REPUBLIC OF SERBIA

(*represented by the Government of the Republic of Serbia, acting by and through the Ministry of Finance*)

€550,000,000 1.500 per cent. Notes due 2029

(to be consolidated and form a single series with the €1,000,000,000 1.500 per cent. Notes due 2029 issued on 26 June 2019)

Issue price: 102.251 per cent.

(plus accrued interest from, and including, 26 June 2019 to, but excluding 12 November 2019)

The €550,000,000 1.500 per cent. Notes due 2029 (the "**New Notes**") to be issued by the Republic of Serbia, represented by the Government of the Republic of Serbia acting by and through the Ministry of Finance (the "**Issuer**") will mature on 26 June 2029 and, unless previously purchased and cancelled, will be redeemed at their principal amount on that date. The New Notes will be consolidated and form a single series, and be fungible, with the €1,000,000,000 1.500 per cent. Notes due 2029 (the "**Original Notes**" and, together with the New Notes, the "**Notes**") issued by the Issuer on 26 June 2019 (the "**Original Issue Date**") from 12 November 2019 (the "**New Issue Date**").

The Notes will bear interest at a rate of 1.500 per cent. per annum. Interest will accrue on the outstanding principal amount of the Notes from and including 26 June 2019 and will be payable annually in arrear on 26 June in each year, commencing on 26 June 2020. The New Notes will initially be sold to investors at a price equal to 102.251 per cent. of the principal amount thereof plus accrued interest in respect of the period from (and including) 26 June 2019 to (but excluding) the New Issue Date.

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Serbia (the "**Republic of Serbia**" or "**Serbia**") or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain exceptions set out in the Conditions (as defined below).

SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States of America (the "**United States**") and may not be offered, sold, pledged, delivered or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the New Notes are being offered, sold or delivered: (a) in the United States only to persons reasonably believed to be qualified institutional buyers ("**QIBs**") (as defined in Rule 144A ("**Rule 144A**", such New Notes so offered and sold, the "**Rule 144A New Notes**" and, together with the Original Notes issued in reliance on, and pursuant to Rule 144A, the "**Rule 144A Notes**") under the Securities Act) in reliance on, and in compliance with, Rule 144A; and (b) outside the United States in reliance on Regulation S ("**Regulation S**", such New Notes so offered and sold, the "**Regulation S New Notes**" and, together with the Original Notes issued in reliance Regulation S, the "**Regulation S Notes**") under the Securities Act. Each purchaser of the New Notes is hereby notified that the offer and sale of New Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. There will be no public offer of the Notes in the United States.

Prospective purchasers of the Notes that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Transfers of Notes are subject to the restrictions described under "*Form of the Notes and Transfer Restrictions*".

The New Notes will be offered and sold in registered form in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Regulation S New Notes will be represented by beneficial interests in a global unrestricted note certificate (the "**New Regulation S Global Note**" and, together with the global unrestricted note certificate representing the Original Notes (the "**Regulation S Original Global Note**") issued in reliance on Regulation S, the "**Regulation S Global Note**") in registered form without interest coupons attached and the Rule 144A New Notes will initially be represented by a global restricted note certificate (the "**New Rule 144A Global Note**" and, together with the global restricted note certificate representing the Original Notes (the "**Rule 144A Original Global Note**") issued in reliance on Rule 144A, the "**Rule 144A Global Note**") in registered form, without interest coupons attached. The New Regulation S Global Note and the New Rule 144A Global Note will be registered in the name of a nominee for, and deposited on or about the New Issue Date with a common depositary for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Beneficial interests in the Rule 144A Global Note and the Regulation S Global Note (together the "**Global Notes**") will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, definitive note certificates evidencing holdings of Notes issued in exchange for beneficial interests in the Global Notes will be available only in certain limited circumstances. See "*Form of the Notes and Transfer Restrictions*".

The Republic of Serbia's long-term foreign currency debt has been assigned a rating of "BB" with a positive outlook by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and rating of "BB+" with a stable outlook by Fitch Ratings Limited ("**Fitch**") and "Ba3" rating with a positive outlook by Moody's Investor Service, Inc.("**Moody's**"). The Original Notes were rated "BB" by S&P, "BB+" by Fitch and "Ba3" by Moody's and it is expected that the rating of the Notes will be the same immediately after the issuance of the New Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The credit ratings included or referred to in this prospectus (the "**Prospectus**") will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**") as having been issued by S&P, Fitch and Moody's. Each of S&P and Fitch is established in the European Union ("**EU**") and is included in the list of credit rating agencies registered in accordance with the CRA Regulation. This list is available on the ESMA website (*http://www.esma.europa.eu/page/list-registered-and-certified-CRAs*) (last updated 1 October 2019). Moody's Investor Service, Inc. is not established in the EU and has not applied for registration under the CRA regulation. The ratings are endorsed by Moody's Investor Service Ltd in accordance with the CRA regulation. Moody's Investor Service Ltd is established in the EU and is registered under the CRA regulation. Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes.

The Prospectus has been approved by the Financial Conduct Authority of the United Kingdom (the "**FCA**" or "**Financial Conduct Authority**"), in its capacity as United Kingdom competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and such approval should not be considered as an endorsement of (a) the Issuer or (b) the quality of any Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in any such Notes. Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (as amended the "**FSMA**") for the New Notes to be admitted to the official list of the Financial Conduct Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the New Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**").

Joint Lead Managers

BNP PARIBAS	**Citigroup**
Deutsche Bank	**J.P. Morgan**

The date of this Prospectus is 8 November 2019.

This Prospectus constitutes a prospectus for the purpose of Article 6 of the Prospectus Regulation and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to be able to make an informed assessment of the financial position and prospects of the Issuer and the rights attaching to the Notes.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

None of the Joint Lead Managers (as defined in "**Subscription and Sale**") or any of their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Prospectus in connection with the issue or offering of the New Notes and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by any of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

None of the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents shall be responsible for any act or omission of the Issuer or any other person in connection with the issue and offering of the New Notes.

Information included herein that is identified as being derived from information published by the Republic of Serbia or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of the Republic of Serbia. All other information herein with respect to the Republic of Serbia is included herein as a public official statement made on the authority of the Ministry of Finance of the Republic of Serbia.

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus in connection with the offering of the New Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers. Neither the delivery of this Prospectus nor any offer or sale of the New Notes made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the financial condition or affairs of the Issuer since the date hereof. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in Notes of any information coming to their attention. This Prospectus may only be used for the purpose for which it has been published.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

This Prospectus does not constitute an offer to sell or an offer to buy in any jurisdiction by any person where it is unlawful to make the offer or solicitation in such jurisdiction, nor does this Prospectus constitute an offer or an invitation to subscribe for or purchase any New Notes and it should not be considered as a recommendation by the Issuer or any Joint Lead Manager that any recipient of this Prospectus should subscribe for or purchase any New Notes. The distribution of this Prospectus and the offering, sale and delivery of the New Notes in certain jurisdictions may be restricted by law. In particular, this Prospectus does not constitute an offer of securities to the public in the United Kingdom. Consequently, this Prospectus is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within articles 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. None of the Issuer or the Joint Lead Managers makes any representation to any recipient of this Prospectus regarding the legality of an investment in the New Notes by such recipient under applicable investment or similar laws. Each investor should consult with its own advisers as to legal, tax, business, financial and related aspects of its purchase of the New Notes. For a description of certain restrictions on offers, sales and deliveries of New Notes and the distribution of this Prospectus, see "*Subscription and Sale*" and "*Form of the Notes and Transfer Restrictions*".

The New Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission or any other regulatory authority in the United States, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Notes or approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) and status of the Issuer.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NEW NOTES, DEUTSCHE BANK AG, LONDON BRANCH (THE "STABILISING MANAGER") (OR ANY PERSON ACTING FOR THE STABILISING MANAGER) MAY OVER-ALLOT NEW NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NEW NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NEW NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE NEW ISSUE DATE OF THE NEW NOTES AND 60 DAYS AFTER THE DATE OF THE INITIAL ALLOTMENT OF THE NEW NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the New Notes and the admission of the New Notes to the Official List and to trading on the Market. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase New Notes, in whole or in part, for any reason.

This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer

affiliate. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the New Notes has led to the conclusion that: (i) the target market for the New Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the New Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the New Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the New Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") – all New Notes shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realise upon judgments of courts in England against the Issuer without compliance with the Serbian enforcement procedure for foreign judgments. It may not be possible for investors to effect service of process upon the Issuer outside the Republic of Serbia or to enforce against the Issuer in or through English courts or courts located in the United States judgments obtained in English courts or courts located in the United States or elsewhere, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

The Notes and the Fiscal Agency Agreement (as defined below) including any non-contractual obligations arising out of or in connection with the Notes and the Fiscal Agency Agreement, are governed by English law and the Issuer has agreed that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising thereunder ("**Proceedings**"). The Issuer has appointed the Ambassador of the Republic of Serbia to the Court of St. James's as its authorised agent to whom the process may be served in any Proceedings.

It may not be possible to enforce in the courts of the Republic of Serbia any foreign court judgment (including a judgment obtained from an English court) against the Republic of Serbia that is predicated upon the laws of a foreign jurisdiction, such as English law, without a re-examination of the merits of such judgment in the Serbian courts, although a re-examination of the merits of a judgment will generally not be conducted according to the applicable law.

Recognition and enforcement in the courts of the Republic of Serbia of any foreign court judgement is conditional, among others, on reciprocity in judgement recognition and enforcement between the Republic of Serbia and the country of origin of the foreign judgement. There is a legal presumption that such reciprocity exists and, according to the opinion of the Serbian Ministry of Justice, factual reciprocity with United Kingdom exists on the date of this Prospectus. In addition, it may not be possible to enforce a foreign court judgement if it is found by the Serbian court to be contrary to the "foundations of social and political order as determined in the Constitution" which is the Serbian version of the public policy exception to the recognition and enforcement of foreign judgments. According to a judgment of the Higher Commercial Court in Belgrade, "foundations of social and political order as determined in the Constitution" is a concept narrower than the concept of mandatory norms. Nevertheless, a precise list of criteria for determination of such public policy rules does not exist.

There is also a risk that the choice of English law as the governing law of the Notes might not be applied by the courts of Serbia in certain circumstances. Such circumstances may include Serbian courts finding that the effect of application of English law would be incompatible with the "foundations of social and political order as determined in the Constitution".

There is a risk that, notwithstanding the limited waiver of sovereign immunity by the Republic of Serbia in connection with the Notes, a foreign court judgment would not be recognised in the Republic of Serbia or enforced against certain assets of the Republic of Serbia in certain jurisdictions, including the Republic of Serbia (including the imposition of any arrest order or the attachment or seizure of such assets and their subsequent sale), without the Republic of Serbia having specifically consented to such enforcement at the time when the enforcement is sought. Specifically, the Republic of Serbia has not consented to service or waived sovereign immunity with respect to actions brought against it under US federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic of Serbia with respect to such actions, it may not be possible to obtain a judgment in such an action brought in a court located in the United States against the Republic of Serbia unless such court were to determine that Republic of Serbia is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions.

In addition, certain state-owned assets are statutorily exempt from court enforcement procedures within the Republic of Serbia. Specifically, the Republic of Serbia has not waived any immunity in respect of present or future: (i) "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) assets that cannot be in commerce, (iv) military property or military assets and buildings, weapons and equipment designated for defence, state and public security, (v) receivables the assignment of which is restricted by law, (vi) natural resources, common use items, grids in public ownership, river basin land and water facilities in public ownership, protected natural heritage in public ownership and cultural heritage in public ownership,

(vii) real estate in public ownership which is, partly or entirely, used by the authorities of the Republic of Serbia, autonomous provinces or local self-government for the purpose of exercising their rights and duties; (viii) the state's, autonomous province's or local government's stocks and shares in companies and public enterprises, unless the relevant entity consented to the establishment of a pledge over such stocks or shares, (ix) movable or immovable assets of health institutions, unless a mortgage was established based on the Government's decision or (x) other assets exempt from enforcement by law or international treaties.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

All references in this Prospectus to the "**Government**" and the "**Assembly**" are to the central government and the National Assembly of the Republic of Serbia, respectively.

Unless otherwise specified or the context so requires, references in this Prospectus to "**RSD**", "**Dinar**" and "**Serbian Dinar**" are to the currency of Serbia, references to "**U.S. Dollars**", "**USD**" and "**U.S.$**" are to the currency of the United States, references to "**JPY**" are to the currency of Japan and references to the "**euro**", "**euros**", "**EUR**" and "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on EU.

Gross Domestic Product ("**GDP**") is a measure of the total value of final products and services produced in the country. Gross Value Added ("**GVA**") is a measure of the total value of final products and services within a particular sector before taking into account taxes and subsidies. "**Nominal GDP**" or "**nominal GVA**" measures the total value of final products and services in current prices. "**Real GDP**" or "**real GVA**" measures the total value of final products and services in constant prices, thus allowing historical GDP or GVA comparisons that exclude the effect of inflation. For the purposes of this Prospectus, real GDP or real GVA figures are calculated by reference to 2010 prices. Unless otherwise stated, references in this Prospectus to "**GDP**" are to nominal GDP figures. References to the "**Budget**" are to the consolidated budget of the Republic of Serbia passed by the Assembly in accordance with the Budget System Law (Official Gazette nos. 142/2014, 68/2015, 103/15, 99/2016, 113/2017, 95/2018, 31/2019 and 72/19).

References to laws, including the Budget, refer to such laws (and the Budget), as amended or supplemented from time to time. The Agreement on Regional Representation and Cooperation (as defined below) provides for the use of asterisk in respect of Kosovo* in line with the UN Resolution 1244 (as defined below) and the ICJ Opinion (as defined below), which states that the designation of "Kosovo*" is without prejudice to Serbia's position on Kosovo's* status of independence. Accordingly, the term "**Kosovo***" used throughout the Prospectus should be construed on this basis.

Unless otherwise stated, all annual information, including budgetary information for the Republic of Serbia, is based on calendar years. **All statistical information, including budgetary information, as at and for year end or interim periods is subject to future revision and amendment for comparative purposes in the event that the methodology used to compile such information is changed in the future, following an introduction of new data sources, improvements to the existing ones, changes to classifications, or establishment of new principles, regulations and international recommendations that represent a basic methodological framework**. Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary reflecting such rounding and figures that are shown as totals (including those presented in tables) may not be an arithmetic aggregation of their components.

Statistical data appearing in this Prospectus have, unless otherwise stated, been obtained from the Office of Statistics of the Republic of Serbia (the "**Office of Statistics**"), the Ministry of Finance, the Government, the Assembly and the National Bank of Serbia (the "**National Bank**"). Similar statistics may be obtained from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. In addition, statistics and data published by one ministry or agency may differ from similar statistics and data produced by other agencies or ministries due to differing underlying assumptions, methodology or timing of when such data is produced. Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards. However, as far as the Government is aware and is able to ascertain from the information published by these entities, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading in any material respect. Certain statistical information contained herein is provisional or otherwise based on estimates that the Republic of Serbia and/or its agencies believe to be based on reasonable assumptions. Specifically, the relevant interim period in 2019 for which, and/or the relevant date in 2019 as at which, data is presented may differ depending on the most recent information available from the Issuer. All such data is provided as at and in respect of the period most recently available. In addition, the relevant interim

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* The designation is without prejudice to positions on status, and is in line with the UN Resolution 1244 and the ICJ Opinion on the Kosovo declaration of independence.

period in 2019 for which, and/or the relevant date in 2019 as at which, data is presented as a percentage of GDP, has been based on the Office of Statistics' estimates of nominal GDP for 2019 or estimates of nominal GDP for the six months ended June 2019. Accordingly, such financial and economic information for periods of 2019 set out in this Prospectus may be subsequently adjusted or revised and may differ from previously published financial and economic information. While the Republic of Serbia does not expect such revisions to be material, no assurance can be given that material changes will not be made. See "*Risk Factors – Risks Associated with Serbia's Economy — Official economic data may not be accurate and could be revised*".

