19] NIN, Analiza projekta Ekspo 2027: Koliko će koštati, šta će i gde biti izgrađeno, 2024.

of GDP to about 1% on average from 2018 to 2023.[20]

In addition to concerns about transparency, the prioritization of capital projects raises significant questions. Substantial funds are being allocated to projects with questionable profitability and limited social utility, such as the construction of the National Stadium on the outskirts of Belgrade, along with several other local stadiums in Serbia (Leskovac, Loznica, Zaječar). These projects face challenges due to their very limited use, coupled with high maintenance costs.[21] This is especially concerning as the country lags its regional peers in essential infrastructure like environmental protection, municipal services, waste management and water supply. For instance, a third of the population lacks access to public sewage, only 16% of the population is covered by wastewater treatment, more than a third of abstracted drinking water is lost in distribution (SDG 6),[22] less than half of the population is covered by sanitary landfills (SDG 11);[23] and over 4 million residents are exposed to excessively polluted air (SGD 3).[24]

Fiscal deficit. Serbia's fiscal position has been very stable in recent years, maintaining a deficit below the European average, largely due to increased tax collection. Despite these positives, the structural fiscal deficit, indicating a long-term shortfall independent of economic fluctuations, rose to 2.1% of GDP in 2023, driven by increases in current expenditures.[25] The largest relative increase was in interest payments, followed by subsidies and social transfers. Interest expenses in Q4 2023 were 167.7% higher than in Q4 2022, reflecting an accelerated trend due to higher global interest rates, increased public debt, and slowing inflation. Consequently, interest expenses grew by nearly 25% year-on-year, reaching around 1.9% of GDP—a relatively high cost despite moderate public debt levels.[26]

Public debt. Following the fiscal reforms of 2014, which primarily affected public sector employees and pensioners, Serbia has successfully reduced its public debt from nearly 70% of GDP in 2015 to below the EU's Maastricht criterion of 60%. Debt management has been handled with relative caution, as evidenced by only a modest increase to 56.7% in 2020, followed by a reduction to 53%. However, since late 2022, financing conditions have deteriorated, leading to a rise in Serbia's borrowing costs. In 2023, Serbia's average interest rate was 3.3%, significantly higher than the EU average of 1.9%. Furthermore, in 2024, loans from commercial banks to fund infrastructure projects—including the Kragujevac bypass, Šabac-Loznica route, Danube highway, and National Stadium—carried interest rates between 8% and 9%, underscoring the challenges posed by these less favorable financing terms.[27]

However, Serbia recently got BBB – investment rating for the first time from the international rating agency S&P which is likely to improve borrowing conditions by reducing interest rates on loans, making it easier to access financing. This rating could also attract greater capital inflows, strengthen the investment climate, and potentially reduce reliance on ODA and IFIs as public debt becomes more manageable under favorable terms.

Serbia has introduced thematic sovereign bonds as part of its strategy to attract sustainable investment and support environmental goals. The country issued its first green bond in 2021, a significant step toward financing projects aligned with environmental objectives. Building on this progress, Serbia issued its first sustainable (ESG) bonds on the international market in 2024, raising USD 1.5 billion to fund sustainable development, green initiatives, and socially responsible projects. Specifically, the funds from this bond are intended for major infrastructure projects like the construction of the Belgrade metro, the Belgrade–Budapest railway, as well as initiatives related to recycling, energy efficiency, and other sustainability-focused developments.[28]

From the perspective of sustainable and balanced regional development, the extremely centralized state structure is clearly visible, as local government debt comprises only 0.5% of GDP. This centralization has intensified over the years, with the proportion of local government debt in total debt falling from 2.1% in 2013,[29] constrained by the Public Debt Law which

[20] Fiscal council, Public Investments in Serbia - Status and Recommendations, 2024

[21] Ibid.

[22] Statistical office of the Republic of Serbia, Publications, 2022.

[23] Agency for Environmental protection, Izveštaj o upravljanju otpadom 2011-2023, 2024

[24] Regulatory Institute for Renewable Energy and Environment (RERI), Analiza godišnjeg izveštaja o stanju kvaliteta vazduha u RS za 2022 godinu, 2022

[25] FREN, Quartal Monitor - issue 76, 2024.

