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PRESS RELEASE NO. 20/253

IMF Staff Completes a Virtual Review Mission to Serbia

July 3, 2020

- IMF staff reached staff-level agreement on policies needed to complete the fourth review under the Policy Coordination Instrument (PCI).
- Notwithstanding a sizeable policy response, the COVID-19 pandemic has had a significant adverse impact on Serbia's economic activity.
- Serbia should continue to focus on supporting the economy through the crisis while preserving macroeconomic stability, managing risks, and protecting vulnerable groups.

Washington, DC – An International Monetary Fund (IMF) mission, led by Jan Kees Martijn, held virtual meetings with the Serbian authorities during June 24 – July 3, 2020, to discuss the fourth review under the PCI. At the conclusion of the mission, Mr. Martijn issued the following statement:

"The IMF mission held constructive discussions with the authorities and reached staff-level agreement on policies needed to complete the fourth review under the PCI. The agreement is subject to approval by the IMF Management and Executive Board. Consideration by the Board is tentatively scheduled for the second half of August 2020.

"Program implementation has remained broadly on track. However, the sharp deterioration in the external and domestic economic environment caused by the COVID-19 outbreak requires an adjustment of the PCI objectives for the remainder of the program, which is set to conclude in January 2021. In this context, policies should continue to focus on supporting the economy through the crisis while preserving macroeconomic and financial stability, managing risks adequately, and protecting vulnerable groups. Quantitative targets have been reset to reflect the major changes in the fiscal outlook for 2020.

"The pandemic has had a significant adverse impact on Serbia's economic activity. The shock is affecting the economy through lower external demand, weaker foreign investment and remittances, domestic supply constraints, and disruptions in regional and global supply chains. Real GDP is projected to contract by 3 percent in 2020, compared to an increase by 4.2 percent in 2019, and is expected to rebound to 6 percent growth in 2021. Given the highly uncertain economic outlook, we recommend careful contingency planning.

"To mitigate the economic and social effects of the COVID-19 shock, the authorities deployed a prompt and well-designed policy response. The fiscal package, which includes increased healthcare spending, tax deferrals, wage subsidies, universal cash transfers, and a state guarantee scheme for bank loans to SMEs, is among the largest in emerging Europe. The National Bank of Serbia (NBS) contributed to the response, including by cutting the key policy rate and injecting liquidity in the banking system, while introducing a three-month moratorium on bank loan repayments and further measures to preserve monetary and financial stability.

"The implementation of the fiscal measures, together with the decline in revenues associated with lower economic activity, will raise the fiscal deficit in 2020 to more than 7 percent of GDP, compared with 0.5 percent of GDP in the initial budget. Given the projected economic rebound and the temporary nature of the fiscal measures, it should be possible to reduce the fiscal deficit to about 2 percent of GDP next year. At the same time, there is a need for scaling up public investment to support the economic recovery and boost potential growth, while the economic shock is amplifying fiscal risks stemming from troubled SOEs and state-guaranteed loans. To make room for higher public investment, and in light of budget risks, increases in public sector wages and pensions should be limited in 2021. This should ensure that the public sector wage bill as a share of GDP returns to more sustainable levels, after increasing in the last two years. Ad-hoc pension increases, or one-off payments should be avoided. Public debt, which was declining steadily prior to the pandemic, is now expected to increase in 2020 while staying below 60 percent of GDP, but should resume a clear downward trajectory in 2021.

"Implementation of structural reforms has faced delays due to the pandemic. Reforms to strengthen tax administration, public sector wage and employment systems, corporate governance of public enterprises, and to develop Serbia's capital market remain vital. A thorough assessment of electricity tariffs is warranted to ensure full-cost recovery. We welcome the progress made towards completing the privatization of Komercijalna and encourage further efforts to privatize Petrohemija.

"The mission is grateful for the authorities' close cooperation."

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WORLD NEWS

JULY 10, 2020 / 7:21 AM / UPDATED 2 HOURS AGO

Serbia-Kosovo peace deal is possible, Vucic says

Elizabeth Pineau, Johnny Cotton



PARIS (Reuters) - Serbia's President Aleksandar Vucic said on Friday that efforts by Germany and France to restart talks between his country and Kosovo were already paying off and he was hopeful of a peace deal, although he could not say when.

Serbian President Aleksandar Vucic poses during an interview with Reuters in Paris, France, July 10, 2020.