Information included in this Prospectus and identified as being derived from information published by the Republic of Serbia or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of the Republic Serbia. All other information herein with respect to the Republic of Serbia is included herein as a public official statement made on the authority of the Ministry of Finance.

Unless otherwise stated, all statistical data appearing in this Prospectus (save in relation to public expenditures for employees, purchase of goods and services and social welfare and transfers and the number of public sector employees) has been prepared on a basis which excludes the relevant data in respect of the autonomous province of Kosovo and Metohija. In addition, the number of public sector employees includes public sector employees in the municipalities of Kosovska Mitrovica, Zubin Potok, Leposavic, Zvecan, Gracanica, Gnjilane and Strpce in the autonomous province of Kosovo and Metohija. According to the latest data provided by the Office for Kosovo and Metohija, the total number of elected and appointed persons and employees in the administrative bodies, organizations and institutions of local government from the territory of Kosovo and Metohija is 4,715.

The last census in Serbia was performed in 2011. Unless otherwise stated, estimates of total population, including estimates used to calculate per capita data, are based on the Office of Statistics' annual population estimates. See "*Description of Serbia – Geography and Population* and "*Risk Factors – Risks Associated with Serbia's Economy – Official economic data may not be accurate and could be revised*".

Data Dissemination

Serbia has been a participant in the General Data Dissemination System (the "**GDDS**") of the International Monetary Fund ("**IMF**") since May 2009. IMF member countries through GDDS commit voluntarily to improve the quality of the data produced and disseminated by their statistical systems over the long run to meet the needs of high-quality macroeconomic analysis. In 2015, the IMF replaced the GDDS with the enhanced GDDS ("**e-GDDS**") with the objective to upgrade the data transparency and encourage statistical development. In June 2018, Serbia implemented the e-GDDS system and launched the National Summary Data Page ("**NSDP**"). By introducing the new NSDP, Serbia provides national and international data users, including the investors and the rating evaluation service agencies, access to the information that the IMF recognises and identifies as the data of crucial importance in respect of its economic status and economic policies. By ensuring such single and simultaneous access to the updated information, Serbia has further enhanced its data transparency. The establishment of the *e*-GDDS and the NSDP represents the commitment of the Government to implement international statistical standards.

FORWARD-LOOKING STATEMENTS

This document contains statements that may be considered to be "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). However, this Prospectus is not entitled to the benefit of the safe harbour created thereby. Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. These statements are based on current plans, objectives, assumptions, estimates, projections or methods that may be incorrect or imprecise and that may be incapable of being realised. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as at the date on which they are made and Serbia undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. Serbia cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to, plans with respect to the implementation of economic policies and the pace of economic and legal reforms, expectations about the behaviour of the economy if certain economic and fiscal policies are implemented, the outlook for inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts and estimates of debt repayment and debt service.

In addition to the factors described in this Prospectus, including, but not limited to, those discussed in the section entitled "**Risk Factors**", the following factors, among others, could cause future outcomes to differ materially from those expressed in any forward-looking statements made herein:

- adverse external factors, such as changes in the credit rating of Serbia, higher international interest rates, low commodities prices, increases in world commodities prices or recession or low growth in Serbia's trading partners, which could each decrease Serbia's fiscal and foreign exchange revenues and could negatively affect the current account, balance of payments and international reserves and cause or contribute to recession or low growth in Serbia;

- adverse domestic factors, such as recession, decline in FDI and portfolio investment, high domestic inflation, high domestic interest rates, difficulties in borrowing in the domestic and foreign markets, changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations), trade and political consensus, any of which could lead to lower growth in Serbia and lower international currency reserves;

- relations with creditors;

- expectations about EU accession;

- decisions of international financial institutions such as the IMF, the World Bank, the European Bank for Reconstruction and Development (the "**EBRD**") and the European Investment Bank (the "**EIB**") regarding the provision of funding for new or existing projects over the life of the Notes; and

- political factors in Serbia, which may affect the timing and structure of economic reforms, the climate for FDI and the pace, scale and timing of privatisations.

The Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

EXCHANGE RATE HISTORY

For ease of presentation, certain economic and financial information included herein has been translated into U.S. Dollars or euros.

The following table sets out certain exchange rate data for the years 2014 to 2018 and for the period ended 31 October 2019, expressed as Serbian Dinar per U.S. Dollar, as published by the National Bank:

	Serbian Dinar to U.S.$			
Year	**Low**	**High**	**Average**	**Period End**
2019 (up to and including 31 October 2019)	102.4454	107.8600	105.1279	105.2909
2018	94.9945	105.2369	100.2784	103.3893
2017	99.0217	118.6004	107.4987	99.1155
2016	106.7040	118.9946	111.2903	117.1353
2015	101.4863	114.6890	108.8543	111.2468
2014	82.9584	100.0601	88.5408	99.4641

Source: National Bank.

As at 31 October 2019, the RSD/U.S.$ exchange rate published by the National Bank was RSD 105.2909 = U.S.$1.00.

As at 31 July 2019, the RSD/U.S.$ exchange rate published by the National Bank was RSD 105.5360 = U.S.$1.00.

As at 30 June 2019, the RSD/U.S.$ exchange rate published by the National Bank was RSD 103.7685 = U.S.$1.00.

The following table sets out certain exchange rate data for the years 2014 to 2018 and for the period ended 31 October 2019, expressed as Serbian Dinar per euro, as published by the National Bank:

	Serbian Dinar to Euro			
Year	**Low**	**High**	**Average**	**Period End**
2019 (up to and including 31 October 2019)	117.4946	118.4940	117.9177	117.5257
2018	118.0084	119.0027	118.2716	118.1946
2017	118.2934	124.0174	121.3367	118.4727
2016	121.5145	123.9531	123.1179	123.4723
2015	119.7162	123.5774	120.7328	121.6261
2014	114.7559	122.6321	117.3060	120.9583

Source: National Bank

As at 31 October 2019, the RSD/euro exchange rate published by the National Bank was RSD 117.5257 = EUR 1.00.

As at 31 July 2019, the RSD/euro exchange rate published by the National Bank was RSD 117.7465 = EUR 1.00.

As at 30 June 2019, the RSD/euro exchange rate published by the National Bank was RSD 117.9121 = EUR 1.00.

The following table sets out certain exchange rate data for the years 2014 to 2018 and for the period ended 31 October 2019, expressed as U.S. Dollar per euro, as published by Bloomberg:

	U.S. Dollar to Euro			
Year	**Low**	**High**	**Average**	**Period End**
2019 (up to and including 31 October 2019)	1.0903	1.1533	1.1216	1.1146
2018	1.1245	1.2493	1.1813	1.1452
2017	1.0428	1.2038	1.1300	1.2020
2016	1.0384	1.1527	1.1069	1.0526
2015	1.0496	1.2099	1.1100	1.0866
2014	1.2100	1.3925	1.3286	1.2100

Source: Bloomberg

As at 31 October 2019, the U.S.$/euro exchange rate published by Bloomberg was U.S.$ 1.1146 = EUR 1.00.

As at 31 July 2019, the U.S.$/euro exchange rate published by Bloomberg was U.S.$ 1.1075 = EUR 1.00.

As at 30 June 2019, the U.S.$/euro exchange rate published by Bloomberg was U.S.$ 1.1368 = EUR 1.00.

The exchange rates in the above tables may differ from the actual exchange rates used in the preparation of the information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that any amount of the currencies specified above has been, or could be, converted into the applicable currency at the rates indicated or at any other rate.

OVERVIEW

The following is an overview of certain information contained in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set out in the section entitled "Risk Factors" in this Prospectus prior to making an investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as elsewhere in this Prospectus. See "Description of Serbia", "Economy of Serbia", "External Sector", "Monetary System", "Public Finance" and "Public Debt" for a more detailed description of the Issuer.

Overview of the Republic of Serbia

General

Serbia is located in the central part of the Balkan Peninsula and occupies an area of approximately 88,361 square kilometres. By virtue of its geographic position, it controls some of the major land routes between Western Europe and Turkey and the Near East. Serbia is bordered by eight other countries: to the East by Bulgaria, to the North East by Romania, to the North by Hungary, to the West by Croatia, Montenegro and Bosnia and Herzegovina and to the South by Albania and North Macedonia.

Serbia consists of 29 administrative districts as well as two autonomous provinces, Vojvodina in the north and Kosovo and Metohija in the south. Belgrade is the capital city and the administrative, economic and cultural centre of Serbia, and is where the Government and its agencies are located.

As of the date of the last census in 2011, Serbia had a total population of approximately 7.2 million (excluding Kosovo and Metohija as these territories are treated as separate statistical areas according to the UN Resolution 1244, as defined below). The Constitution divides power between (i) the executive branch, comprising the Government and the President, (ii) the legislative branch and (iii) the judicial branch. The three branches have separate but equal powers and the judiciary is fully independent. The Government is led by the Prime Minister who has a mandate, subject to approval by a majority vote of the Assembly, to determine the composition of the Government. Ana Brnabić is the current Prime Minister. The President is elected for a five-year term and may not serve more than two terms. Aleksander Vučić is the current President. The Assembly is the unicameral parliament of Serbia and consists of 250 deputies elected in direct elections to serve four-year terms.

Economy

Comprehensive economic reforms in Serbia and economic development based on the principles of private ownership, free markets, openness to trade and the free flow of FDIs contributed to growth in the country's GDP on average of approximately 3 per cent. per annum in real terms between 2015 to 2018.

More specifically, following the slowdown of economic activities in the Eurozone, Serbia's GDP contracted by 1.6 per cent. in 2014. However, Serbia's economy recovered as its growth resumed with GDP increasing by 1.8 per cent., 3.3 per cent., 2.0 per cent. and 4.4 per cent. in 2015, 2016, 2017 and 2018, respectively, in each case in real terms. The GDP estimates for the third quarter of 2019 are expected to be released in December 2019. Although, the President of Serbia in his recent press interactions stated that the GDP growth in the third quarter of 2019 is expected to be 4.7 per cent. This information may differ from the official estimates proposed to be published by the Office of Statistics in December 2019. While the Republic of Serbia does not expect the estimates to be materially different, no assurance can be given that material changes will not be made.

The projected nominal GDP for the year ended 31 December 2019 is RSD 5,416.8 billion, while the real GDP growth is budgeted at 3.5 per cent. As at the date of this Prospectus, the Government expects that FDI inflows for the full year 2019 will be in line with FDI inflows for 2018. If achieved, the Government expects this will be sufficient to compensate for the expected current account deficit in 2019, which is projected at a level of 5.5 per cent of GDP. There can be no assurance that such objectives, in fact, will be achieved or that the FDI inflows for 2019 will reach these levels. Going forward, the principal objectives of the Government include EU accession, further restructuring and reforming the public sector and state administration, developing sustainable retirement and disability system, further improving the judicial system, enacting labour market reforms and cultivating an improved overall business environment. Many of Serbia's recent and planned reforms are designed to align and harmonise the local measures with the relevant EU standards.

Since late 2014, the Government and the National Bank have implemented a programme of measures intended to alleviate the effects of the global financial and economic crisis and protect the Serbian economy, banking system and free market. The Government intends to continue to pursue appropriate fiscal and economic policies that facilitate the adoption of public sector reforms, foster the potential growth of the economy in order to increase exports and develop the country's infrastructure. The Government believes that sound monetary and fiscal policies will play a key role in the achievement of Serbia's development-related aims. In particular, maintaining a low and stable inflation rate, further reducing unemployment, maintaining attractive conditions for FDI and exercising fiscal responsibility are important factors in the Government's approach.

The following selected economic information is qualified in its entirety by, and should be read in conjunction with, the detailed information appearing elsewhere in this Prospectus:

	Year ended 31 December					Seven months ended 31 July	
Domestic Economy	**2014**	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
Nominal GDP (RSD billions).........	4,160.5	4,312.0	4,521.3	4,754.4	5,068.6	2,409.8[1]	2,536.7[1]
Real GDP (growth rate) (%)...........	(1.6)	1.8	3.3	2.0	4.4	4.9[1]	2.8[1]
Consumer Price Index (y-o-y, %)...	1.7	1.5	1.6	3.0	2.0	2.4	1.6
Balance of Payments (EUR millions).............................							
Exports of Goods (F.O.B.)	10,641.0	11,454.1	12,814.2	14,066.3	15,238.1	8,821.5	9,601.2
Imports of Goods (F.O.B.)	(14,751.7)	(15,098.7)	(15,933.0)	(18,063.8)	(20,483.4)	(11,525.6)	(12,856.0)
Balance of Goods (F.O.B.)............	(4,110.7)	(3,644.5)	(3,118.9)	(3,997.5)	(5,245.3)	(2,704.1)	(3,254.8)
Reserves assets (net) (negative sign indicates increase)..........................	1,797	(166)	302	(228)	(1,123)	(1,420.5)	(1,309.7)
Public Finance (RSD billions)							
Public Revenues............................	1,620.8	1,694.8	1,842.7	1,973.4	2,105.3	1,188.9	1,283.7
Public Expenditure........................	1,878.9	1,844.0	1,896.7	1,921.1	2,073.0	1,137.4	1,245.6
Consolidated Balance....................	(258.1)	(149.1)	(54.0)	52.3	32.2	51.5	38.0
Consolidated Balance (% of nominal GDP)..	(6.2)	(3.5)	(1.2)	1.1	0.6	1.4[1]	0.7[1]
Public Debt (RSD billions)..........	2,753.2	3,018.6	3,064.6	2,751.1	2,720.2	2,834.5	2,808.1
Internal Public Debt	1,078.0	1,174.7	1,129.7	1,102.0	1,130.9	1,169.3	1,171.4
External Public Debt	1,675.2	1,843.9	1,934.9	1,650.0	1,589.3	1,665.2	1,636.7
Gross Public Debt (% of nominal GDP)..	66.2	70.0	67.8	57.9	53.7	55.9	51.8

Source: Office of Statistics; National Bank; Ministry of Finance.

Note:
(1) The data refers to the six month period from January to June.

Overview of Risk Factors relating to the Issuer, the Market and the Notes

Risk Associated with Emerging Markets

- Investing in securities of emerging markets, including Serbia, involves a higher degree of risk than investing in more developed markets

Risk Associated with Serbia's Economy

- The Serbian economy is vulnerable to external shocks that may have a negative effect on the economic growth of Serbia and its ability to service its debt obligations
- Serbia may not become a member of the EU in the near to medium-term or at all
- The uncertainties surrounding the relations with Kosovo* may have a negative effect on political and economic conditions in Serbia

* The designation is without prejudice to positions on status, and is in line with the UN Resolution 1244 and the ICJ Opinion on the Kosovo declaration of independence.