[26] FREN, Quartal Monitor - issue 75, 2024.

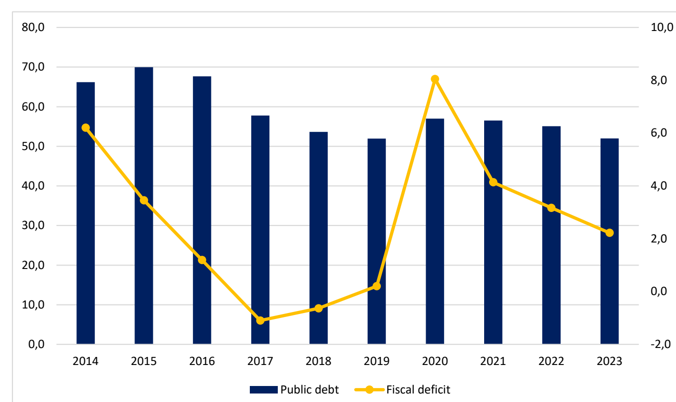
[27] Fiscal Council of the RS, Assessment of the Proposed Budget Reassessment for the Republic for the Year 2024, 2024.

[28] Ministry of Finance, Sustainable state securities, 2024.

[29] Ministry of Finance, Public Debt administration, 2024

limits local governments to long-term borrowing for only capital investments, capped at 50% of their previous year's budget revenues.[30]

Figure 13. Public debt (left axis) and fiscal deficit (right axis) as a percentage of GDP (2014-2023)



Source: Ministry of Finance

Private sector development programs in Serbia

Serbia generally invests significant resources in the development of private sector, but it is crucial to distinguish between subsidies for domestic private sector development and those aimed at attracting foreign direct investment (FDI). Annually, about 60 million euros are allocated to support mainly micro, small, and medium-sized enterprises (MSMEs) through various programs by the Development Agency of Serbia (RAS), Innovation fund, and the Ministry of Economy. The support programs from RAS and the Ministry of Economy, though well-intentioned, are fragmented and limited in funding amounts (5,000 to 20,000 euros), which are often insufficient for significant business impact or support for initiatives like digitalization or automation. In contrast, around 600 million euros are directed annually towards direct investments, with incentives structured to favor large-scale greenfield investments by foreign firms, due to high investment and employment thresholds that domestic firms often cannot meet. This approach was more justifiable in the early 2010s when unemployment was high and domestic capital was limited. However, with current lower and mainly structural unemployment, this strategy leads to labor market imbalances and limited domestic economic integration of FDIs, contributing only marginally to domestic linkage formation.

DOMESTIC PRIVATE FINANCE

Venture capital. Although the legal framework for venture capital (VC) is relatively well-developed in Serbia, VC funding remains in its early stages compared to more mature markets. To date, Serbia has only a few domestic VC funds. The first one, TS Ventures Fund, was established in 2021 by state-owned Telekom Serbia as the first corporate venture capital fund in the region, with EUR 25 million available, primarily aimed at ICT companies. Despite this progress, the number of active VC funds is still limited, and Serbia faces several challenges in expanding its VC ecosystem. These include insufficient investment in startups and a relatively small pool of high-growth companies ready for significant investment. Moreover, the legal framework governing business angels is in its infancy and still requires substantial development to create a supportive and stimulating environment for angel investors.

Impact investing. Impact investing in Serbia is still developing and primarily driven by international financial institutions (IFIs) and a few domestic initiatives. Key players include the Serbian Innovation Fund, which provides grants and support for sustainable and socially oriented startups, and the Development Fund and DAS (Development Agency of Serbia), which offers financing to SMEs, though with a more limited scope for impact-driven projects. The EBRD and UNDP also play essential roles, especially in areas like renewable energy, sustainable agriculture, and social entrepreneurship. However, broader, dedicated programs that would robustly support impact-oriented entrepreneurship, the green transition, or socially responsible projects are either absent or have limited capacity, reflecting the early stage of impact investing in the country. The further development of the UN SDGs Investor Map[31] - jointly developed by the Government and UNDP Office in Serbia – could also contribute to channel opportunities for sustainable investments to worldwide investors. In contrast, Croatia has a more mature impact investing landscape, with institutions like the Croatian Bank for Reconstruction and Development (HBOR) actively funding green and social projects, Fil Rouge Capital investing in social enterprises, and Impact Hub Zagreb supporting socially responsible businesses. Croatia also benefits from structured

[30] National Assembly of the RS, Public Debt Law, 2020.

