

BUFF/04/220

December 13, 2004

**Statement by the Staff Representative on Serbia and Montenegro
Executive Board Meeting
December 15, 2004**

1. This statement summarizes information that has become available since the issuance of the staff report for the fourth review under the Extended Arrangement (EBS/04/165, 12/01/04). The statement does not change the thrust of the staff appraisal in the report.
2. Recently released macroeconomic data are broadly in line with projections in the staff report. Notwithstanding the recent moderation in wage growth, the rising inflation and further acceleration in private sector credit in October indicate continuing demand pressures:
 - The 12-month inflation rate in Serbia rose to 11.9 percent in November and is now projected to reach 12–12½ percent at end-2004.
 - Growth in economy-wide real wages in Serbia decelerated to 4.4 percent year-on-year in October, reflecting slowing nominal wage growth (from 21 percent in September to 18 percent in October) and rising inflation.
 - Credit growth in Serbia accelerated further in October, with real growth rates reaching 32 percent for total private sector credit and 101 percent for lending to households.
 - Gross foreign assets of the National Bank of Serbia rose from US\$3,368 million (in constant exchange rates) at end-July to US\$3,826 million at end-November.
3. All prior actions for the review have been completed.
4. The 2005 budget—in line with program understandings—was passed by Parliament on November 20.
5. As to the tightening of conditions for consumer lending envisaged in the MEFP, the NBS informed Fund staff that the majority of banks—representing 69 percent of total banking system assets—has amended their lending conditions by limiting the monthly payment-to-net income ratio to 30 percent and requiring a minimum downpayment of 20 percent of the value of purchased goods.