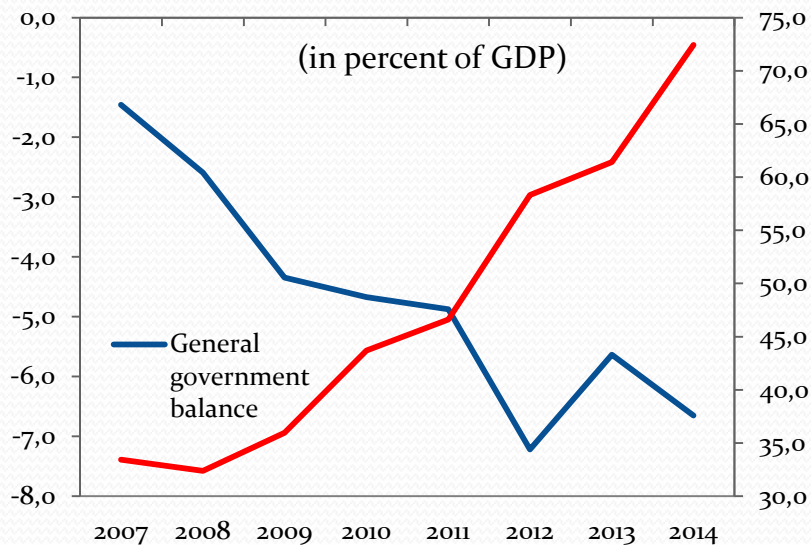


# IMF Program in Serbia: Objectives, Developments and Challenges

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# Context



- Fiscal imbalances have been piling up since 2008/9
- 2009 SBA helped preserve stability in the face of global financial crisis
- However, attempts to stop the growing public debt proved ineffective: e.g., 2011 SBA, and stopgap measures in 2013/14

# Objectives of IMF SBA

- 3-year IMF precautionary SBA approved in February 2015, with three main objectives:
  - Address macroeconomic imbalances and vulnerabilities, most notably by **placing public debt on a sustainable path**
  - Bolster **resilience of the financial sector** and improve its intermediation function necessary to support growth
  - Improve **competitiveness** and reduce key growth bottlenecks through vigorous implementation of comprehensive structural and SOE reforms

# Policy measures

- Before SBA: Key structural reforms and consolidation measure in the summer 2014
  - Labor law amendments
  - Parametric pension reforms
  - 10 percent wage cut and 22/25 percent pension cut
- SBA
  - Focus on containing entitlement spending (2/3) and state aid (1/3)
  - SOE reforms: improve the financial viability of large infra/utility companies; resolution of +500 SOEs under PA portfolio, including 17 Strategic Companies

# Growth enhancing measures

- To mitigate the short-term impact of the fiscal consolidation, and establish foundation for sustained growth:
  - Reforms to promote investment
    - ✓ Construction permit and land development law; Land ownership conversion law
    - ✓ Investment law
    - ✓ WB-supported privatization, Competitiveness and Jobs project
    - ✓ EBRD Investment Climate and Governance Initiatives
  - Rebalancing policy mix toward monetary easing
  - NPL resolutions to support credit growth

# Progress so far

- The program is off a good start and has helped improve confidence
  - Growth is returning, despite fiscal consolidation
  - Unemployment is falling
  - Fiscal deficit is expected to decline substantially
  - Exchange rate remains stable
  - Sovereign borrowing rates have come down
- First review was successfully completed in June, and Second will be in Oct 23.

# Challenges ahead

- Sustained consolidation is key for 2016-17
  - Bring further down mandatory spending in line with peers
- Continuing improvement in tax collection will be strong tail wind for debt reduction
- What matters in the end? **Job and Growth**
  - A long way to go for completion of structural reforms
  - Will reforms stick? Strong ownership of reform and its steadfast implementation is key