- The current account deficit may undermine foreign exchange liquidity and regular servicing of external debt

- Reduced revenues, together with higher expenses, may adversely affect Serbia's ability to repay principal and make payments of interest on the Notes

- Inflation may have a material adverse effect on the Serbian economy

- Deterioration in Serbia's relations with its major energy suppliers, restricted energy supplies or increases in the prices of oil or natural gas may have adverse effects on the Serbian economy

- Serbia is subject to natural disasters, including droughts and floods, which has negatively affected it in the past and may negatively affect it in the future

- Political instability or a change in government could have a negative effect on Serbia's economy

- A portion of Serbia's economy is not recorded

- There is no guarantee that the credit rating of Serbia will not change

- Official economic data may be subject to some degree of uncertainty and could be revised

- Corruption and money laundering may adversely affect economic and social conditions in Serbia, slow down or halt progress towards EU membership and have a material adverse effect on the Serbian economy

Risks Associated with Serbia's Public Debt

- Significant depreciation of Dinar, if it occurs, may adversely affect Serbia's Public Debt and, in turn, impact its economy and public finances

Risks Associated with Serbia's Banking Sector

- Serbia's banking sector remains vulnerable to external shocks

- Foreign-owned banks may diminish or discontinue their support of their subsidiaries operating in Serbia

Risks Associated with Serbia's Judicial and Legal System

- The legal system of Serbia is not fully developed and therefore involves greater risk and uncertainty than other more developed legal systems

- A claimant may not be able to enforce a court judgement against certain assets of Serbia in certain jurisdictions

- Serbia is undertaking a number of reforms in its judicial system, some of which may not happen in the time period planned or may take longer than expected, which could impact economic and other reforms

Risks Related to the Notes Generally

- The Notes contain "collective action" clauses under which the terms of the Notes and/or multiple series of debt securities issued by the Issuer, including the Notes, may be amended, modified or waived without the consent of all the holders of the Notes or all the holders of any other series of debt securities being aggregated, as the case may be

- Governing law

- The Issuer is not required to effect equal or rateable payment(s) with respect to the Notes or any other unsecured obligations, and is not required to pay other unsecured obligations at the same time or as a condition of paying sums on the Notes and *vice versa*

Risks Related to the Market Generally

- The secondary market generally
- Exchange rate risks and exchange controls
- Interest rate risks
- Credit ratings may not reflect all risks
- The Notes will initially be held in book-entry form, and therefore the investor must rely on the procedures of the relevant clearing systems to exercise any rights and remedies
- Integral multiples of less than the minimum denomination amount

OVERVIEW OF THE OFFERING

*Capitalised terms not otherwise defined in this overview have the same meaning as in the terms and conditions of the Notes (the "**Conditions**"). See the Conditions for a more detailed description of the Notes.*

Issuer...	The Republic of Serbia (represented by the Government of the Republic of Serbia, acting by and through the Ministry of Finance).
New Notes Offered	€550,000,000 1.500 per cent. Notes due 2029 to be consolidated and form a single series with the Issuer's €1,000,000,000 1.500 per cent. Notes due 2029 (the "**Original Notes**" and, together with the New Notes, the "**Notes**") from the New Issue Date.
Original Issue Date	26 June 2019.
New Issue Date………………..	12 November 2019
Maturity Date	26 June 2029 (the "**Maturity Date**").
Interest on the Notes................	1.500 per cent. per annum.
Interest Payment Dates	The New Notes will bear interest from the Original Issue Date at a rate of 1.500 per cent. per annum payable annually in arrear on 26 June each year. The first payment of interest in respect of the Notes will be made on 26 June 2020 for the period from and including to 26 June 2019 but excluding 26 June 2020. See "*Terms and Conditions of the Notes – 7. Interest*".
Issue Price	102.251 per cent. of the principal amount of the New Notes (plus an amount equal to the accrued interest in respect of the period from (and including) 26 June 2019 to (but excluding) the New Issue Date.
Yield..	As at the New Issue Date and on the basis of the Issue Price, the yield of the New Notes is 1.250 per cent. per annum.
Redemption	The Issuer will redeem the Notes at their principal amount on the Maturity Date. See "*Terms and Conditions of the Notes – 9. Redemption and Purchase*".
Denominations	The New Notes will be offered and sold, and the Notes may only be transferred, in minimum principal amounts of €100,000 and integral multiples of €1,000.
Status	The Original Notes constitute, and the New Notes will constitute, direct, general, unconditional and (subject to the provisions of a negative pledge covenant described below) unsecured obligations of the Issuer. The Notes rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law, *provided, however, that* the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to such other unsecured obligations of the Issuer and, in particular, shall have no obligation to pay other unsecured obligations of the Issuer at the same time or as a condition of paying sums due on the Notes and *vice versa*. The full faith and credit of the Issuer is pledged for the due and punctual payment of all amounts due in respect of the Notes. See "*Terms and Conditions of the Notes – 4. Status*".

Negative Pledge........................	So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any of its Public External Indebtedness or any Guarantee of any Public External Indebtedness any other Person unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or providing such other security or other arrangement for the Notes as may be approved by an Extraordinary Resolution or a Written Resolution or Electronic Consent (as defined in Condition 14 (*Meetings of Noteholders; Written Resolutions* and Electronic Consents)) in each case in accordance with Condition 14 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*). See "*Terms and Conditions of the Notes – 5. Negative Pledge*".
Events of Default......................	The Conditions will permit the acceleration of the Notes following the occurrence of certain Events of Default. Holders of not less than 25 per cent. in the aggregate principal amount of the Notes may, by written notice to the Issuer, with a copy to the Fiscal Agent at its Specified Office, declare the Notes immediately due and payable and all principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives such written notice of the declaration. If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto. See "*Terms and Conditions of the Notes – 12. Events of Default*".
Form of Notes...........................	The Original Notes are, and the New Notes will be, in registered form, without interest coupons. The New Notes sold in offshore transactions in reliance on Regulation S will initially be in the form of a New Regulation S Global Note, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary. The New Notes sold to QIBs in reliance on Rule 144A will be issued initially in the form of a New Rule 144A Global Note, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary.
Taxation and Additional Amounts	All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic

	of Serbia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction had been required, subject to certain exceptions set out in "*Terms and Conditions of the Notes – 10. Taxation*".
Modification and Amendment	The terms and conditions of the Notes may be modified as a single series of Notes or, in respect of other debt securities containing substantively similar aggregation provisions to those applicable to the Notes. Each such amendment will be binding on all Noteholders, whether or not they voted in favour of such amendment or at all. See Condition 14 (*Meetings of Noteholders; Written Resolutions and Electronic Consents)*.
Use of Proceeds........................	The net proceeds of the issue of the New Notes will be used by the Issuer to refinance those of its outstanding U.S.$1,500,000,000 4.875 per cent. Notes due 2020 that are accepted for purchase by the Issuer as part of its cash tender offer announced on 28 October 2019 and any remaining proceeds will be used for general Budget purposes. See "*Use of Proceeds*".
Ratings......................................	The Original Notes were rated "BB" by S&P, "BB+" by Fitch and "Ba3" by Moody's and it is expected that the rating of the Notes will be the same immediately after the issuance of the New Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
	Each of S&P and Fitch is established in the European Union and Registered under the CRA Regulation. Moody's is not established in the European Union and has not applied for registration under the CRA Regulation. The ratings are endorsed by Moody's Investor Service Ltd which is established in the European Union and Registered under the CRA Regulation.
Listing and Admission to Trading.....................................	Application has been made to admit the New Notes to the Official List of the Financial Conduct Authority and to trading on the Market.
Governing Law........................	The New Notes will be, and the Original Notes are, governed by English law.
Transfer Restrictions..............	The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See "*Form of the Notes and Transfer Restrictions*".
Fiscal Agent and Principal Paying Agent...........................	Deutsche Bank AG, London Branch.
Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.
ISINs..	XS2015296465 Regulation S Global Note
	XS2015296549 Rule 144A Global Note
Common Codes........................	201529646 Regulation S Global Note
	201529654 Rule 144A Global Note

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and, in particular, should consider all the risks inherent in making such an investment. The Issuer believes that the following factors may, individually or in aggregate, affect its ability to repay the principal of, and make payments of interest and other amounts due on, the Notes or otherwise fulfil its obligations under the Notes. The value of the Notes could decline due to any of these risks and prospective investors may lose some or all of their investment. Most of these factors are contingencies which may or may not occur.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Additional risks and uncertainties not currently known to the Issuer or that the Issuer currently deems to be immaterial may also materially affect the Issuer's economy and its ability to fulfil its obligations under the Notes. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and make any other enquiries they think appropriate in order to reach their own views prior to making any investment decision.

Risks Associated with Emerging Markets

Investing in securities of emerging markets, including Serbia, involves a higher degree of risk than investing in more developed markets.

Investing in securities of emerging market countries, including Serbia, involves a higher degree of risk than investments in securities of corporate or sovereign issuers from more developed countries, and carries in some cases significant legal, economic and political risks. Although progress has been made in reforming Serbia's political and judicial systems, the Serbian legislative and judicial framework is still not in material respects in line with the standards adopted, for example, by EU member states or the United States. Moreover, the increasing dependence on FDI to support its economic growth makes Serbia particularly susceptible to disruptions in other emerging markets and international capital markets. Net FDI has increased in recent years and is expected to grow further, increasing Serbia's exposure to, and dependence on, global financial markets. Serbia's ability to attract FDI is, in some part, based on international perceptions of emerging markets as a whole and, as such, any factors that affect investor confidence, such as a decrease in credit ratings or state or central bank intervention in a particular emerging market, could affect the availability of foreign investments in Serbia. Investors' reactions to events occurring in one emerging market or region could have a "contagion" effect, in which an entire region or class of investment is disfavoured. As a consequence, any increase in the perceived risks associated with investing in emerging economies may decrease foreign investments in Serbia and possibly exert adverse effects on Serbia's ability to grow its economy sustainably based on investments in fixed capital and net exports, including long-term infrastructure projects which are partially funded by FDI. Even if Serbia's economy remains relatively stable, financial unrest or instability experienced in one or more countries located in an emerging market, could potentially have a negative impact on Serbia's economy.

Investors should also note that emerging economies, such as Serbia's, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging countries is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult their own legal and financial advisers before making an investment in the Notes.

Investment in the Notes could also be adversely affected by negative economic or financial developments in neighbouring countries or European countries more broadly, in addition to those of emerging markets more generally. For example, the Serbian economy is associated with, and subject to similar risks as, the other economies of the Balkan region. Economic and financial difficulties affecting such countries may negatively affect Serbia's economy. Foreign investors may associate the difficulties experienced by these economies with the Serbian economy, which may adversely affect investments in Serbia. Serbia's economy and its capacity to repay principal and/or interest on the Notes may be adversely affected by financial and/or economic crises that may occur in the future, including, but not limited to, issues arising from or linked to an economic slowdown in the Eurozone and a prolonged Eurozone depressed economy.

Risks Associated with Serbia's Economy

The Serbian economy is vulnerable to external shocks that may have a negative effect on the economic growth of Serbia and its ability to service its debt obligations

The Serbian economy remains vulnerable to external shocks, such as those caused by the global financial and economic crisis in 2008, which caused sharp declines in FDI inflows and exports of goods and increased the overall levels of government borrowing. The economic crisis in 2008 exacerbated depreciation of the domestic currency, inflationary pressures, fiscal imbalances, high unemployment levels, stagnation of imports and the incidence of a "grey" market economy. See "*Economy of Serbia – Overview*". While these trends have since reversed, Serbia's economy remains potentially exposed to deterioration in global economic conditions.

For instance, any significant decline in the economic growth of Serbia's main trading partners, including the EU member states, or any other deterioration in Serbia's relationships with such trading partners, could have an adverse effect on Serbia's balance of trade and adversely affect Serbia's economic growth. Concerns about credit risk (including that of sovereigns) and the large sovereign debts and/or fiscal deficits of several European countries (including Portugal, Italy, Ireland, Cyprus, Greece and Spain) have, from time to time, in recent years caused significant disruptions in international capital markets. Such disruptions have led to, and may in the future lead to, increased market volatility, reduced liquidity and inflated credit risk premiums for certain market participants or result in a reduction of available financing, all of which could adversely affect the global financial markets in ways which are difficult to predict. Such external events could also cause sharp declines in FDI inflows to, and exports of goods by, Serbia. While net FDI inflows have increased year on year since 2015, reaching EUR 3.2 billion in 2018, another decline in the flow of investments into the Serbian economy could lead to lower growth, which may impair Serbia's ability to sustain its GDP growth.

Serbia also depends on several international trade agreements to access world markets for a number of its major exports. Serbia's economy may be adversely affected if access to these export routes is materially impaired. In addition, Serbia's relations with many countries are characterised by a high level of bilateral infrastructural cooperation. The level of cooperation in the infrastructure sphere is steadily increasing with a number of major infrastructural projects being undertaken in the near to medium term future. As a consequence, the construction of the national and regional infrastructure projects in Serbia is part dependent upon the availability of bilateral funding from such countries. As at the date of this Prospectus, the Government has concluded bilateral loans with the Chinese Export-Import Bank, the Republic of Azerbaijan, the Russian Federation and the Abu Dhabi Development Fund. The total amount of loans from such countries amounted to EUR 4.7 billion in 2018, an 8.4 per cent. increase as compared to 2017. No assurance can, however, be given that Serbia's current bilateral cooperation and relationship with such countries will continue. Any deterioration in continued support from such bilateral creditors in the future could create an upward pressure on Government expenditure and, in turn, have an impact on the wider economy of Serbia. Also, the most significant contagion affecting Serbia's economy could be the decline in the economic performance of the countries with which it has bilateral relations. Several global economies, including China, are currently experiencing a slowdown in economic growth and stock market volatility. China is an important bilateral infrastructure partner of Serbia, which means that any significant disruption to economic stability or growth in China, or any rupture in economic or political relations between Serbia and China, could have an adverse effect on the economy of Serbia. There can be no assurance that weaknesses in the global economy, or a future external economic crisis, will not have a negative effect on Serbia's economy or on investors' confidence in Serbia's markets. This could affect Serbia's ability to raise capital in the international debt markets and may have a material adverse effect on the trading price of the Notes.

Serbia may not become a member of the EU in the near to medium-term or at all

Serbia is in the process of applying for full membership of the EU, which is a key strategic goal of the Government and which the Government believes will significantly benefit Serbia's economic development. On 1 March 2012, the European Council recognised Serbia's progress by granting it candidate country status. In June 2013, the European Council launched the accession process with a view to opening negotiations in January 2014. The accession negotiations with Serbia officially commenced on 21 January 2014. On 29 May 2019, the European Commission published the 2019 country report (the "**2019 Report**") on Serbia. This was the fifth progress report on Serbia since the country opened accession negotiations with the EU in January 2014. The 2019 Report shows that Serbia has continued to make progress in fulfilling the political and economic criteria for membership in the EU as well as demonstrating its ability to assume obligations of membership, but further progress is needed in a number of areas prior to accession.

The timing of Serbia attaining full membership of EU will depend on a number of economic and political factors relating to both Serbia and the EU. On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which sets out certain indicative steps which Serbia will need to complete in order to potentially be ready for membership by 2025. This EU strategy states that accession in 2025 will ultimately depend on strong political will, the delivery of real and sustained reforms, and definitive solutions to disputes with Kosovo*. Despite the EU's strategy and Serbia's continuing efforts, there can be no assurance that Serbia will become a full member of the EU within any given timescale or at all. In addition, Serbia is in the process of harmonising its current and future laws with the respective EU standards, which may have short-term and/or long-term effects on the Serbian economy. As of the date of this Prospectus, of the 35 chapters required to be reviewed and closed as part of the EU accession process, two chapters have been opened and provisionally closed and 17 additional chapters have been opened and remain open. If there are delays or other adverse developments in Serbia's accession to the EU, or Serbia does not become a member of the EU, this may have an adverse economic impact. Moreover, there can be no assurance that Serbia will become a member of EU within any given timescale or at all. For further discussion, please see "*Description of Serbia – Foreign Relations – European Union*".