[31] UNDP, SDG Investor Platform: Serbia, 2024.

support through EU programs like the European Social Fund, which promotes green and social impact initiatives.

Public-Private Partnerships (PPPs) in Serbia have become an important for enhancing infrastructure and public services by integrating private sector expertise and investment. The enactment of the Law on Public-Private Partnership and Concessions in 2011 established a legal framework to attract private investment for projects of general interest. As of April 2024, the Serbian Commission for PPPs has approved 284 projects, with approximately 90 incorporating concession components. These initiatives span sectors such as transportation, energy, healthcare, and waste management, including significant projects like the concession of Belgrade Airport and the E-763 highway PPP.[32] Despite these advancements, challenges persist, including complex regulatory processes and capacity gaps within public institutions, highlighting the need for ongoing capacity building and transparent practices to fully realize the benefits of PPPs.

In Serbia, de-risking mechanisms play an important role in encouraging private sector investment, especially in green financing. Financial tools such as credit guarantees and concessional loans reduce perceived risks, while non-financial measures like technical assistance and capacity-building improve project readiness. A standout example is the UNDP Innovation Challenge, which fosters climate-smart investments by providing awards, technical assistance, and equity co-financing to innovative projects. This mechanism includes incubation and acceleration support, blending funding sources, and leveraging performance-based payment agreements to enhance bankability and environmental impact. Since 2017, this initiative has mobilized over $12 million in private investment, enabling transformative solutions in energy, waste management, and transportation while delivering social, economic, and environmental benefits to local communities.[33]

Private borrowing. Serbia's financial sector remains heavily bank-centric, with banks accounting for 91.1% of total financial system assets in 2022, slightly down from 91.6% in 201534. This is in stark contrast to the Euro Area, where banks represent only 50% of financial assets35. Private borrowing remains a key source of finance for Serbian businesses, but high interest rates and limited access for smaller enterprises hinder its its capacity to contribute to the country's development goals. Stringent collateral requirements, limited credit guarantee schemes, and the lack of microfinance further restrict access for smallest businesses. Credit provision has stagnated over the past decade, with domestic credit to the private sector at 40.4% of GDP in 2022, compared to 41.0% in 2013, trailing behind both the Western Balkan average of 46.4% and the EU's 85.5%36.

Serbia's capital market remains underdeveloped, with low trading volumes and limited financial instruments. In 2023, total annual turnover on the Belgrade Stock Exchange was only USD 196 million—a 45% decrease from the previous year—highlighting the market's low activity level[37]. This underdevelopment leaves businesses, particularly SMEs, with limited and undiversified financing options, as few corporations issue bonds, underscoring a lack of sophistication in financial products. The lack of a green taxonomy further limits sustainable investment, as investors lack clear criteria for environmentally friendly projects[38]. To address these gaps, the Ministry of Finance, with World Bank support through the "Catalyzing Long Term Finance Through Capital Markets" Project[39], has initiated regulatory and structural reforms aimed at expanding Serbia's capital market by enabling corporate bond issuance and improving investor confidence.

In Serbia, microfinance remains underdeveloped due to the absence of a specific regulatory framework and targeted policies to support its growth. The Serbian Development Fund is the only non-bank financial intermediary permitted to offer microcredit, with loans ranging from EUR 2,400 to EUR 56,000 at a 3% interest cap (OECD 2024)[40]. However, its resources and reach are limited, restricting its effectiveness in supporting small businesses and entrepreneurs. By comparison, Romania has made significant strides

[32] CEE Legal Matters, Serbia: EXPO Belgrade 2027 and the Role of PPPs in Infrastructure Development, 2024.

