

SU/21/83

June 18, 2021

**The Acting Chair's Summing Up
Republic of Serbia—2021 Article IV Consultation and
Request for a 30-Month Policy Coordination Instrument
Executive Board Meeting 21/62
June 18, 2021**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' strong policy response, which cushioned the impact of the pandemic and set the stage for an economic recovery. Continued policy support will be necessary in view of still high uncertainty, while safeguarding macroeconomic and financial stability. It will also be important to maintain reform momentum to foster stronger, more resilient, and more inclusive medium-term growth.

Directors highlighted the importance of preserving flexibility in the policy response and avoiding a premature withdrawal of support and having a contingency plan. Any additional assistance should be targeted, take into account the narrowing fiscal room, and maintain transparency and accountability. Once the recovery is fully under way, public finances should be anchored by the adoption of a new fiscal rule to help restore fiscal buffers, while prioritizing productive capital investments, moderating the growth of public wages and pensions, and further enhancing fiscal management.

Directors agreed that the accommodative monetary and financial sector policies remain appropriate. Continued oversight of risks in the banking sector will be important as the crisis measures are gradually unwound. Directors welcomed the authorities' plans to encourage dinarization and improve capital markets and access to development finance. Some Directors considered that greater exchange rate flexibility could raise awareness to the risks of unhedged FX loans, and underscored the importance of developing hedging markets. A few other Directors, however, noted the potentially limited role of a more flexible exchange rate as a shock absorber.

Directors emphasized the importance of implementing structural reforms. They welcomed the reforms to state-owned enterprises, including the new ownership and governance strategy, as well as reforms to strengthen the rule of law, improve the efficiency of the judicial system, and curb corruption. Investment in a green and digital economy can raise productivity, support job creation, and enhance economic and environmental resilience. Reforms to labor taxation and social protection will also be important.

It is expected that the next Article IV consultation with the Republic of Serbia will be held within 24 months, in accordance with the Executive Board decision on the consultation cycle for members with a PCI.