The uncertainties surrounding the relations with Kosovo* may have a negative effect on political and economic conditions in Serbia

From time to time, Serbia has had disagreements with certain other countries because of Belgrade's firm stance on the status of the autonomous province of Kosovo and Metohija. See "*Description of Serbia – Historical Background*". The Government has declared itself committed to the legal and political defence of Serbia's sovereignty in Kosovo and Metohija. EU-facilitated and UN-supported dialogues between Belgrade and Pristina (the administrative center of the autonomous province of Kosovo and Metohija) on a number of issues have taken place since March 2011. However, a series of setbacks in recent months have caused the talks between Belgrade and Pristina to come to a standstill in October 2018, particularly, after Pristina raised customs duties on imports from Serbia and Bosnia and Herzegovina to 100 per cent. As a result, goods dispatched to Kosovo and Metohija in the first seven months of 2019 decreased by 79.8 per cent. compared to the same period in 2018. These factors have disrupted the normalisation of relations between Belgrade and Priština. Any further deterioration in relations between Belgrade and Pristina and/or between Serbia and the EU or United States, as a result of differences over the future status of the autonomous province of Kosovo and Metohija, may have a negative effect on political and economic conditions in Serbia, and on its international standing.

The current account deficit may undermine foreign exchange liquidity and regular servicing of external debt

In 2018, the current account deficit increased by EUR 172 million compared to 2017, amounting to EUR 2,223 million, but remained at 5.2 per cent. of GDP in line with the 2017 level. This was due to the higher surplus recorded in the trade in services and in the secondary income account, while the deficit on the primary income account narrowed. This significantly compensated for the higher deficit on trade in goods, which was the result of higher imports driven by rising investments and higher global oil prices. In the first seven months of 2019, the current account deficit increased by EUR 667.1 million compared to the same period in 2018, mainly due to increased investment activity. See "*External Sector – Balance of Payments*".

As a result of the growing investment in export-oriented sectors, the trade deficit of goods decreased by 1.2 per cent., 11.3 per cent. and 14.4 per cent., in 2014, 2015 and 2016, respectively, however, it increased by 28.2 per cent. and 31.2 per cent., in 2017 and 2018, respectively. In the first seven months of 2019, the trade deficit of goods (on F.O.B. basis) increased by 20.4 per cent. to EUR 3,254.8 million compared to EUR 2,704.1 million in the same period of 2018. This was largely attributable to the slowdown of external demand and partially due to the EU's decision to levy a cap on the imports of certain iron and steel products, which affected the production and overall growth of exports in this period, as well as stronger imports of intermediary products and equipment resulting from high FDI inflows. There can be no assurance that slower growth in exports compared to imports of goods will not adversely affect the capacity of Serbia's economy to generate foreign currency assets sufficient to cover liabilities arising from External Public Debt.

Taken as a whole, Serbia's current account balance is significantly affected by its trade balance and any future negative changes in the trade balance and the current account balance could have an adverse effect on the

* The designation is without prejudice to positions on status, and is in line with the UN Resolution 1244 and the ICJ Opinion on the Kosovo declaration of independence.

Serbian economy and thus on the ability of Serbia to repay principal and make payments of interest on the Notes.

Reduced revenues, together with higher expenses, may adversely affect Serbia's ability to repay principal and make payments of interest on the Notes.

In 2018, the Government achieved a Budget surplus of RSD 32.2 billion (representing 0.6 per cent. of GDP), against the IMF's deficit projection of RSD 28.4 billion, or 0.6 per cent. of GDP. However, various factors could affect the Government's spending and result in narrowing of the Budget surplus or lead to a deficit in the future periods. Such factors include, but are not limited to, increased Government subsidies (specifically subsidies to the agricultural sector as a result of severe weather conditions), the dependence of Serbia's retirement and disability fund on transfers from the Budget and the inability of the economy to utilise more labour force from the labour market. Social pressures, such as public support for increases in public sector wages, could also restrict the Government's ability to assign the same level of priority to maintain the public finances at stable levels.

Fiscal risks also exist due to Serbia's retirement and disability system, pursuant to which state benefits are paid out of contributions from the current work force. Since such contributions do not cover all pension related expenditures, the retirement and disability fund is subsidised by allocations from the Budget. In 2018, just over 28 per cent., or approximately EUR 1.5 billion (RSD 172.2 billion), of the total expenditure of this fund was financed by allocations from the Budget. The Government's expenditure on pensions from the Budget in this period was 10.4 per cent. of nominal GDP. Expenditure on public wages and pensions currently represents the largest category of expenditure in the Budget and this may continue in the future, driven also by worsening demographics. See "*Economy of Serbia – Social Insurance System – Pensions and disability" and "Public Finance – Consolidated General Government Budget*". Also, while the privatisation process in Serbia began in 2001, some large public enterprises are still in the process of being restructured and continue to receive substantial funding for their operations from the Budget. If the Government is unable to privatise these enterprises, they may require funding for their operations from the Budget, which may lead to deterioration of Serbia's public finances. Moreover, the Government's ability to make any future payments may be affected by economic cyclical trends, including the risk of stagnation in key economic sectors. Lower than expected growth could have a negative impact on the Budget revenues and could lead to Government deficits with resulting negative implications. Taken as a whole, reduced revenues, together with significant expenses related to public wages, social benefits (including pensions and healthcare), infrastructure projects and subsidies, may adversely affect Serbia's ability to repay principal and make payments of interest on the Notes.

Inflation may have a material adverse effect on the Serbian economy

Serbia's annual inflation rate, as measured by the end-of-period Consumer Price Index ("**CPI**"), was 1.7 per cent., 1.5 per cent., 1.6 per cent., 3.0 per cent. and 2.0 per cent. in 2014, 2015, 2016, 2017 and 2018, respectively. For the first seven months of 2019, the average rate of inflation was 2.1 per cent., well within the National Bank's target tolerance band (3 ± 1.5 per cent.), while the monthly movements of inflation within this period were driven by vegetable prices. However, the ability of the National Bank to control inflation depends on a number of factors, some of which are beyond the control of the Government. For example in early 2017, Serbia's inflation peaked at 4 per cent. with the rising prices of oil, fruits and vegetables, including a few other one-off price hikes, and gradually returned to the target range of 3.0 per cent. at the end of 2017, partly owing to the appreciation of Dinar against Euro. See "*Monetary System – Inflation and Interest Rates*".

High and sustained inflation may lead to market instability, a financial crisis, additional expenditures on wages and social transfers, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Serbia's economy.

Deterioration in Serbia's relations with its major energy suppliers, restricted energy supplies or increases in the prices of oil or natural gas may have adverse effects on the Serbian economy

Serbia imports a significant percentage of its energy requirements. While Serbia has in recent years sought to increase its energy self-sufficiency, in particular through a number of hydropower and renewable projects, Serbia still depends on imports of oil and natural gas primarily from Russia, while electricity is traded with neighbouring countries. Deterioration in bilateral trade relations with Serbia's major energy suppliers or restrictions on supplies of oil or natural gas or electricity to Serbia, or significant increases in prices of oil, natural gas or electricity, could adversely affect Serbia's economy. Government finances could be adversely affected if the Government subsidises energy prices against increases in oil or natural gas prices. Therefore, any major changes in relations with major energy suppliers to Serbia, and in particular any such changes adversely affecting supplies of energy resources to Serbia, may adversely affect the Serbian economy.

Serbia is subject to natural disasters, including droughts and floods, which has negatively affected it in the past and may negatively affect it in the future

Natural disasters, including floods, are a threat to the Serbian economy. Serbia may also be increasingly threatened by climate change. A global increase in the mean temperature is likely to lead to changed precipitation patterns and more frequent extreme weather events, such as prolonged droughts and flooding. Serbia's economy is dependent on a number of climate sensitive sectors, such as agriculture, mining and tourism. A change in climate may have several consequences, including lower agricultural and mining productivity, damage to coastal infrastructure, fragile ecosystems, impact on health and biodiversity, financial market disruption, lower GDP and altered migration patterns.

Expenditures associated with natural disaster relief efforts may adversely affect Serbia's budgetary position and, as a result, may impair Serbia's ability to service payments on the Notes. In addition, as agriculture, forestry and fisheries account for a significant portion of Serbia's total GVA (being 7.5 per cent. of total GVA in 2018), any natural disasters or other effects associated with climate change could have a material adverse effect on the Serbian economy.

Political instability or a change in government could have a negative effect on Serbia's economy

Serbia has had periods of political instability in the past, particularly following independence in 1992. The current presidential administration has undertaken significant political, legal and economic reforms with the goal of achieving macroeconomic stability and establishing an environment conducive to sustainable economic growth. Any significant changes in the political climate in Serbia, including changes affecting the stability of the Government or involving a reversal of reform policies, may have a negative effect on the economy.

In addition, should the existing or future Government of Serbia fail to continue with implementation of structural reforms, as reforms of this nature may be politically unpopular, the economy may not achieve sustainable growth. The extent to which Serbia will be able to attract broad scale investment in the absence of continuation of reforms is uncertain, and Serbia's ability to repay principal and make payments of interest on the Notes and to raise capital in the external debt markets in the future may be affected.

A portion of Serbia's economy is not recorded

A portion of Serbia's economy is comprised of the informal, or shadow, economy. The informal economy is not recorded and is only partially taxed, resulting in less revenue for the Government, unreliable statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and an inability to monitor or otherwise regulate a portion of the economy. Although the Government continues to attempt to address the informal economy, there can be no assurances that such measures will adequately address the issues and bring the informal economy into the formal sector.

There is no guarantee that the credit rating of Serbia will not change

The long-term debt of Republic of Serbia is currently rated "BB" (with a positive outlook) by S&P, who affirmed this rating on 14 December 2018. Fitch upgraded Serbia's rating from "BB" to "BB+" (with a stable outlook) on 27 September 2019. Furthermore, on 6 September 2019, Moody's reaffirmed its rating of Serbia as "Ba3" (and changed the outlook from stable to positive). There can be no guarantee that the Government will not experience credit downgrades or negative revisions to the outlook. Deterioration in key economic indicators or the materialisation of any of the risks discussed herein may contribute to credit rating downgrades. Any adverse changes in an applicable credit rating or credit rating outlook could adversely affect the trading price for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning ratings organisation at any time. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. Any adverse change in the credit ratings of Serbia could adversely affect the Government's ability to refinance existing indebtedness.

Official economic data may be subject to some degree of uncertainty and could be revised

A range of government ministries including the Ministry of Finance, along with the National Bank and the Office of Statistics, have prepared statistical data, which appears in this Prospectus. Certain of these statistics may be more limited in scope, less accurate, reliable and/or consistent in terms of basis of compilation between various ministries and institutions, and published less frequently compared to existing members of the EU. Consequently, prospective investors in the Notes should be aware that figures relating to Serbia's GDP and many other figures cited in this Prospectus may be subject to some degree of uncertainty. Furthermore, these limitations on statistical information may make adequate monitoring of key fiscal and economic indicators more difficult.

In addition, standards of accuracy of some statistical data may vary from ministry to ministry or from period to period. Moreover, the existence of an unofficial or "grey" economy may affect the accuracy and reliability of Serbia's statistical information. Also, statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from public sources and documents. The statistical information presented herein is based on the latest official information currently available from the stated source, including balance of payments data in accordance with the IMF's Balance of Payments Manual, 6th Edition and GDP data in accordance with ESA 2010. The development of statistical information relating to Serbia is, however, an on-going process, and revised figures are produced on a continuous basis. Figures presented may be subject to rounding. Prospective investors should be aware that none of the statistical information in this Prospectus has been independently verified. There may be differences between preliminary or estimates statistical data set forth in the Prospectus and actual results. As a result, investors may face difficulty in assessing the risks of investing in the Notes, which may adversely affect the liquidity and price of the Notes.

Corruption and money laundering may adversely affect economic and social conditions in Serbia, slow down or halt progress towards EU membership and have a material adverse effect on the Serbian economy

As in many other emerging market jurisdictions, concerns relating to the level of corruption and money laundering remain a significant issue in Serbia. Fighting corruption and money laundering are key priorities for Serbia, and over the years, the Government has made steady progress in improving accountability, governance standards and the legislative framework in Serbia. However, in Transparency International's 2018 Corruption Perceptions Index survey of 180 countries, Serbia was ranked 87th, down from 77th in 2017, indicating that a perception of public sector corruption within the country remains widespread.

Any such perception, allegations or evidence of corruption or money laundering involving the Government and/or members thereof, irrespective of whether such allegations prove to be factual or unfounded and whether honestly made or politically motivated, may create tensions between political parties, including parties within the governing coalition, otherwise destabilise the governing coalition and/or lead to early elections. In addition, any increase in perceived risk associated with corruption may have a negative impact on Serbia's economy and its reputation abroad, especially on its ability to attract foreign investment, and could slow down or halt progress towards EU membership. Also, while the Government has implemented several reforms with the aim of the increasing the efficiency of its domestic measures, there can be no certainty that the ongoing reforms will produce the desired result or that the new strategies will prove successful. A combination of all or some of these factors may have negative effects on economic and social conditions in Serbia.

Risks Associated with Serbia's Public Debt

Significant depreciation of the Dinar, if it occurs, may adversely affect Serbia's Public Debt and, in turn, impact its economy and public finances

A significant share of Serbia's Public Debt (as defined in *"Public Debt"*) is denominated in foreign currencies, particularly the Euro. As at 31 July 2019, 72.5 per cent. of Serbia's Public Debt was denominated in foreign currencies, and the proportion of aggregate Public Debt denominated in Dinar was 27.5 per cent. As a result, the debt to GDP ratio is very sensitive to exchange rate fluctuations. Fluctuations in exchange rates, resulting in the devaluation of the Dinar against the Euro, (which is the main foreign currency in use in Serbia), or other foreign currencies in which Serbia's Public Debt is denominated or payable, have resulted in the past, and may in the future result, in an increase in the debt obligations denominated or payable in other currencies and lead to an increase of Serbian public funds required for debt servicing. Any such currency movements could reduce the amount of public funds available to fund public investment projects and service social benefits and other

Budget expenditures. As a result, while a key priority of the National Bank is to strive for Euro/Dinar exchange rate stability, any significant future depreciation, if it occurs, could negatively impact Serbia's economic performance, credit rating and/or its ability to service its debt.

Risks Associated with Serbia's Banking Sector

Serbia's banking sector remains vulnerable to external shocks

Serbia's banking sector continues to be relatively concentrated and vulnerable to macroeconomic shocks. Commercial banks are dominant market participants in Serbia, with a market share of around 90 per cent. At the end of July 2019, the banking sector of Serbia consisted of 26 banks, of which 19 are majority owned by foreign shareholders, three are owned by domestic private individuals and four are state-owned. As of 31 July 2019, there was a high level of concentration of foreign ownership in the banking sector, with foreign-owned banks (from 13 different countries) holding 76.6 per cent. of the banking sector's total assets, 82.4 per cent. of the banking sector's total loans and 74.8 per cent. of the banking sector's total deposits.

As of 31 July 2019, the banking sector also had a high level of loans denominated in EUR and other foreign currencies, giving rise to risks relating to currency fluctuations. As of 31 July 2019, foreign currency denominated loans constituted approximately 66.3 per cent. of total loans in the banking sector and foreign currency denominated deposits amounted to approximately 67.8 per cent. of the total deposit portfolio of the banking sector. To increase the efficiency of the banking sector, the Government is planning a number of reforms, such as the privatisation of some state-owned banks, including to foreign investors. However, there can be no assurance that such reforms will be successful or sufficient. These factors in Serbia's banking sector may result in the banking sector being more susceptible to future worldwide credit market downturns and economic slowdowns. As a consequence, Serbia's banking sector remains vulnerable and there can be no assurance that future turmoil in the global banking sector and the wider economy will not have a negative effect on Serbia's banking sector, which could have a material adverse effect on Serbia's economy and the trading price of the Notes.

