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August 24, 2020

**Statement by Mr. Sun and Ms. Cai on Republic of Serbia  
(Preliminary)  
Executive Board Meeting  
August 26, 2020**

We thank staff for the informative report and Mr. Inderbinen and Mr. Djokovic for the helpful Buff statement. We broadly agree with staff's appraisal and support the completion of the fourth review under the Policy Coordination Instrument (PCI). We would like to offer the following points for emphasis.

The Serbian economy was hit hard by the COVID-19 crisis, and in response, the authorities have implemented two rounds of prompt policy actions, which aimed to save lives, preserve jobs, and boost healthcare spending. The downward path of Serbia's public debt before the crisis gives the authorities room to address unexpected fiscal needs during the crisis, but fiscal risks deserve close monitoring given the highly uncertain economic outlook. We are concerned that the share of debt denominated in foreign currency remains as high as 71 percent. *Could staff elaborate more on how to address this vulnerability through enhancing the dinarization strategy?* We also encourage the authorities to resume fiscal reforms to rebuild buffers as the crisis abates, including the wage system reform. The authorities' continued efforts in developing a Public Investment Management System (PIMIS) with an integrated database of public investment projects are welcome, and we agree that transparency and accountability of COVID-related spending are important.

The current accommodative monetary policy stance remains appropriate, and we encourage the authorities to further enhance credibility of the inflation targeting regime by improving liquidity management. Noting the good progress made in resolving the NPLs in recent years, we share staff's concern that NPLs may gradually increase in the second half of 2020. We therefore encourage the authorities to prepare a contingency plan in the case that adverse shocks materialize.

We join staff in welcoming the authorities' commitment to the remaining structural reform agenda. Migration of skilled labor and the relatively low female labor force participation should be addressed in a timely manner. We encourage the authorities to enhance ownership of the National Gender Equality Strategy, among others. We also encourage the authorities to push forward the SOE reforms by enhancing their governance, improving operational viability, and containing fiscal risks.

With these remarks, we wish the authorities every success in their policy endeavors.