

BUFF/10/94

June 29, 2010

**The Acting Chair's Summing Up**  
**Republic of Serbia—Fourth Review Under the Stand-By Arrangement and Requests**  
**for Waiver of Non-Observance of End-March Performance Criterion and Modification**  
**of End-June Performance Criteria, and Financing Assurances Review**  
**Executive Board Meeting 10/64**  
**June 28, 2010**

Executive Directors welcomed Serbia's broadly satisfactory performance under the Stand-By Arrangement amid a deteriorating macroeconomic environment and increased regional uncertainty. They observed that Serbia's external position has improved, while inflation remains in check. However, weaker growth prospects in major trading partners and potential adverse spillovers from the region pose downside risks to the near-term outlook, adding pressures to public finances.

Against this backdrop, Directors considered the authorities' fiscal consolidation strategy and cautious easing of monetary policy as appropriate. Perseverance with the economic reform program will remain essential for a return to strong, sustainable growth. Directors highlighted that key priorities are to improve the business environment, accelerate privatization, and enhance competitiveness and export capacity.

Directors commended the authorities for their continued commitment to rein in current spending, including by maintaining the public wage and pension freezes until 2011. They stressed the importance of executing the overall spending in 2010 as budgeted, while allowing automatic stabilizers on the revenue side to operate. Directors encouraged the authorities to save any revenue over-performance, adopt compensating measures should revenue shortfalls persist, and strengthen efforts to broaden the tax base and improve tax administration. They welcomed the submission to parliament of a comprehensive pension law and the streamlining of public administration, and looked forward to early adoption of fiscal responsibility legislation to help bolster policy credibility.

Directors noted that, despite progress in disinflation, the still high inflation expectations and the possibility of increased pass-through of recent exchange rate depreciation warrant close monitoring. They supported the planned measures to reduce risks associated with high euroization, particularly the development of the secondary local currency bond markets.

Directors noted that the financial sector has proved resilient, and that foreign parent banks' exposures have remained stable, notwithstanding the recent lowering of exposure limits under the Bank Coordination Initiative. Given the fragile financial situation in the region, they called on the authorities to remain vigilant and take adequate and timely action as needed, guided by the crisis management framework.