Foreign-owned banks may diminish or discontinue their support of their subsidiaries operating in Serbia

As at 31 July 2019, foreign-owned banks accounted for approximately 76.6 per cent. of total assets, 82.4 per cent. of total loans and 74.8 per cent. of total deposits in the Serbian banking system. See "*Monetary System – Banking Sector*". In particular, the Serbian banking sector is exposed to the banking systems of other European countries, particularly Italy (with Italian banks owning 26.9 per cent. of the total assets of the Serbian banking system). Such foreign banks may seek to rebalance their global loan portfolios in a manner adversely affecting Serbia as a result of events related or unrelated to Serbia, including adverse economic developments in Europe and negative factors impacting the sovereign debt markets. In addition, foreign banks may decrease funding to their subsidiaries operating in Serbia due to actual or perceived deterioration in asset quality, particularly in a weaker than expected economic performance. As a result of these or other factors or other potential shocks, foreign banks may revise their business strategies in, or relating to, Serbia and, in particular, their decision to continue to provide existing level of funding to their subsidiaries in Serbia. This may exert negative effects on local currency. Resulting balance sheet mismatches may negatively affect the Serbian economy and its ability to fund payments on debt obligations, including the Notes.

Risks Associated with Serbia's Judicial and Legal System

The legal system of Serbia is not fully developed and therefore involves greater risk and uncertainty than in other more developed legal systems

Serbia has taken, and continues to take, steps aimed at developing a more mature legal system, comparable to the legal systems of EU countries. In recent years, various new laws have been introduced and revisions have been made in order to harmonise domestic legislations with EU laws. However, Serbia's legal system remains in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, the new laws and revisions remain untested in courts and do not have a long history of interpretation and, consequently, may be subject to contradictory, ambiguous or changing interpretations by the Serbian regulatory authorities and judiciary. In some circumstances, therefore, it may not be possible to obtain swift enforcement of a judgment in Serbia or predict the outcome of legal proceedings subject to these new laws.

These and other factors that may impact Serbia's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more developed legal system.

A claimant may not be able to enforce a court judgment against certain assets of Serbia in certain jurisdictions

It may not be possible to effect service of process against Serbia in courts outside Serbia or in a jurisdiction to which Serbia has not explicitly submitted. In addition, the choice of jurisdiction of a foreign court (including English courts) in contractual agreements may be held to be invalid by a Serbian court in certain circumstances. Such circumstances may include Serbian courts finding that such contractual arrangements are contrary to public policy.

It may not be possible to enforce foreign court judgments in the courts of Serbia, including English court judgments, against Serbia that are predicated upon the laws of foreign jurisdictions, such as English law, without a re-examination of the merits of such judgments in the Serbian courts, although a re-examination of the merits of a judgment will generally not be conducted according to the applicable law.

Recognition and enforcement in the courts of the Republic of Serbia of any foreign court judgement is conditional, among others, on reciprocity in judgement recognition and enforcement between the Republic of Serbia and the country of origin of the foreign judgement. There is a legal presumption that such reciprocity exists and, according to the opinion of the Serbian Ministry of Justice, factual reciprocity with United Kingdom exists on the date of this Prospectus. In addition, it may not be possible to enforce a foreign court judgement if it is found by the Serbian court to be contrary to the "foundations of social and political order as determined in the Constitution" which is the Serbian version of the public policy exception to the recognition and enforcement of foreign judgments. According to a judgment of the Higher Commercial Court in Belgrade, "foundations of social and political order as determined in the Constitution" is a concept narrower than the concept of mandatory norms. Nevertheless, a precise list of criteria for determination of such public policy rules does not exist.

There is also a risk that the choice of English law as the governing law of the Notes might not be applied by the courts of Serbia in certain circumstances. Such circumstances may include Serbian courts finding that the effect of application of English law would be incompatible with the "foundations of social and political order as determined in the Constitution".

Serbia is a sovereign state and there is a risk that, notwithstanding the limited waiver of sovereign immunity by Serbia pursuant to the Conditions of the Notes, a claimant will not be able to enforce a court judgment against certain assets of Serbia (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) in certain jurisdictions (including Serbia) without Serbia having specifically consented to such enforcement at the time when the enforcement is sought. Furthermore, Serbia reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under any United States federal or state securities law. In the absence of a waiver of immunity by the Republic of Serbia with respect to such actions, it may not be possible to obtain a judgment in such an action brought in a court located in the United States against the Republic of Serbia unless such court were to determine that Republic of Serbia is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions. See "*Terms and Conditions of the Notes –Governing Law and Jurisdiction*".

In addition, certain state-owned assets are statutorily exempt from court enforcement procedures within Serbia. Specifically, Serbia has not waived any immunity in respect of present or future: (i) "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) assets that cannot be in commerce, (iv) military property or military assets and buildings, weapons and equipment designated for defence, state and public security, (v) receivables the assignment of which is restricted by law, (vi) natural resources, common use items, grids in public ownership, river basin land and water facilities in public ownership, protected natural heritage in public ownership and cultural heritage in public ownership, (vii) real estate in public ownership which is, partly or entirely, used by the authorities of the Republic of Serbia, autonomous provinces or local self-government for the purpose of exercising their rights and duties; (viii) the state's, autonomous province's or local government's stocks and shares in companies and public enterprises, unless the relevant entity consented to the establishment of a pledge over such stocks or shares, (ix) movable or immovable assets of health institutions, unless a mortgage was established based on the Government's decision or (x) other assets exempt from enforcement by law or international treaties.

Serbia is undertaking a number of reforms in its judicial system, some of which may not happen in the time period planned or may take longer than expected, which could impact economic and other reforms

Serbia's judicial system has been and is currently undergoing reform aimed at: (i) improving transparency and efficiency in the judicial process; (ii) improving efficiency of the investigation and prosecution of high level corruption; and (iii) implementing a broad anti-corruption framework within the Serbian justice system. For details on ongoing reforms, see "*Description of Serbia - Judicial Reform and Judicial System*".

There can be no certainty that ongoing reform efforts will produce the desired results or that the new strategies will prove successful. If Serbia were unable to effectively and successfully implement its reform efforts or if existing reforms were to prove less effective than initially observed or contemplated, this would likely depress confidence in Serbia's judicial system, which may have a materially adverse effect on the Serbian economy.

Risks Related to the Notes Generally

The Notes contain "collective action" clauses under which the terms of the Notes and/or multiple series of debt securities issued by the Issuer, including the Notes, may be amended, modified or waived without the consent of all the holders of the Notes or all the holders of any other series of debt securities being aggregated, as the case may be

The terms and conditions of the Notes contain provisions regarding amendments, modifications and waivers, commonly referred to as "collective action" clauses. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not vote and/or Noteholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple series of notes, including the Notes, to be aggregated for voting purposes (*provided that* each such series also contains the collective action clauses in the terms and conditions of the Notes). This means that the Notes are capable of aggregation with any such existing debt securities and any debt securities issued in the future containing such collective action clauses, and that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of debt securities in all relevant aggregated series, including the Notes.

Any modification or actions relating to reserved matters, including in respect of payments and other important terms, may be made to the Notes with the consent of the holders of 75 per cent. of the Notes outstanding. Any modification or actions relating to reserved matters may also be made to multiple series of notes, including the Notes, with the consent of both (i) the holders of 66⅔ per cent. of the aggregate principal amount outstanding of all series of notes being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each series of notes being aggregated.

In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable (as defined in Condition 14 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*)) condition in the terms and conditions of the Notes, any such modification or action relating to reserved matters may be made to multiple series of debt securities, including the Notes, with the consent of 75 per cent. of the aggregate principal amount outstanding of all series of debt securities being aggregated only, without requiring a particular percentage of the holders in any individual affected series of debt securities to vote in favour of the proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some series of debt securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more series of debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk therefore that the terms and conditions of the Notes may be amended, modified or waived in circumstances whereby holders of debt securities voting in favour of an amendment, modification or waiver may be holders of a different series of debt securities, and, as such, less than 75 per cent. of the Noteholders have voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple series of debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

In the future, the Issuer may issue debt securities which contain or amend the terms and conditions of any existing debt securities to include collective action clauses in the same form as the collective action clauses in the terms and conditions of the Notes. If so, the Notes would be capable of aggregation with any such future debt securities.

Governing law

The Conditions are based on English law in effect as at the date of this Prospectus. There can be no assurance as to the impact of any possible judicial decision or change in English law or administrative practice after the date of this Prospectus.

The Issuer is not required to effect equal or rateable payment(s) with respect to the Notes or any other unsecured obligations, and is not required to pay other unsecured obligations at the same time or as a condition of paying sums on the Notes and vice versa

The Notes rank and will rank at least *pari passu* in right of payment with all other unsecured obligations of the Issuer from time to time outstanding, save only for such obligations as may be preferred by mandatory provisions of applicable law. However, the Issuer will have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsecured obligations and, in particular, will have no obligation to pay other unsecured obligations at the same time or as a condition of paying sums due on the Notes and *vice versa*. Accordingly, the Issuer may choose to prioritise payment obligations of other unsecured creditors of the Issuer as payments fall due. See Condition 4 (*Status*) for further details.

Risks Related to the Market Generally

The secondary market generally

An application has been made to the FCA for the New Notes to be admitted to the official list of the FCA and to the London Stock Exchange for the New Notes to be admitted to trading on the Market. There can be no assurance that any such listing or admission will be obtained or, if they are obtained, that an active trading market for the Notes will develop or be sustained. If a market does develop, it may not be liquid, which may have a severely adverse effect on the market value of the Notes. The market for the Notes will be influenced by economic and market conditions in Serbia and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States and the Member States of the EU. In addition, liquidity may be limited if the Issuer makes or has made large allocations to a limited number of investors. The Notes may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the political, economic and financial condition of Serbia or other factors. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of euros or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euros would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

The credit rating(s) assigned to the Notes at any time may not reflect the potential impact of all risks related to the structure, the market, the additional risk factors discussed above, and other factors not presently known to the Issuer that may affect the value of the Notes. Therefore, prospective investors should also read the detailed information set out elsewhere in this Prospectus and make any other enquiries they think appropriate in order to reach their own views prior to making any investment decision. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the assigning ratings organisation at any time.

The Notes will initially be held in book-entry form, and therefore investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

Unless and until Notes in definitive registered form are issued in exchange for book-entry interests (which may occur only in limited circumstances), owners of book-entry interests will not be considered owners or holders of Notes. The common depositary or nominee for Euroclear and Clearstream, Luxembourg, as applicable, will be the sole registered holder of the Global Notes representing the Notes. Payments of principal, interest and any other amounts owing on or in respect of the relevant Global Notes will be made to Deutsche Bank AG, London Branch as principal paying agent, which will make payments to Euroclear and Clearstream, Luxembourg, as applicable. Thereafter, these payments will be credited to participants' accounts that hold book-entry interests in the Global Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, Luxembourg, as applicable, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if investors own a book-entry interest, investors must rely on the procedures of Euroclear or Clearstream, Luxembourg, as applicable, and if the investor is not a participant in Euroclear or Clearstream, Luxembourg, on the procedures of the participant through which it own its interest, to exercise any rights of a holder under the terms and conditions of the Notes.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if the investor owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable the investor to vote on any matters on a timely basis.

Integral multiples of less than the minimum denomination amount

The denomination of the Notes is €100,000 and integral multiples of €1,000 in excess thereof. Therefore, it is possible that the Notes may be traded in amounts in excess of €100,000 that are not integral multiples of €100,000. In the event that a Noteholder holds a principal amount of less than €100,000, such Noteholder would need to purchase an additional amount of Notes such that it holds an amount equal to one or more denominations to be able to trade such Notes. If a Noteholder, as a result of trading such amounts, holds a principal amount of less than €100,000, it will not receive a definitive Note Certificate (as defined below) in respect of such holding (should definitive Note Certificates be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more denominations.

If Note Certificates are issued, holders should be aware that Note Certificates which have a denomination that is not an integral multiple of €100,000 may be illiquid and more difficult to trade than Notes denominated in an integral multiple of €100,000.

USE OF PROCEEDS

The net proceeds of the issue of the New Notes will be used by the Issuer to refinance those of its outstanding U.S.$1,500,000,000 4.875 per cent. Notes due 2020 that are accepted for purchase by the Issuer as part of its cash tender offer announced on 28 October 2019 and any remaining proceeds will be used for general Budget purposes.

DESCRIPTION OF SERBIA

Geography and Population

Serbia is located in the central part of the Balkan Peninsula and occupies an area of approximately 88,499 square kilometres. By virtue of its geographic position, it controls some of the major land routes between Western Europe and Turkey and the Near East. The roads through its river valleys make up the shortest link between Western and Central Europe, on the one side, and the Middle East, Asia and Africa, on the other. Serbia is bordered by eight other countries: to the East by Bulgaria, to the North East by Romania, to the North by Hungary, to the West by Croatia, Montenegro, and Bosnia and Herzegovina and to the South by Albania and North Macedonia.

Serbia consists of 29 administrative districts as well as two autonomous provinces, Vojvodina in the north and Kosovo and Metohija in the south. Belgrade is the capital city and the administrative, economic and cultural centre of Serbia, and is where the Government and its agencies are located.

As of the date of the last census in 2011, Serbia had a total population of approximately 7.2 million (excluding Kosovo and Metohija as this is treated as a separate statistical area according to UN Resolution 1244, as defined below). The highest population concentration is in Belgrade, with approximately 1.7 million people, representing approximately 23.0 per cent. of the national total, according to the most recent census. Other cities have much smaller populations.

As of the 2011 census, the majority (approximately 83.3 per cent.) of the population were ethnic Serbs, while the national minorities (approximately 13 per cent.) consisted of Hungarians, Roma and Bosniaks. There are also a significant number of other nationalities and ethnic groups within Serbia, which include Slovaks, Croats, Montenegrins, Vlachs, Romanians, Macedonians, Bulgarians, Albanians and Bunjevci.

The official language of Serbia is Serbian, which uses the Cyrillic alphabet. A significant majority of the population speaks Serbian, with Albanian being spoken in Kosovo and Metohija and Hungarian being spoken in Vojvodina. The main religion in Serbia is Orthodox Christianity. The Serbian Orthodox Church became autocephalous in 1219 and has played a large role historically in the evolution of national Serbian identity. Romanians, Bulgarians and a majority of the Roma population are also Orthodox Christian, although other religious communities exist in Serbia, including Islamic, Catholic, Protestant and Jewish communities.

Historical Background

The first Serbian medieval state was created in 1170 by Stefan Nemanja, whose son was canonised as St. Sava, the patron saint of the Serbian Orthodox Church. During the reign of Stefan Prvovencani, Serbia became an independent kingdom in 1217 and reached the peak of its power in 1346 as the Empire of Tsar Stefan Dusan.