[33] UNDP, Scaling up green finance for the private sector in serbia in the post pandemic world, 2021.

[34] National Bank of Serbia, Annual Financial Stability Report, 2022.

[35] European Central bank, ECB Data Portal, 2023.

[36] World Bank, The Global Financial Development Database, 2022.

[37] BELEX, database, 2024.

[38] UNDP, Scaling up green finance for the private sector in serbia in the post pandemic world, 2021.

[39] World bank, Serbia to Diversify and Deepen Capital Markets by Encouraging Corporate Bond Issuance with World Bank Assistance, 2023.

[40] OECD, Western Balkans Competitiveness Outlook 2024: Serbia, 2024.

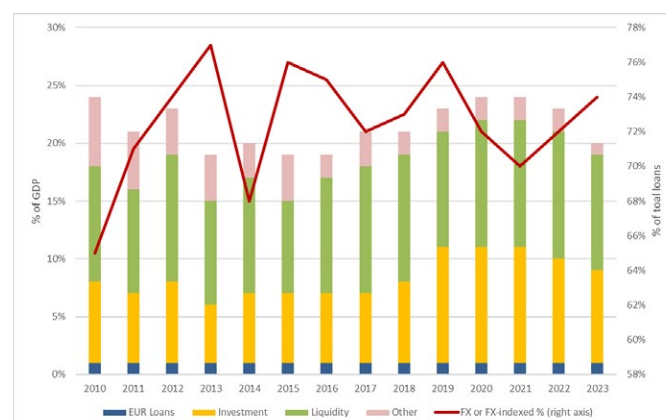
in this area, implementing a dedicated legal framework for microfinance institutions in 2000. This framework led to an expansion from 8 to approximately 200 non-bank financial service providers, as reported by the European Finance Network, allowing Romania to broaden access to finance for entrepreneurs and financially underserved individuals. Ireland's approach also offers a useful model, where the Access to Finance Hub provides a single point of entry for SME financing, offering loan schemes specifically designed for small enterprises that face difficulties accessing traditional bank financing (OECD 2024). This centralized platform, alongside structured loan programs, has helped Ireland bridge financing gaps for small businesses, with specific programs to support microenterprises and encourage sustainable investments which would be helpful for Serbian MSMEs as well – especially in light of green transition requirements.

In Montenegro, a legal framework introduced in 2017 allows for the provision of microcredit by licensed microfinance institutions, which can issue loans up to EUR 50,000 to micro, small, and medium-sized businesses. Without targeted measures to enhance the sector's reach and accessibility, Montenegro's microfinance landscape may face constraints, similar to those encountered in Serbia, where further regulatory and policy support is essential for expanding microfinance as a viable option for the smallest businesses.

Focusing on the lending to private sector, between 2010 and 2023, the composition of corporate loans in Serbia shifted significantly (Figure 8). Investment loans grew in importance, reaching around 10% of GDP by 2019, reflecting strong business growth ambitions. However, by 2023, investment loans saw a decrease, likely due to rising borrowing costs and economic uncertainty. Meanwhile, liquidity loans remained steady at 8-11% of GDP, illustrating businesses' ongoing need to manage cash flow amidst fluctuating conditions.

Foreign exchange (FX) loans dominate the Serbian corporate loan landscape, representing 65% to 77% of corporate loans, peaking in 2013 (Figure 8). FX loans appeal to businesses due to generally lower interest rates than Serbian dinar (RSD) loans, helping minimize financing costs. However, this reliance also poses significant risks, as businesses may face higher debt servicing costs if the dinar depreciates sharply, especially in the current climate of rising global interest rates. Companies without FX revenue streams may find this risk particularly challenging to manage all ouf which could potentially undermine sustainable economic growth (SDG 8).