REUTERS/Gonzalo Fuentes

“No one can guarantee what will happen at the end of the process, but this is the first relatively optimistic news,” Vucic said of an agreement on a timetable for talks to break the deadlock over one of Europe’s trickiest territorial disputes.

Kosovo declared independence from Serbia in 1999 after a NATO-led bombing campaign to curtail ethnic warfare. Serbia does not recognise Kosovo’s independence, a precondition for Belgrade’s future membership of the EU.

Talks between Serbia and Kosovo broke down almost two years ago.

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Vucic, speaking in an interview in Paris after a video conference with German Chancellor Angela Merkel, French President Emmanuel Macron and Kosovo’s Prime Minister Avdullah Hoti, said he wanted to find a way to reconcile Serbs, Kosovars and Albanians still scarred by the wars of the 1990s.

“I don’t care if it happens in a month or in two years,” he said regarding a possible peace deal.

Discussions between Vucic and Hoti on normalising ties will resume on Sunday via video conference, a German government statement said.

EU foreign policy chief Josep Borrell and Miroslav Lajcak, the EU Special Representative for the Belgrade-Pristina Dialogue, will lead talks on Sunday before a physical meeting with Macron, Merkel and possibly other leaders in Brussels on Thursday.

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A U.S.-led initiative in late June aimed to bring Vucic and Kosovo President Hashim Thaci to the White House but Thaci has been indicted on war crimes charges that he is alleged to have committed during the 1998-99 Kosovo war and its aftermath.

Thaci has denied the accusations.

Writing by Robin Emmott, Editing by Timothy Heritage and Angus MacSwan

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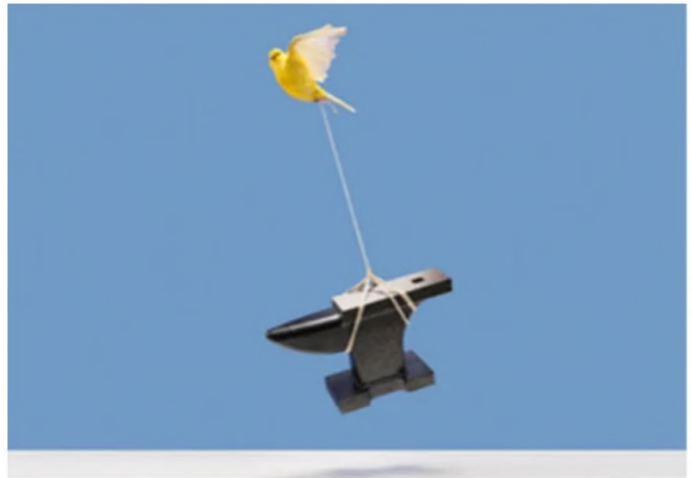
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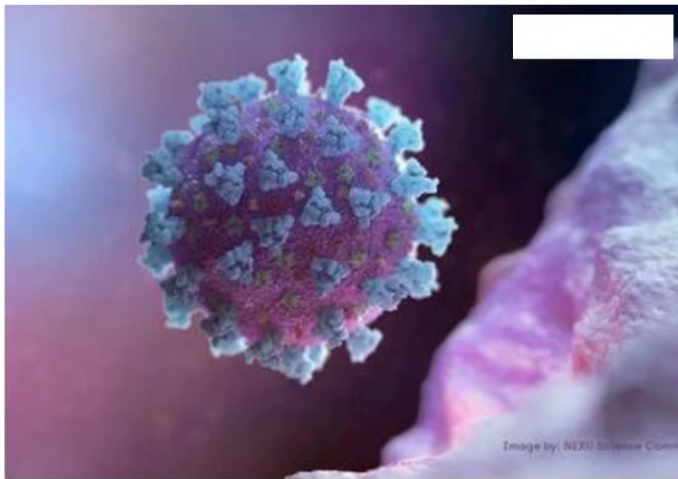
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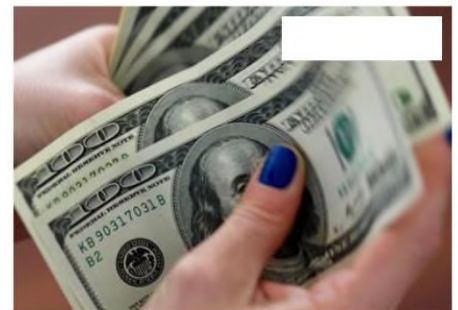
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