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June 16, 2021

Statement by Ms. Shortino, Ms. Senich, and Mr. Sturm on Republic of Serbia (Preliminary)
Executive Board Meeting
June 18, 2021

We thank staff for their comprehensive report and Mr. Trabinski and Mr. Djokovic for their informative Buff statement. Serbia's economy has begun its recovery from the pandemic shock supported by the authorities' strong economic and health responses, which have helped workers and businesses weather the crisis. We welcome the request for a Policy Coordination Instrument (PCI) which will help underpin the authorities' efforts to secure the economic recovery and transition towards addressing critical medium-term priorities and reforms. **We support the request for a PCI and offer the following comments for emphasis.**

We welcome the strong fiscal response by the authorities to date, as well as their attention to rebuilding buffers in the context of medium-term fiscal reforms. Should downside risks materialize, we support staff recommendations to concentrate additional spending on the most vulnerable households and most critical firms. We appreciate the cooperative effort between staff and the authorities to work toward medium-term fiscal reforms, including a comprehensive new fiscal rule framework. Further, we welcome the authorities' intent to follow staff advice on a gradual reduction of the elevated wage bill from its current level of over 10 percent of GDP and to continued pension indexing. Achievement of this important objective appears to rely heavily on the adoption of the new public wage system. *Can staff please confirm that the authorities agree with staff advice on the new wage system as well as on the timing and traction the system will have on reducing the public wage bill?*

We support continued monetary policy accommodation to support the recovery and encourage close monitoring of risks in the banking sector. We welcome that credit dinarization has reached a record high in March 2021, and we encourage further efforts toward dinarization of credit, especially to corporates. We continue to urge greater day-to-day exchange rate flexibility as the crisis abates to increase public awareness of currency risk from unhedged FX loans. Awareness of this risk is particularly important for incentivizing hedging and the development of hedging instruments; we fully support staff on the merits of a more flexible exchange rate in this regard. *Based on Serbia's high levels of FX denominate debt and unhedged FX exposures, could staff comment on whether Serbia would be a good candidate for applying the IPF model as an input to staff's broader policy advice in the future?* We also strongly support staff advice on deepening capital market development.

We welcome the strong focus of the PCI on advancing critical structural reforms including SOE governance, digitalization, strengthening the anti-corruption framework, and transitioning towards a green economy. We strongly encourage the authorities to swiftly complete SOE reforms, including privatizing Petrohemija and Elektroprivreda Srbije. We urge further progress on implementing the anti-corruption framework including the asset disclosure regime for high level officials, and we echo staff calls to make full use, without exceptions, of the new public procurement system to maximize the benefits of transparency and accountability for the business climate.