The Osmanli Turks defeated the Serbian army at the Battle of Kosovo in 1389 and imposed their rule over Serbia after the fall of Smederevo in 1459. From 1459 to 1804, Serbia was under the direct rule of the Osmanli Empire and the Austro-Hungarian Empire. In the First Serbian Uprising (1804 to 1813), led by Karadjordje Petrovic, Serbia sought independence from Turkish rule. The Serbian rebels briefly developed an independent state, but this was soon taken back under control by Turkish forces. The Second Serbian Uprising occurred two years later under the leadership of Milos Obrenovic. Under the Sultan's Edict of 1830, Serbia was granted autonomy and became a vassal principality of the Turkish Osmanli Empire with Milos Obrenovic as its hereditary prince. On 15 February 1835, Serbia adopted a constitution defining it as an independent principality ruled by the Obrenovic Dynasty. The Obrenovics ruled until the May Coup in 1903 (except for a brief period from 1848 to 1858), when King Aleksandar Obrenovic was assassinated and the Karadjordjevic Dynasty took power.

In 1867, the last Osmanli troops left Serbia and it became *de facto* independent. At the Congress of Berlin in 1878 the international community recognised Serbia's independence. In 1882, Serbia became a kingdom during the rule of Milan Obrenovic. Serbia then expanded its territory to the south after its victory against the Ottoman Empire during the wars between 1876 - 1878 and in the Balkan Wars in 1912 and 1913.

During World War I, Serbia was occupied by Austro-Hungarian and Bulgarian forces. After the war, the collapse of the Austro-Hungarian Empire led to the formation of the Kingdom of Serbs, Croats and Slovenians on 1 December 1918 (renamed Yugoslavia in 1929) with the Karadjordjevics as the ruling dynasty and consisting of Serbia, Montenegro and the former South Slavic provinces of the Austro-Hungarian Empire. During World War II, various parts of Yugoslavia were occupied by Germany, Italy, Hungary and Bulgaria. Following the end of the war, Bosnia and Herzegovina, North Macedonia and Montenegro were given separate and equal republican status within the new socialist federation of Yugoslavia. A Yugoslav communist regime, led by Marshall Tito, then ruled Yugoslavia for more than four decades.

The 1980s coincided with the growing separatist and nationalist tensions emerging in Yugoslavia. In 1987, Slobodan Milosevic came to power and dismissed the separatist leadership of the Socialist Autonomous Province of Kosovo and Metohija. Between 1991 and 1992, Slovenia, Croatia, Bosnia and Herzegovina, and North Macedonia seceded from Yugoslavia. The two remaining republics, Serbia and Montenegro, declared a new state, the Federal Republic of Yugoslavia ("**FRY**"), in 1992. In 1997, the armed terrorist organization of Kosovo Albanians, the so-called Kosovo Liberation Army, launched armed actions aimed at destroying the constitutional order, directed not only against the security forces of the FRY, but also against state and provincial institutions and citizenship in general, with the secession of Kosovo from the FRY as a proclaimed political goal, which led to the armed conflict in Kosovo that lasted from 1998 to 1999. As a result, the North Atlantic Treaty Organisation ("**NATO**") intervened in March 1999, sponsoring a campaign of bombing (the "**NATO bombing campaign**") in the FRY that lasted 79 days, from March to June 1999. In June 1999, the mandate of the United Nations Interim Administration Mission in Kosovo ("**UNMIK**") was established by the United Nations Security Council pursuant to its Resolution 1244 ("**UN Resolution 1244**"), and the NATO bombing campaign ceased. Prior to the NATO bombing campaign, many European countries severed relations with Serbia. However, relations were re-established with many of these countries after federal elections in 2000.

On 5 October 2000, President Milosevic conceded defeat in federal elections, largely due to Serbian protests in support of the opposition party, Democratic Opposition of Serbia, led by Vojislav Kostunica, who then became President, and Zoran Djindjic, who was elected Prime Minister in December 2000.

In 2002, the former FRY government established a commission to assist in co-operation with the International Criminal Tribunal for the former Yugoslavia ("**ICTY**") under Resolution 827 of the U.N. Security Council. The commission began serving arrest warrants for those seeking refuge in Serbia who had been indicted for war crimes during the Yugoslav conflict in the 1990s. See "*Description of Serbia – Foreign Relations – Co-operation with the ICTY*".

In March 2002, each of Serbia and Montenegro signed the Belgrade Agreement, creating a joint State Union of Serbia and Montenegro (the "**State Union**"). The State Union's Constitutional Charter was ratified on 4 February 2003. The Belgrade Agreement provided for each of Serbia and Montenegro to hold a referendum on whether to maintain the State Union three years after its creation. In May 2006, Montenegro voted for full independence by a majority of 55.4 per cent. of participating voters. Montenegro declared its independence on 3 June 2006. Serbia declared independence two days later on 5 June 2006, completing the dissolution of the State Union.

Upon Serbia's re-emergence as an independent state, the Assembly changed the name of the country to the Republic of Serbia. A referendum was held on 28-29 October 2006 to approve the new Constitution of Serbia (the "**Constitution**"), which came into force on 8 November 2006.

On 17 February 2008, Kosovo* Albanian members of parliament from the convocation of the Assembly established based on the Constitutional Framework for Provisional Self-Government in Kosovo* (UNMIK Regulation 2001/9 of 15 May 2001) issued a declaration of Kosovo's* independence from Serbia purporting to establish the Republic of Kosovo*. On the following day, the Republic of Serbia adopted and confirmed the Government's decision to annul such unilateral proclamation of independence. In early 2008, Serbia severed diplomatic relations with certain countries who formally recognised Kosovo* as an independent state (including the United States, Canada, Australia and Japan, as well as several member states of the EU), but all of these diplomatic relationships have since been reinstated.

On 15 August 2008, the Republic of Serbia submitted a request to the UN General Assembly to adopt a resolution requesting the opinion of the International Court of Justice ("**ICJ**") on the legality of the unilaterally declared independence of the Republic of Kosovo*. On 8 October 2008, the UN General Assembly responded positively by adopting Resolution 63/3 and requested the ICJ to provide an advisory opinion. On 22 July 2010, the ICJ delivered an opinion (the "**ICJ Opinion**") that the unilateral declaration of independence of 17 February 2008 did not violate any applicable rule of international law as general international law contains no prohibition on declarations of independence and moreover, since the declaration was not issued by the Provisional Institutions of Self-Government of Kosovo* (the local administrative bodies in Kosovo* established by UNMIK), nor was it an act intended to take effect, or actually taking effect, within the legal framework under which those Provisional Institutions operated, its authors were not bound by the framework of powers and responsibilities established to govern the conduct of those Provisional Institutions. The court explicitly did not address the legal consequences of the declaration, nor whether Kosovo* had achieved the status of an independent state. On 9 September 2010, the UN General Assembly confirmed the content of the advisory opinion of the ICJ.

The Government has declared itself committed to the legal and political defence of Serbia's sovereignty in Kosovo*. EU-facilitated and UN-supported dialogue between Belgrade and Pristina (the administrative centre of the autonomous province of Kosovo and Metohija*)* on a number of issues have taken place since March 2011. However, discussions stalled and tensions heightened in the wake of border disputes in the autumn of 2011, and discussions were further delayed following Serbia's 2012 elections. Belgrade and Pristina resumed their dialogue in the autumn of 2012, and on 19 April 2013, the then Prime Minister of Serbia and the Prime Minister of Kosovo* signed an agreement on behalf of Belgrade and Pristina (the "**Belgrade and Pristina Agreement**"). The Belgrade and Pristina Agreement provides for the establishment of the Union of Serbian Municipalities (areas with a Serbian majority) in the territories of Kosovo and Metohija, and calls for local elections in North Kosovo in line with international standards. It also establishes the framework for integrating North Kosovo's police and security forces and judicial institutions with the rest of the Kosovo* government. Similarly, it also creates mutual obligations between Serbia and Kosovo* to not interfere with each other's membership negotiations with the EU. These points were reaffirmed in the Government's report on negotiations ratified by the Serbian parliament on 26 April 2013. The Serbian government established a committee to create a plan for the implementation of the Belgrade and Pristina Agreement. The plan was adopted by Serbia's government on 27 May 2013. At the end of 2013 and at the beginning of 2014, agreements on civil protection and justice were agreed. Since 2011, a total of 45 agreements have been reached. Since 2014, Serbia has been implementing all the obligations stipulated under the Belgrade and Pristina Agreement, which is evidenced through the signing of these agreements. However, a recent series of setbacks have caused the talks between Belgrade and Pristina to come to a standstill. In particular, in November 2018, Kosovo* raised customs duties on imports from Serbia and Bosnia and Herzegovina to 100 per cent. These developments have disrupted the process of working towards normalisation of relations with Kosovo*. Any further deterioration in relations between Belgrade and Pristina and/or between Serbia and the EU or United States as a result of differences over the future status of the autonomous province of Kosovo and Metohija, may have negative effects on the political and economic conditions in Serbia, and on its international standing. See "*Risk Factors – Risks Associated with Serbia's Economy – Serbia may not become a member of the EU in the near to medium-term or at all*" and "*Risk Factors*

* The designation is without prejudice to positions on status, and is in line with the UN Resolution 1244 and the ICJ Opinion on the Kosovo declaration of independence.

– *Risks Associated with Serbia's Economy – The uncertainties surrounding the relations with Kosovo* may have a negative effect on the political and economic conditions in Serbia*".

The Constitution and Government Structure

The Constitution defines Serbia as an independent state and establishes the autonomy of its two autonomous provinces, Vojvodina and Kosovo and Metohija. The Constitution specifies the President as the Commander-in-Chief of Serbia's armed forces and grants full independence to the National Bank. The Constitution divides power between (i) the executive branch, comprising the Government and the President, (ii) the legislative branch, consisting of the Assembly and (iii) the judicial branch. The three branches have separate but equal powers and the judiciary is fully independent.

Executive Branch

The Government

The Government is led by the Prime Minister who has a mandate, subject to approval by a majority vote of the Assembly, to determine the composition of the Government, which is made up of Deputy Prime Ministers and Ministers. Among its main roles, the Government proposes laws to the Assembly for adoption, expresses its opinion about laws proposed to the Assembly by other bodies, directs, co-ordinates and monitors the work of state administrative bodies, adopts regulations and other general acts necessary for the enforcement of laws and is responsible for the enforcement of law. The Government is accountable to the Assembly and is required to submit a report at least once a year, either upon the request of the Assembly or of its own initiative.

The governing coalition is led by the Serbian Progressive Party and the Socialist Party of Serbia (the "**Coalition**"). In the most recent parliamentary elections held on 24 April 2016, the Coalition received the largest number of votes, winning 131 seats in the Assembly, retaining a majority government. The Coalition took office on 11 August 2016 with Aleksandar Vučić as Prime Minister and included the Serbian Progressive Party, Socialist Party of Serbia, Social Democratic Party of Serbia, Party of United Pensioners of Serbia, New Serbia, Movement of Socialists, Serbian Renewal Movement, Serbian National Party, Strength of Serbia Movement and United Serbia. See "– *Legislative Branch – The Assembly*". However, in the 2017 presidential election, Aleksandar Vučić was elected as the President of Serbia and subsequently Ana Brnabić was appointed as the first female Prime Minister on 29 June 2017.

The following table lists the current principal officials of the Government:

Name	Position	Party
Ana Brnabić	Prime Minister	Serbian Progressive Party
Ivica Dačić	First Deputy Prime Minister and Minister of Foreign Affairs	Socialist Party of Serbia
Nebojsa Stefanović	Deputy Prime Minister and Minister of the Interior	Serbian Progressive Party
Rasim Ljajić	Deputy Prime Minister and Minister of Trade, Tourism and Telecommunications	Social Democratic Party of Serbia
Zorana Mihajlović	Deputy Prime Minister and Minister of Construction, Transport and Infrastructure	Serbian Progressive Party
Branko Ruzić	Minister of Public Administration and Local Self-Government	Socialist Party of Serbia

* The designation is without prejudice to positions on status, and is in line with the UN Resolution 1244 and the ICJ Opinion on the Kosovo declaration of independence.

Name	Position	Party
Siniša Mali	Minister of Finance	Appointed on recommendation of the Serbian Progressive Party
Goran Knežević	Minister of Economy	Serbian Progressive Party
Jadranka Joksimović	Minister for European Integration	Serbian Progressive Party
Nela Kuburović	Minister of Justice	Serbian Progressive Party

Source: The Government.

The Government is currently comprised of 17 ministries with 20 ministers, including four deputy prime ministers and three ministers without portfolio.

The President

The President of Serbia is elected through direct elections, by secret ballot, for a five-year term and may not serve more than two terms under the Constitution. The President is the Commander-in-Chief of Serbia's armed forces and, following the election of a new Government, proposes a candidate for Prime Minister to the Assembly. The President has authority to: (i) with a written explanation, return a proposed law to the Assembly for further consideration if he deems that the law does not accord with the Constitution or conflicts with ratified international treaties or generally accepted rules of international law; that relevant law-making procedures were not followed; or that the law does not regulate the relevant matter in the appropriate manner; (ii) dismiss the Assembly, if proposed by the Government; (iii) declare laws by decree; (iv) post and recall ambassadors; (v) appoint, promote and dismiss officers of Serbia's armed forces; and (vi) grant amnesties and award honours. The most recent presidential election was held on 2 April 2017. The Serbian Progressive Party candidate, Aleksandar Vučić, won 55.1 per cent. of the total vote.

The next presidential election is due to be held in April 2022.

Legislative Branch

The Assembly

The Assembly is the supreme representative body of the constitutional and legislative power in Serbia. The Assembly is the unicameral parliament of Serbia and consists of 250 deputies elected in direct elections to serve four-year terms. Under the Constitution, parliamentary elections are required to be called by the President 90 days before the end of the Assembly term, in order that the elections may be held within the following 60 days.

The Assembly elects the Government and is responsible for the following appointments: (i) the Governor and Vice-Governors of the National Bank and the Governor's Council as well as the Director of the Financial Institutions Supervisory Administration ("**FISA**"); (ii) Serbia's Ombudsman (responsible for protecting the rights of citizens and monitoring administrative institutions, agencies and legal entities entrusted with public power); (iii) one third of the Constitutional Court judges and other members of the judiciary. The Assembly makes a final decision on the election or dismissal of judges and public prosecutors but it only acts upon the recommendation of the High Judicial Council and High Prosecutorial Council (see "*– The Judiciary – Judicial reform*"), court presidents and public prosecutors. The Assembly also has the authority to proclaim a state of war. Among its other constitutional and legislative powers, the Assembly: (i) passes laws, amendments and addenda to the Constitution; (ii) approves the Budget and annual financial statements; (iii) approves the state security and defence strategy; (iv) maintains civil control over the armed forces and state security services; and (v) ratifies international agreements pursuant to the Constitution.

In order to propose a law, the proposing person or entity is required to submit the draft law in the form in which the law is intended to be adopted together with an explanation of the law and a statement certifying that (i) the draft law has been harmonised with EU legislation; or (ii) there is no obligation to harmonise the draft law with EU legislation; or (iii) the draft law cannot be harmonised with EU legislation. In addition to this, an estimate of the financial effects of any draft legislation submitted to the Assembly that may potentially increase the deficit is to be provided.

The following table shows the number and percentage of seats in the Assembly held by each political party as at the date of this Prospectus. Members of the Coalition have 156 seats or 62.4 per cent. of the total number of seats.

Name of Party	**No. of seats**	**Share of total seats**
		(%)
Governing Coalition	**156**	**62.4**
Serbian Progressive Party	104	41.6
Socialist Party of Serbia	22	8.8
Party of United Pensioners of Serbia	9	3.6
Social Democratic Party of Serbia.	10	4.0
United Serbia	6	2.4
New Serbia	5	2.0
Others	**94**	**37.6**
Serbian Radical Party	22	8.8
Democratic Party	15	6.0
Liberal Democratic Party – League of Social Democrats of Vojvodina – SDA Sandzak	9	3.6
Party of Modern Serbia	6	2.4
Alliance of Vojvodina Hungarians – Party of Democratic Action	5	2.0
Social Democratic Party	5	2.0
Socialists' Movement – People's Peasant Party – United Peasant Party	5	2.0
Independent MPs Club	5	2.0
Other members	22	8.8
Total	250	100

Source: The Assembly.