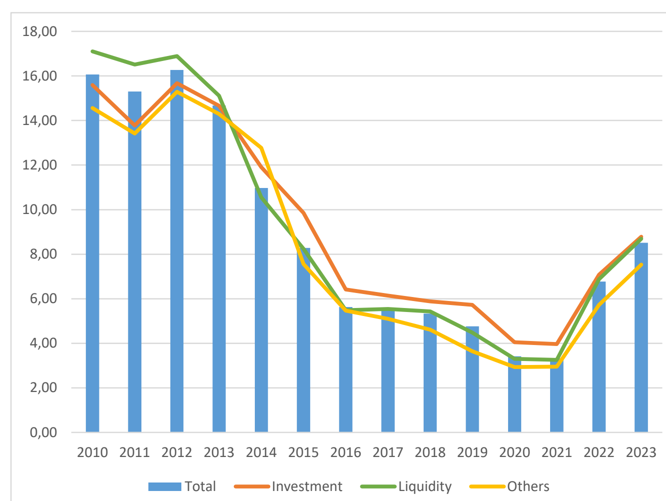
Figure 14. A breakdown of bank loans to private sector by types as a percentage of GDP and as percentage of total loans (right axis) from 2010 to 2023



Source: National bank of Serbia

Interest rates on RSD loans saw a dramatic decline from 16.07% in 2010 to a low of 3.33% in 2021, driven by a period of global monetary easing (Figure 13). However, as inflation surged in 2022-2023, RSD rates rose again to 8.51%, intensifying the cost burden on businesses relying on local currency loans. The rise in RSD interest rates outpaced that of FX loans, which, though also increasing, remained at a relatively lower 7.06%, presenting a more complex decision-making environment for companies considering RSD versus FX borrowing.

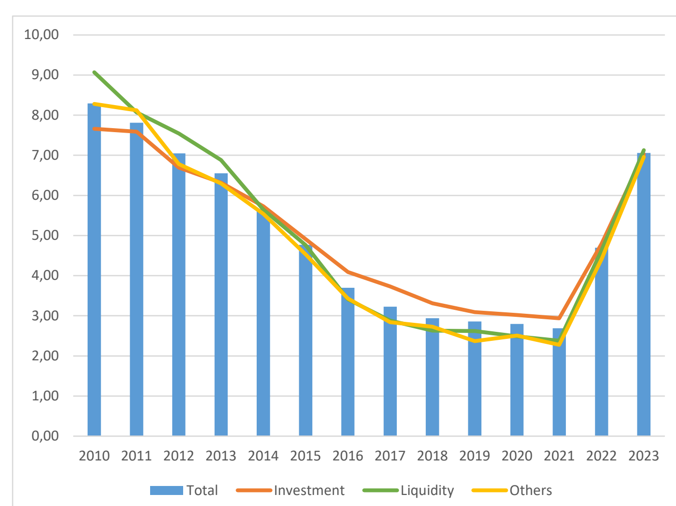
Figure 15. RSD interest rates on bank loans to private sector (2010-2023)



Source: National bank of Serbia

For businesses with FX loans, rising interest rates could become problematic, particularly if inflation pressures lead to currency depreciation. The FX loan reliance, paired with higher interest rates, introduces vulnerabilities for Serbian firms and highlights the need for policy measures to support progress toward both SDG 8 and SDG 9. These could include encouraging RSD borrowing through incentives, promoting hedging tools, or offering support measures like interest rate subsidies and guarantees to help businesses, especially SMEs, manage elevated financing costs and maintain investment momentum.

Figure 16. FX interest rates on bank loans to private sector (2010-2023)



Source: National bank of Serbia

CONCLUSIONS AND RECOMMENDATIONS

Serbia's financing landscape for sustainable development presents opportunities yet faces significant challenges. Despite positive developments such as increased FDI and capital expenditures, inefficiencies in public administration, insufficient financial instruments for SMEs, and a lack of transparency in fund allocation hinder progress toward the SDGs. The alignment of finance flows with SDGs remains uneven, with a disproportionate focus on large capital projects, often at the expense of essential goals like environmental protection, equitable access to water, and waste management. These gaps underscore the need for a financing approach that supports all SDGs holistically, ensuring that investment flows also address critical issues in social services, local economic opportunities, and environmental sustainability.

