Statement by the IMF Staff Representative on the Republic of Serbia
Executive Board Meeting
April 8, 2011

This statement provides information that has become available since the issuance of the staff report (EBS/11/47). The new information does not alter the thrust of the staff appraisal.

1. **Standard & Poor's upgraded Serbia's rating on long term sovereign local and foreign currency debt from BB- to BB.** The upgrade was justified by Serbia's improving economic policy implementation, and its new momentum regarding fiscal consolidation, structural reform, and economic rebalancing. The upgrade also points to political consensus supportive of EU integration, but cautions that a downgrade could be in the offing if major political maneuvering before or after the upcoming parliamentary elections causes backtracking from fiscal targets.

2. **A broad political consensus has emerged that the upcoming parliamentary elections should only be held after the EU's decision on Serbia's EU candidate status.** The EU is expected to decide on Serbia's EU candidate status during the last quarter of 2011.

3. **The Serbian government introduced a three-month ban on wheat exports** (subsequently modified to allow for a quota for flour exports)**.** The decision reflected concerns about rising bread prices in the domestic market. Serbia's decision follows similar measures taken by other countries in the region, and is likely to add to scarcity in the international wheat market and reduce incentives for producers to expand production

4. **There was only one bid for the acquisition of the 51 percent of Telekom and the offer was below the government's minimum price.** In line with tender procedures, the government has given Telekom Austria a 15-day period to improve its bid.

5. **Parliament has taken several important actions.** These include: i) adoption of a new social welfare law to allow expanded coverage of social programs; ii) the appointment of the fiscal council envisaged under the new fiscal responsibility law; and iii) the modification of the construction law, aiming at simplifying the issuance of construction permits and clarifying property rights.

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International Monetary Fund
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IMF Executive Board Completes Seventh and Final Review Under Stand-By Arrangement with Serbia and Approves €353.5 Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the seventh and final review of Serbia's economic performance under the program supported by a Stand-By Arrangement (SBA). Completion of the review enables the immediate disbursement of SDR 319.595 million (about €353.5 million or US$509 million), although the authorities have indicated that they intend to purchase only SDR 46.7 million (about €51.6, US$74.4 million, or 10 percent of the country's IMF quota), bringing total disbursements under the program to SDR 1.368 billion (about €1.5 billion or US$2.2 billion).

Serbia's initial 15-month SBA was approved on January 16, 2009, in the amount of SDR 350.8 million (about €388 million, or US$558.7 million). On May 15, 2009, the arrangement was extended by one year and augmented to SDR 2.62 billion (about €2.9 billion, or US$4.2 billion) to support the government's economic program amid a sharper than expected impact from the global financial crisis (see Press Releases No. 09/12 and No. 09/169). The arrangement expires on April 15, 2011. Serbia joined the IMF in December 1992 and has a Fund quota of SDR 467.70 million.

Following the Executive Board's discussion of Serbia, IMF Managing Director Dominique Strauss-Kahn, made the following statement:

"Serbia's satisfactory performance under its economic program supported by the Fund's Stand-by arrangement contributed to reducing vulnerabilities and helped avert a financial meltdown during the global crisis. The growth outlook is favorable, although inflationary pressures are rising. Serbia is making progress toward a more balanced economic growth model, but the adjustment is proving difficult, as indicated by strong pressures to hike public wages and significant private sector job losses.

"Politically difficult reforms will be needed to entrench more sustainable growth. The outstanding reform agenda includes addressing the oversized public sector, following up on