The Judiciary

Judicial system

Article 4 of the Constitution provides that Serbian courts are bound by the law and the Constitution. Judicial independence is secured by the division of power between the legislative, executive and judicial branches of government under the Constitution.

In Serbia, civil law with a system of appellate courts is in force. The judiciary is divided into courts of general and special jurisdiction. Courts of general jurisdiction comprise the Supreme Court of Cassation, Appellate Courts, High Courts and Basic Courts. Courts of special jurisdiction comprise Commercial Courts, the Commercial Appellate Court, Misdemeanour Courts, the Misdemeanour Appellate Court and the Administrative Court. In addition, Serbia has a Constitutional Court and special units for prosecuting war crimes and organised crime within the High Court in Belgrade. In 2018, special departments for combating corruption in the high court in Belgrade, Nis, Novi Sad and Kraljevo were formed.

The Supreme Court of Cassation is the court of the highest instance and its functions include the uniform application of laws. The Supreme Court of Cassation functions as a court of cassation, rendering decisions on appeals issued by the Appellate Courts. The Supreme Court of Cassation also decides on conflicts of jurisdiction between courts and requests for transfer of jurisdiction.

The Appellate Courts are located in Belgrade, Kragujevac, Nis and Novi Sad. Decisions rendered by the High or Basic Courts in the first instance are reviewed and decided by one of the four Appellate Courts. The Appellate Courts hold joint sessions and inform the Supreme Court of Cassation on disputable issues of importance for harmonisation of case law.

There are 66 Basic Courts and 25 High Courts located throughout Serbia, which decide cases in both civil and criminal matters. Basic Courts are courts of first instance with jurisdiction over criminal offences punishable by a fine or up to 10 years of imprisonment (unless the offence falls under the jurisdiction of another court) and civil litigation (unless the subject of litigation falls under the jurisdiction of another court). The Basic Courts are also responsible for enforcement and non-litigious proceedings. High Courts are courts of second instance that hear appeals from Basic Courts' decisions in civil disputes, judgments in cases of small monetary value and enforcement and non-litigious proceedings. High Courts also decide conflicts of jurisdiction between Basic Courts and conduct extradition proceedings, enforce criminal judgments of foreign courts and decide cases concerning the recognition and enforcement of foreign court and arbitration proceedings (unless these fall under the jurisdiction of another court).

Specialised panels on war crimes and organised crime were established within the Serbian court system in July 2003. Following the conclusion of the Yugoslav conflict, the special panel on war crimes was established in order to decide cases concerning alleged crimes against humanity, violations of international law and related basic crimes. The special department on organised crime of the High Court in Belgrade has first instance jurisdiction over offences involving criminal conspiracies such as money laundering, human trafficking and extortion, as well as illicit trade in arms, ammunition and explosive substances.

The Law on Organization and Jurisdiction of State Authorities in the Suppression of Organized Crime, Terrorism and Corruption, passed in 2016, established a centralised network of state authorities for the prevention of corruption, which began operations on 1 March 2018. The competent authorities in charge of combating corruption are special departments of the higher public prosecutor's offices in Belgrade, Kraljevo, Niš and Novi Sad; the Ministry of Internal Affairs and special departments of the High Courts in Belgrade, Kraljevo, Nis and Novi Sad. These competent authorities act in cases of criminal offences, such as bribery in connection with voting, and criminal acts against the economy, the state authorities and the judiciary.

The Administrative Court was established in January 2010 as a special jurisdiction court with the head office in Belgrade and units in Novi Sad, Niš and Kragujevac. Administrative cases concern matters such as customs, tax, inspections, pensions, elections, rights of prisoners and market monopoly positions. The Administrative Court conducts oral hearings in public session except where private session is required for reasons of national security, public order or morality or to protect the interests of juveniles or the privacy of the parties involved. The Supreme Court of Cassation hears appeals from decisions of the Administrative Court.

The Commercial Courts of Serbia are specialised courts having jurisdiction over a wide range of commercial matters, including copyright, foreign investment, unfair competition, maritime and other disputes arising out of commercial activity involving domestic and foreign entities. There are 16 Commercial Courts located throughout Serbia, and decisions from the Commercial Courts may be appealed to the Commercial Appellate Court in Belgrade, following which they may be further appealed to the Supreme Court of Cassation. Serbia also has 44 Misdemeanour Courts and one Misdemeanour Appellate Court with a seat in Belgrade and departments in Kragujevac, Nis and Novi Sad.

The Constitutional Court is an autonomous and independent state body responsible for protecting the Constitution and laws as well as human rights and minority rights. Decisions of the Constitutional Court are final, enforceable and universally binding. It determines whether laws, regulations, and other normative acts promulgated by state bodies are in conformity with the Constitution, generally accepted principles of international law and ratified international treaties. It may also resolve conflicts of jurisdiction between courts and state bodies and between state bodies at the national, provincial and local levels. In addition, the Constitutional Court has jurisdiction to decide certain election-related disputes. Similarly, a constitutional complaint can be filed in the Constitutional Court against the acts of individuals or acts of state bodies or organisations entrusted with public authority, which violate or deny human or minority rights and freedoms guaranteed by the Constitution, if other legal remedies are exhausted or are not envisaged. The European Court of Human Rights has recognised the redress in the constitutional court in Serbia as an effective remedy. The Constitutional Court consists of 15 judges elected and appointed in the manner prescribed by the Constitution and it conducts hearings in public session.

Judicial reform

The Assembly approved the National Judicial Reform Strategy for the period 2013 to 2018 ("**NJRS**") on 1 July 2013, defining priorities, strategic objectives and strategic guidelines for reform measures. On 31 July 2013, the Government passed the Action Plan for the implementation of the NJRS, setting specific measures for the implementation of the strategic objectives, deadlines and responsible authorities for the implementation of the NJRS, as well as sources of finance. As part of the negotiations with the EU, and after consultation with the European Commission, on 27 April 2016, the Government adopted the Action Plan for the Negotiation of Chapter 23. Pursuant to these strategic documents, the Government has been making comprehensive efforts to reform and develop the judiciary in order to support the principles of independence, impartiality, expertise and efficiency of the judiciary, as well as the principle of legal certainty, in order to improve the rule of law in Serbia. These efforts aimed at reforming the judiciary are part of the Government's efforts to modernise the legal framework in Serbia in order to comply with European and other international standards, including those that regulate the protection of human and minority rights.

In the first year of implementation of the NJRS, a set of judicial laws was passed for strengthening judicial independence in Serbia, all within the boundaries of the current Constitution. In 2017 and 2018, a consultative process was conducted with civil society organisations in order to draft constitutional amendments in the field of the judiciary. After a series of discussions and consultations with experts within the Council of Europe, the first version of the constitutional amendments was prepared. In line with the received comments and suggestions, and on the basis of the conclusions from the public debate, a second version of the amendments was prepared and published by the Ministry of Justice on 13 April 2018, and sent to the Venice commission (the "**Venice Commission**") for opinion. At the plenary session held on 22 June 2018, the Venice Commission adopted an opinion, with recommendations on the draft amendments to the Constitution. On 11 September 2018, the Ministry of Justice published a third version of the draft constitutional amendments, in line with the recommendations of the Venice Commission. Taking into account the views and suggestions of representatives of relevant state institutions, professional associations and the civil society at a round table held on 18 September 2018, the Ministry of Justice further revised the draft of the constitutional amendments and published the final version on 15 October 2018. The fourth draft version of the constitutional amendments was sent to the Venice Commission for evaluation in October 2018. On 22 October 2018, the Venice Commission published the Secretariat Memorandum on the compatibility of the draft amendments submitted by the Ministry of Justice of Serbia on 12 October 2018. In the memorandum, the Venice Commission concluded that the Serbian authorities had followed the recommendations formulated by the Venice Commission in the final draft of the amendments. At its session held on 29 November 2018, the Government adopted the proposals for the amendment of the Constitution in the field of the judiciary, as the first step in changing the highest state act, and to which Serbia is bound by Chapter 23 under the process of EU accession. The Committee on Constitutional and Legislative Issues, at its 111th sitting held on 14 June 2019, formally confirmed that the Government's proposal to amend the Constitution was duly submitted within the prescribed statutory timeframe and, accordingly, extended its approval for the Constitutional amendments to be placed before the National Assembly. After the completion of the parliamentary procedure, the citizens of Serbia are expected to vote on these Constitutional amendments by way of a referendum.

With the aim of improving the efficiency of the judicial system, reducing the number of pending cases and speeding up the execution of court verdicts, the professions of public notaries and enforcement officers were introduced into the judicial system in September 2014 and have since then been regularly upgraded and strengthened. As of 1 January 2019, a total of 199 public notaries and 217 enforcement officers were appointed in Serbia.

The High Judicial Council and the State Prosecutorial Council are state bodies that have the function of protecting the independence of the judiciary. The roles of these bodies have become increasingly visible in recent years. Amendments to the Law on the High Judicial Council and the State Prosecutorial Council have improved transparency in the work of these bodies. With the introduction of program budgeting, which outlines funds allocated for the implementation of individual functions in a much more transparent way, the capacities of administrative offices in the High Judicial Council and State Prosecutorial Council have been strengthened. The NJRS envisaged undertaking measures aimed at improving the impartiality, ethics and integrity of the holders of judicial functions, as well as the equalisation and full access to court practice and the full realisation of the right to a natural judge. With this stated objective, the High Judicial Council formed its Ethics Committee in 2016 and the State Prosecutorial Council formed its Ethics Committees in 2014. In order to raise the level of expertise of judges and public prosecutors, the Judicial Academy plays a key role, and for that purpose, constant efforts have been made to strengthen its capacities and develop the initial and ongoing training that the academy organises.

Similarly, on 28 June 2018, the Law on Amendments to the Law on Peaceful Settlement of Labour Disputes was adopted to provide for alternative dispute resolution by extending the scope of jurisdiction of the Republic Agency. By 31 December 2018, 735 mediators were registered in the Register of Mediators and 12 organisations had obtained licenses for conducting training for mediators. Information services have also been established in several courts in Serbia. In addition, more reforms focused on the improvement of the infrastructure conditions in the judicial system were introduced. For instance, the National Assembly adopted the Law on Amendments to the Law on Execution and Security on 26 July 2019. These amendments, which aim to reduce the number of enforcement proceedings, deal with the option of voluntary settlement of a monetary claim before the enforcement proceedings are initiated. These amendments also provide for digitization of procedures, in order for information to be more accessible to all citizens. For instance, it provides that the court bulletin board will be replaced by an electronic bulletin board in the near future. The electronic bulletin board will be a centralized application, available on one web address, where acts of all courts and public executors in the territory of the Republic of Serbia will be published.

The Government intends to continue to implement reforms based on the revised Action Plan for Chapter 23 and the Judicial Development Strategy for the period 2019 to 2024, which currently is in draft form. The draft of this strategy was published on the Ministry of Justice's website on 10 May 2019 for wide and inclusive public debate. After the public consultation process, the draft was amended in line with the comments and suggestions provided by the representatives of the judiciary, as well as NGO sector. The amended draft was published on the Ministry of Justice's website on 26 July 2019 for review and public debate. The independence of the judiciary and impartiality, efficiency, competence and accountability of the judicial system, will continue to be the focus of such activities, as it remains a priority for the Government.

Regional Administration

Serbia consists of territories of local self-government units (municipalities and cities) and territories of autonomous provinces as special forms of autonomous territorial communities. Serbia has two autonomous provinces: Vojvodina in the north and Kosovo and Metohija in the south. Vojvodina consists of 37 municipalities and eight cities. The province has its own government, which together with other provincial authorities constitutes the executive branch of power as well as an assembly. It enjoys autonomy on matters such as infrastructure, agriculture, science, education, culture, spatial planning, traffic and development. Kosovo and Metohija consists of 28 municipalities and one city, Pristina. While according to the Constitution it remains part of Serbia, since June 1999, Kosovo and Metohija has been governed by the UNMIK, established pursuant to UN Resolution 1244. Central Serbia, which contains 81 municipalities and 19 cities, is neither an autonomous province nor an administrative district and it does not have a separate regional authority.

There are 29 administrative districts in Serbia, each of which consists of several municipalities and cities. These administrative districts are regional centres of state authority and do not have any form of self-government.

Local government is primarily administered at the municipal and city level. Each municipality and city (including the city of Belgrade) has its own president/mayor, assembly and council. Members of the municipal assembly are elected every four years through local elections. When the assembly is constituted, it elects the president/mayor and council.

Armed Forces

The Serbian Armed Forces defend the country from external armed threats and perform other missions and tasks in accordance with the Constitution and laws and principles of international law governing the use of force. At the strategic level, the Serbian Armed Forces are commanded and controlled by the President of the Republic, the Minister of Defence and the Chief of General Staff of the Serbian Armed Forces. Serbia's Armed Forces consist of two branches: the air force and air defence, and the army. Under the 2019 Revised Budget, the budget for the Ministry of Defence was set at RSD 103.1 billion (approximately 1.9 per cent. of nominal GDP), as compared to RSD 85.7 billion (approximately 1.7 per cent. of nominal GDP) in 2018.

The principal roles of Serbia's armed forces include: (i) deterring armed threats and other military challenges and risks; (ii) building and maintaining peace in the region and in the world; and (iii) supporting civil authorities and confronting security threats. Serbian armed forces constitute an essential part of the defence system, which protects the defensive interests of the Republic of Serbia. The defensive interests of the Republic of Serbia are: (i) maintaining the sovereignty, independence and territorial integrity of the Republic of Serbia; (ii) building trust, safety and stability in the region; and (iii) maintaining cooperation and partnership with international security organisations and democratic state institutions.

Foreign Relations

European Union

EU accession process

One of Serbia's main foreign policy objectives is to become a member of the EU. The EU accession process follows a series of formal steps, from a pre-accession agreement to the ratification of the final accession treaty. These steps are primarily presided over by the European Commission, but the actual negotiations are conducted between EU member states and Serbia.

On 29 April 2008, Serbia successfully completed the first stage in the EU accession process by signing the Stabilisation and Association Agreement ("**SAA**") and the Interim Agreement with the European Union. By formalising these agreements, Serbia made a commitment to harmonise its national legislation with the EU Acquis (as defined below) and to apply it consistently. Serbia ratified the SAA on 9 September 2008. The Interim Agreement, as an integral part of the SAA, was implemented unilaterally by Serbia in 2009 and became fully effective on 1 February 2010. Following the ratification of the SAA, the Republic of Serbia successfully adopted a number of new reforms and the process of harmonising domestic legislation has gradually expanded to include all elements of the EU Acquis (as defined below) referred to in the SAA/Interim Agreement. On 9 October 2008, the Government adopted the National Programme for the Integration of the Republic of Serbia into the EU ("**NPI**") and set up the first coordination mechanism to monitor its implementation.

In November 2010, Serbia received the Questionnaire of the European Commission (the "**Questionnaire**") as a next step towards full membership of EU. The Government answered 2,483 questions in the Questionnaire and submitted it to the European Commissioner for Enlargement on 31 January 2011. On 1 March 2012, based on the assessment of the European Commission, the European Council recognised Serbia's progress by granting it candidate country status. In anticipation of the commencement of negotiations, the Government on 28 February 2013 adopted the NPAA in place of the NPI, a new multiannual programme for harmonising the domestic regulations with the EU Acquis.