Broader geopolitical and economic trends, such as Serbia's EU accession ambitions and the global shift toward sustainability, are pivotal in shaping Serbia's financing framework. EU accession brings both obligations and opportunities, as Serbia must align its regulatory and financing systems with EU standards, including the adoption of a green taxonomy and increased emphasis on sustainable finance. Additionally, as global sustainability standards continue to evolve, international stakeholders and Serbia's government must ensure that financing strategies are resilient to external economic shifts, such as rising interest rates or changing FDI patterns, to build a robust and adaptable SDG financing framework. This environment presents a unique opportunity for Serbia to integrate EU and international financing norms that foster sustainable growth across sectors.

Taking into account all of the above, these are the **key recommendations:**

For the Government: Strengthen domestic investment frameworks by creating incentives for private sector participation in the SDGs, including SMEs, and introduce a green taxonomy to guide sustainable investments and align with EU standards. Enhancing transparency in public expenditures and setting clear criteria for project prioritization would improve public trust and governance in development finance.

For National Stakeholders: Local institutions and the private sector should collaborate to foster a diverse financial ecosystem by developing more accessible financial products such as venture capital and microfinance for startups and SMEs. This would mitigate the centralization of financing resources and help create local economic opportunities aligned with SDG 8 (Decent Work and Economic Growth).

For International Financial Institutions (IFIs): IFIs, including the World Bank and EBRD, should continue supporting Serbia's capital market reforms, focusing on corporate bond issuance and investor confidence-building initiatives. These institutions can also assist Serbia in developing hedging tools and risk mitigation strategies to lessen the reliance on foreign currency loans, thus stabilizing domestic finances.

For Development Partners: Encourage increased alignment of development aid with Serbia's nation-

al SDG priorities, focusing on sectors like environmental protection, renewable energy, and rural development. This support, along with targeted policy interventions, will contribute to Serbia's ability to independently sustain progress on the SDGs without excessive reliance on external debt.

For the United Nations System: Support Serbia with capacity-building programs aimed at improving the administrative management of EU funds and other international financing mechanisms. This assistance should also emphasize de-risking mechanisms, such as credit guarantees and concessional loans, to attract private sector investment, especially in green financing. By fostering SDG-driven investments and supporting the development of a green taxonomy, the UN can enhance fund utilization while ensuring alignment with Serbia's sustainable development priorities. Focused efforts in rural and agricultural development can further contribute to inclusive growth, addressing critical gaps in reaching vulnerable populations and underutilized sectors. Additionally, promoting Public-Private Partnerships (PPPs) and providing technical assistance can amplify the impact of these programs, driving transformative progress toward Serbia's SDG goals.

Box 2. State Owned Enterprises (SOEs) in Serbia

The consequences of pervasive issues related to mismanagement of SOEs became starkly apparent in 2022 following a major incident in December 2021 at TENT, the country's largest thermal power plant, which produces about 50% of Serbia's electricity. A catastrophic failure due to substandard coal, technical mismanagement, and inadequate maintenance resulted in severe blackouts and forced the government to produce electricity gas power plants thus depleting all gas reserves, leading to the importation of gas at record high prices. As a result, in 2022, the government allocated approximately 1.6 billion euros in budget support, with 70% directed to Srbijagas. This crisis highlighted long standing vulnerabilities in Serbia's energy sector, including a lack of strategic investment in infrastructure, overreliance on outdated coal-fired plants, and inadequate development of renewable energy sources.

The inefficiencies and poor governance of state-owned energy companies have left Serbia's energy sector vulnerable, imposing financial burdens that risk undermining previously stable public finances by diverting funds from essential services and development projects. In addition, SOEs often dominate key industries, creating market distortions that limit competition and discourage private investment. In response, Serbia adopted a new state ownership strategy to centralize SOE management under the Ministry of Economy, but challenges in legislative reforms hinder full implementation, while civil society maintains concerns over resource misuse. To address systemic issues in Serbia's energy sector, the country must enforce stronger legislative reforms to improve SOE governance, prioritize strategic investments in modern infrastructure, and diversify energy sources towards renewables. Additionally, independent oversight and collaboration with the private sector and civil society and are crucial to ensure accountability, transparency, and sustainable growth in the sector.

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