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June 16, 2021

Statement by Mr. Bhalla and Mr. Natarajan on Republic of Serbia
(Preliminary)
Executive Board Meeting
June 18, 2021

1. We thank the staff for their detailed report and Mr. Trabinski and Mr. Djokovic for the comprehensive Buff. We commend the authorities for the timely and substantial policy response which has played a key role in mitigating the adverse impact of the COVDI-19 pandemic. Strong macroeconomic fundamentals built over the recent years along with a sizable package of measures has helped to put Serbia's economy back on track quickly. We support the authorities' request for the new policy coordination instrument (PCI) to help enhance the macroeconomic stability, economic recovery, and reform agenda.

2. The economy contracted marginally by about 1 percent in 2020, much lower than the average contraction in emerging as well as advanced Europe. There are bright prospects for a healthy growth of 6 percent in 2021 and at 4 percent over the medium-term. Growth would be propelled by increase in public investment, strong foreign direct investment, and growth revival in trading partners. External sector is characterized by a modest improvement in the current account deficit. Though there was decline in exports and remittances, it was offset by lower imports. *Could the staff comment on the nature and size of public investment activities undertaken and proposed by the authorities to catalyze growth revival?*

3. Strong fiscal measures taken include increased spending on healthcare, wage support and other subsidies. Fiscal position has deteriorated from a surplus position to about 6 percent deficit in 2020. We agree with the priorities of the supplementary budget for 2021 which aims to provide targeted additional relief to vulnerable households and most affected firms and business sectors. Going forward, the fiscal framework should anchor on modernization of tax administration, managing fiscal risks and improvements in public investment management.

4. The exceptional monetary measures undertaken include reduction in policy rate from 2.25 percent to 1 percent, forex swap lines, subsidized loans, and debt moratoria. The banking system is healthy as reflected by the robust credit growth and low non-performing loans. However, we encourage the authorities to closely monitor the risks in the sector as there could be adverse impact when crisis support measures expire. Inflation is projected to remain in the lower band of the target and can help to sustain an accommodative monetary stance to secure a stronger recovery.

5. The proposed PCI provides an opportunity to support recovery from the crisis, maintain macroeconomic stability and develop a medium-term fiscal policy framework. It can help to give thrust to structural reforms to strengthen governance in state-owned enterprises (SOEs) and transition to a green economy. We recognize the measures considered to improve the functioning of SOEs and encourage the authorities to pursue their implementation. We welcome the progress in addressing AML/CFT deficiencies and encourage the strengthening of anti-corruption institutions.

6. Finally, we wish the authorities the best in their endeavors.