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June 16, 2021

**Joint Statement by Ms. Levonian, Ms. Kashima, Mr. Mochtar, and Mr. White on
Republic of Serbia
(Preliminary)
Executive Board Meeting
June 18, 2021**

We thank staff for their report and Messrs Trabinski and Djokovic for their informative Buff statement.

A large policy package has supported Serbia's economy to recover quickly from the Covid-19 shock with GDP contracting by only one percent in 2020. April's supplementary budget boosted capital expenditure and support to corporates and households, while the COVID-19 vaccine rollout has been one of the fastest in Europe. The previous two PCI programs supported the authorities' efforts in maintaining fiscal discipline and advancing structural reforms, resulting in solid economic growth and a sharp decline in public debt. With the new PCI aiming to sustain the economic recovery, maintain macroeconomic and financial stability, and further advance an ambitious structural reform agenda, **we support the proposed decision**. We agree with the thrust of staff's assessment and offer the following points for emphasis.

We agree with staff that any further fiscal support, if necessary, should be targeted more directly towards the most vulnerable households and the most affected firms and sectors, to limit the cost and increase the fiscal multiplier. We welcome the authorities' agreement to design a new fiscal rule in consultation with the Fund, to be formalized by mid-2022, to help rebuild fiscal buffers and put debt on a downward path. It is important that the authorities prioritize the gradual reduction of the public sector wage bill as a percentage of GDP, as outlined in the Program Statement, and we welcome the authorities' commitment to adopt a new public wage system. In order to achieve stronger and more inclusive growth, we also encourage the authorities to undertake fiscal reforms in the areas of social protection and labor taxation under the new PCI, while tightly controlling pension expenditure.

We positively note the extraordinary measures taken by the NBS to support economic activity, as outlined in Annex IV of the report. We welcome the increased provisioning

against loan losses in the banking sector, and positively note that bank profitability has decreased to a lesser extent than elsewhere in the region. Ongoing vigilance remains critical in monitoring the delayed effects of the pandemic on NPLs as crisis support measures expire. We support the authorities' plan to strengthen capital markets and development finance, which should lead to greater financing options for SMEs, in addition to enhancing the dinarization strategy.

Progressing the structural reform agenda is key to promoting more resilient and inclusive growth. We welcome the authorities' recent adoption of the new ownership and governance strategy for SOEs but stress the importance of now quickly moving to effective implementation as set out in the Program Statement. The recent progress in addressing the AML/CFT framework should be reinforced by the implementation of recommendations made by the Council of Europe's Group of States against corruption (GRECO). We support the measures contained in the recently adopted Law on Climate Change pertaining to the development of a low-carbon development strategy. *Can staff clarify if the authorities have produced a new National Strategy for Gender Equality to succeed the strategy for 2016-2020?*