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June 16, 2021

Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Al-Riffai on Republic of Serbia (Preliminary)
Executive Board Meeting
June 18, 2021

Serbia entered the crisis with sound macroeconomic fundamentals. One year after the onset of the pandemic, Serbia shows minimal signs of a recession aided by the country's modest reliance on high-contact sectors which helped contain the negative impact of the containment measures. The government's significant and timely policy response played a prominent role in mitigating the economic costs of the pandemic. In the absence of balance of payments needs, the authorities view the Policy Coordination Instrument (PCI) as an appropriate tool to emphasize Serbia's commitment to advancing the reform agenda, enhancing macroeconomic stability, and maintaining close policy dialogue with the Fund. The proposed new PCI aims to achieve more inclusive and sustainable growth by supporting the recovery from the crisis whilst maintaining macroeconomic stability and anchoring the medium-term fiscal policy framework. We support the government's request for a 30-month PCI and broadly concur with the staff appraisal.

The COVID pandemic created large financing needs and in response, the government deployed a support package to protect the economy and support the recovery. The World Bank states that the government's wage subsidy and cash support to citizens helped avert a spike in poverty. Despite the large fiscal impulse, borrowing costs remain contained and public debt sustainable at around 60 percent of GDP. We take note of staff's view that some of the measures could have been better targeted, and we encourage the government to fine-tune their policy toolbox to support those affected whilst minimizing the associated fiscal costs. In addition to fiscal support, monetary and financial sector policy measures helped maintain liquidity in the banking sector, kept inflation low and the banking system stable and liquid. Serbia is leading one of the fastest vaccine rollouts in Europe, *can staff shed light on the reason behind Serbia's rapid vaccine rollout and whether there are lessons to be learnt behind this success?* We join staff in cautioning the government to maintain vigilance over the labor market and on asset quality, as wage subsidies and the related cap on dismissing workers and the loan moratorium expire.

We welcome the government's intention to advance their structural reform agenda to foster stronger and more sustainable and inclusive growth over the medium term. Though we welcome the policy measures introduced to prevent layoffs, we note that these did not cover the informal sector, nor did they extend to temporary/seasonal workers. We therefore see merit in a very gradual withdrawal of the employment-focused support. The healthy pace of labor market recovery will be critical for continued poverty reduction. We welcome Serbia's recent progress in addressing AML/CFT deficiencies and laud its commitment to furthering digital transformation and a sustainable recovery.

We wish the Serbian Government and people success in their reform efforts.