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International Monetary Fund
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Statement by the IMF Staff Mission to Serbia

Mr. Albert Jaeger, Mission Chief for Serbia at the International Monetary Fund (IMF), made the following statement today in Belgrade:

"An IMF staff mission and the Serbian authorities have today reached agreement, subject to approval by the IMF Management and the Executive Board, on a strengthened economic program that could be supported by an extension and augmentation of the Stand-By Arrangement (SBA) with Serbia (see Press Release No. 09/12). The enhanced arrangement would envisage a loan of some SDR 2.6 billion (around €3 billion). The program period would be extended to 27 months, through mid-April 2011, and the arrangement would no longer be considered precautionary.

"When the global financial turmoil began to spill over to Serbia last year, the authorities recognized the difficulties early and they deserve credit for negotiating a precautionary SBA with the IMF last November. But since then Serbia's external and domestic economic environment has deteriorated abruptly and relentlessly. As elsewhere in the region, exports and imports have plummeted, external borrowing has dried up, and economic activity has slumped. Going forward, the global and regional economic downturn will now likely be deeper and more protracted than projected only a few months ago. In this difficult setting, Serbia's GDP growth is likely to be negative this year, with limited prospects of recovery next year. The unsustainable spending boom in the public and private sectors that drove Serbia's economic growth and external imbalances in recent years is being reversed sharply. The augmented SBA is designed to smooth, not prevent, the inevitable contraction in economy-wide spending to more sustainable levels.

"The authorities' proactive policy package aims to help Serbia attain a more balanced external position. Their strategy includes two main new elements. First, a large and balanced fiscal adjustment package has become necessary to contain the 2009 deficit to 3 percent of GDP, the maximum level that can be financed through non-inflationary sources. A combination of cuts in recurrent expenditure and nominal freezes and mostly temporary revenue increases will be needed, and should pave the way for medium-term fiscal reforms toward a more durable consolidation of public finances. Capital and social spending will be largely protected. Second, foreign banks have been asked to provide voluntary assurances to broadly maintain their commitment to Serbia and keep their subsidiaries well capitalized. The program will also stress the need to maintain prudent monetary policy aimed at containing inflation, and to kick-start long-delayed structural reforms to boost the economy's potential output. The authorities will also seek further financial support from other international financial institutions and donors during this difficult period.

"Both the Serbian authorities and the IMF staff believe that the policies envisaged under the program are adequate to maintain macroeconomic and financial stability. In the next few weeks, the authorities will take a series of actions, notably on revising the 2009 budget framework and proposing legislative changes to implement the agreed fiscal measures, so that the proposed SBA could be presented to the Executive Board of the IMF in May."