In June 2013, the European Council launched the first phase of the formal accession process, involving the screening process, with a view to opening negotiations in January 2014. Consequently, the SAA came into effect on 1 September 2013 between the EU Communities, the EU member states and Serbia and created an institutional framework for co-operation, while the implementation of the Interim Agreement ceased. Since then Serbia continues to implement its obligations under the SAA. The accession negotiations between the EU and Serbia commenced on 21 January 2014 at the first Intergovernmental Conference in Brussels. With the start of negotiations and the entry into force of the SAA, the Government adopted the first revision of the NPAA on 31 July 2014 relating to the period 2014 to 2018.

The process of harmonisation of Serbian law with the *acquis communautaire* (the "**EU Acquis**" being the legislation and court decisions which constitute the body of EU law) is required be completed prior to Serbia's accession to the EU. The EU Acquis is divided into 35 chapters for the purposes of negotiations between the EU and the candidate member states. In order to meet the EU accession criteria, each chapter is screened by the European Commission, following which negotiations with respect to each chapter are opened and continue until resolved, at which point the chapter is considered to be provisionally closed. As part of this process, the European Commission and Serbia reviewed the domestic laws to determine what differences exist between them and existing EU Acquis. Screening reports were prepared by the European Commission for all chapters (except for Chapter 31), which provide guidance for further planning of the process of alignment of Serbian legislation with EU laws, and the integration process as a whole. Within the framework of the accession negotiations, the entire screening process was completed in 2015. Based on the results of the screening, the Government adopted the second revision of the NPAA for the period 2014-2018, which was followed by the third revision on 1 March 2018 for the period 2018-2021. The third revision is a strategic document that was adopted to reflect the developments in the process of the EU accession, and to define sustainable plans for achieving compatibility with the EU Acquis, after taking into consideration the scope of Serbia's obligation in all negotiation chapters.

As of the date of this Prospectus, Serbia has opened seventeen negotiation chapters and provisionally closed two negotiating chapters out of a total of 35 chapters. Between 2014 and 2019, Serbia has commenced negotiations in respect of the following chapters: Chapters 5 (*Public Procurement*), 6 (*Company Law*), 7 (*Intellectual Property Rights*), 9 (*Financial Services*), 13 (*Fisheries*), 17 (*Economic and Monetary Policy*), 18

(*Statistics*) 20 (*Enterprise and Industrial Policy*), 23 (*Judiciary and Fundamental Rights*), 24 *(Justice, Freedom and Security*), 25 (*Science and Research*), 26 (*Education and Culture*), 29 (*Custom Union*), 30 (*External Relations*), 32 (*Financial Control*), 33 (*Financial and Budgetary provisions*) and 35 (*Other Issues*). Serbia provisionally closed Chapter 25 (*Science and Research*) in December 2016 and Chapter 26 (*Education and Culture*) in February 2017. Negotiation chapters are provisionally closed by the EU if the candidate country's adoption of the EU Acquis and its degree of implementation are seen as sufficient. At the end of the negotiation process, all chapters are subject to reassessment and after the reassessment, they are ultimately closed. There are two reasons for this reassessment. Firstly, as the negotiations take place over many years, significant changes might occur in the EU Acquis during the negotiations and the candidate country is expected to adjust to these changes. Secondly, the candidate country's degree of harmonisation in the provisionally closed chapter may have deteriorated.

On 29 May 2019, the European Commission published the 2019 Report on Serbia. This was the fifth progress report on Serbia since the country opened accession negotiations with the EU in January 2014. The 2019 Report shows that Serbia has continued to make progress in fulfilling the political and economic criteria for membership in the EU, as well as demonstrating its ability to assume obligations of membership, but further progress is needed in a number of areas prior to accession.

The timing of Serbia attaining full membership of EU will depend on a number of economic and political factors relating to both Serbia and the EU. On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which sets out certain indicative steps which Serbia will need to complete in order to potentially be ready for membership by 2025. This EU strategy states that accession in 2025 will ultimately depend on strong political will, the delivery of real and sustained reforms, Serbia's normalisation of relations with Kosovo* as well as the stabilisation and association process in the Balkans more generally. Although it is difficult to predict the exact date of accession to EU, the Government believes that it has made steady progress in opening negotiation chapters and meeting the timelines of opening and closing benchmarks. See "*Risk Factors— Risks Associated with Serbia's Economy — Serbia may not become a member of the EU in the near to medium term or at all*".

*Instrument for Pre-Accession Assistance ("**IPA**")*

The IPA is the means by which the EU provides financial and technical support and assistance to countries going through the process of accession to EU. By providing this support, the EU seeks to encourage the implementation of the necessary reforms that are a prerequisite for accession to the EU, including the necessary political, economic, legal and institutional reforms.

The initial IPA came into force in 2007. The successor to the IPA is the IPA 2014-2020 ("**IPA II**"), which came into force on 16 March 2014 and was applicable retroactively from 1 January 2014. The IPA II introduced a new framework for providing pre-accession assistance for the period from 2014 until 2020.

In accordance with the Indicative Strategy Paper for Serbia (2014 to 2020), EUR 1.5 billion has been indicatively designated under IPA II to support Serbia through various annual action programs, of which a total of EUR 78.3 million, EUR 5.0 million, EUR 123.5 million and EUR 96.3 million has been allocated in 2015, 2016, 2017 and 2018, respectively. Serbia expects to receive EUR 500 million in funding between 2019 and 2020 as a result of this programme. The priority sectors for funding under the IPA II for Serbia are democracy and governance; rule of law and fundamental rights; environmental and climate action; transport; energy; competitiveness and innovation; education, employment and social policies; agriculture and rural development and regional and territorial cooperation.

Co-operation with the ICTY

The former FRY government established a commission to assist in co-operation with the ICTY in 2002. It began serving arrest warrants for those seeking refuge in Serbia who had been indicted for war crimes during the 1990s Yugoslav conflict. The co-operation improved substantially after the assassination of Prime Minister Zoran Djindjic in 2003 as several people surrendered to the ICTY in 2004 and 2005.

Out of 46 accused, whose extradition was requested by the ICTY, Serbia has extradited all except one person who died prior to extradition. Serbia completed its extradition obligations with the arrests of General of the

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Bosnian Serb, Ratko Mladic, and former leader of Serbs in Croatia, Goran Hadzic, in May and July 2011, respectively. The arrest of Goran Hadzic and Ratko Mladic was a positive development for the rule of law in Serbia and for its neighbouring countries.

At the end of 2017, when the jurisdiction of the ICTY was transferred to the International Residual Mechanism for Criminal Tribunals ("**IRMCT**"), the Republic of Serbia had processed 2172 demands of the ICTY for the submission of evidence, as well as the 1328 demands of the defense for the submission of evidence.

As at 31 May 2019, 18 people have been served punishment under the ICTY verdicts, while actions against Stanišić and Simatović (at trial phase) and Mladić (at pre-appeal proceedings) are pending before the IRMCT. At the same time, procedures have been completed in the case of Karadzic (altered sentence to life imprisonment) and Šešelj (sentenced to 10 years in prison).

United Nations ("UN")

As member of the UN, the Republic of Serbia contributes to the work of the organisation through the activities of different bodies and a number of UN specialised agencies. Serbia also actively participates in the work of the UN General Assembly and its committees. Serbia is also actively seeking to achieve the Goals of Sustainable Development by 2030 under the UN agenda (the "**2030 Agenda**"). Similarly, Serbia has continually attached importance to the binding resolution of the Security Council of the United Nations 1244 (1999), passed under Chapter VII of the Charter of the UN, which affirms the sovereignty and territorial integrity of the Republic of Serbia in the territory of Kosovo and Metohija.

World Trade Organisation ("WTO")

Serbia formally applied for accession to the WTO in December 2004. The General Council of the WTO established a working party to examine Serbia's application on 15 February 2005 (the "**Working Party**"). The Working Party held its thirteenth meeting in respect of Serbia's application in June 2013 and numerous bilateral consultations took place concurrently with this meeting. Serbia has signed bilateral market access agreements on goods and/or services with the EU, Honduras, Japan, the Republic of Korea, Norway, China, Canada, Switzerland, Ecuador, El Salvador, Panama, Mexico, the Dominican Republic and India as well as a bilateral market access agreement on services with USA. Bilateral market access negotiations with certain individual member states of WTO are to continue in respect of services, goods, agricultural products and genetically modified food. Because of the advanced stages of these negotiations, Serbia expects to become a member of the WTO in the near future.

The World Bank

Serbia maintains working relations with the World Bank. In October 2017, the World Bank published the Doing Business 2018 report which ranked Serbia 43 out of 190 countries for ease of doing business over the past 12 months. In the Doing Business 2019 report, published and released by the World Bank in October 2018, Serbia was ranked 48 out of 190 countries. In the Doing Business 2020 report, published and released by the World Bank in October 2019, Serbia was ranked 44 out of 190 countries.

The Council of Europe

Serbia has been a member of the Council of Europe since 3 April 2003. The Council of Europe, which consists of 47 member states across Europe, seeks to protect human rights, democracy and the rule of law. Numerous reforms have been implemented by the Republic of Serbia, in cooperation with the Council of Europe, in the domains of legal and institutional organisation as well as in the fields of justice and others in which the Council of Europe is active.

Partnership for Peace Program

Serbia has been a member of the Partnership for Peace Program ("**PfP**") since December 2006 through which it benefits from the partnership cooperation with NATO and its PfP partners in areas of common interest, primarily, political-security, military and defense issues, issues of public diplomacy, scientific cooperation, emerging security challenges and civil disaster response planning. The first Individual Partnership Action Plan ("**IPAP**") which represents the highest form of partnership cooperation with NATO without implying membership in the alliance, came into force on 15 January 2015. The adoption of the IPAP established the framework for further strengthening the partnership cooperation and political dialogue between Serbia and NATO. The 2016 NATO report on the implementation of the first IPAP recognised the developments in the partnership relations between Serbia and NATO. Currently, Serbia and NATO are in the process of finalising the draft for a new IPAP relating to the period 2019 to 2021.

Organisation for Security and Co-operation in Europe ("OSCE")

Serbia has been a member of the OSCE since 10 November 2000 (as part of the FRY). As a country on the path towards EU membership, Serbia remains committed to co-operation with OSCE, particularly for achieving high standards of democracy, reconciliation in the region and resolving other issues. Serbia has been contributing to these efforts through partnership and successful cooperation, primarily with the two OSCE missions in its territory, the OSCE Mission to Serbia and the OSCE Mission in Kosovo*, as well as with other missions in the region.

Other regional relations

One of the most important priorities of Serbia's foreign policy is to maintain good relations with neighbouring countries, as the Government believes that such co-operation safeguards and strengthens stability in the region and is likely to enhance Serbia's progress towards EU integration. Serbia participates, and will continue to participate, in several important regional initiatives and organisations discussed below.

Central European Free Trade Agreement ("CEFTA")

On 19 December 2006, Serbia signed the Agreement on the Amendments and Accession to the CEFTA, which came into force in 2007. The CEFTA is a regional free trade agreement that provides the legal basis for policy formulation and implementation of trade and investment in the CEFTA region. The current parties to the CEFTA are Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, Serbia and UNMIK on behalf of Kosovo* in accordance with UN SC Resolution 1244. Following the accession to the EU in July 2013, Croatia withdrew from the CEFTA. The CEFTA provides for complete liberalisation of industrial and agricultural products. It also provides for diagonal cumulation of origin for goods, gradual liberalisation of trade in services, equal treatment of investors, opening of the public procurement markets, IP protection and dispute settlement mechanism, all of which are consistent with the WTO rules.

The CEFTA activities were integrated within the Multi-annual Action Plan for a Regional Economic Area (the "**MAP REA**") in the Western Balkans Six ("**WB6**"), which was endorsed by the leaders of Western Balkans Six at the Berlin-process summit in Trieste, in 2017. The MAP REA aims to enable unobstructed flow of goods, services, capital and highly skilled labour within the Western Balkan Region, with particular focus on four components: trade, investment, mobility and a digital agenda.

The first component in respect of trade relates to the implementation of CEFTA's Additional Protocol 5 on trade facilitation and Additional Protocol 6 on the liberalisation of trade in services. The second component of MAP REA relates to investments and aims to increase FDI flows to the WB6 region through greater harmonisation of investment policies, enable foreign investors in the WB6 region equal treatment with domestic and joint participation in the third market, and strengthen the potential growth and job creation in the WB6 region. The third component relating to mobility is expected to provide greater mobility for highly skilled labour and educated young people in the WB6 region through the mutual recognition of professional qualifications in sectors of common interest (doctors, dentists, architects and civil engineers). The fourth component related to the digital agenda provides for efficient electronic trade of goods and services in the WB6 region by removing barriers to e-commerce and increasing consumer confidence in e-commerce and digital literacy. The digital agenda aims to integrate the region into the pan-European digital market through the harmonisation of the digitisation strategy, the development of digital infrastructure and the enhancement of regional connectivity; complete abolishment of roaming in the region from 1 July 2021 and improving cyber security.

The CEFTA region is Serbia's second most important foreign trade partner, after the EU, having a share of 10.9 per cent. of overall international trade (17.4 per cent. of exports and 4.2 per cent. of imports) in 2018, with Serbia's total trade in goods with CEFTA parties amounting to EUR 4.2 billion.

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South-East European Co-operation Process ("SEECP")

The SEECP was established in 1996 in order to promote stability, safety and co-operation in South-East Europe, and its member states comprise Serbia, Romania, Bulgaria, Greece, Turkey, Montenegro, Albania, Bosnia and Herzegovina, North Macedonia, Croatia, Slovenia and Moldova.

At the SEECP Summit held in Bucharest on 25 June 2014, Serbia agreed to the participation of Kosovo* in SEECP activities on equal footing, in accordance with the Brussels Arrangement and the agreement on regional representation and cooperation signed between Belgrade and Pristina in 2012 (the "**Agreement on Regional Representation and Cooperation**"). The above solution was indicated in the Declaration of the SEECP Summit. Serbia has thus fulfilled its obligation that it would not prevent or block Kosovo* in the EU integration process.

Regional Co-operation Council ("RCC")

The RCC was established on 27 February 2008 as the successor to the Stability Pact for South Eastern Europe. The RCC works under the political guidance of SEECP. The main objectives of the RCC are: the development of regional cooperation through six priority areas (economic and social development, energy and infrastructure, justice and home affairs, security, building human capital and parliamentary cooperation) and identifying projects of common interest for the countries of the region and its connection with the programmes of the European Commission.

Adriatic Ionian Initiative ("AII")

The AII was established in 2000. Its member states are Albania, Bosnia and Herzegovina, Croatia, Greece, Italy, Montenegro, North Macedonia, San Marino, Slovenia and Serbia. Its activities focus on tourism, culture and inter-university co-operation, transport and maritime co-operation, environmental protection and co-operation between small and medium-sized enterprises. Serbia will preside as the chairman of the AII for one year starting form 1 June 2019.

Southeast European Law Enforcement Centre ("SELEC")

The SELEC was established in 1999. Signatory states to the SELEC convention are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Hungary, North Macedonia, Moldova, Montenegro, Romania, Serbia and Turkey. Following the accession to the EU in July 2013, Croatia withdrew from the SELEC. The objective of SELEC, within the framework of co-operation among competent authorities, is to provide support for member states and enhance coordination in preventing and combating crime, including organised crime, terrorism and trafficking, where such crime involves or appears to involve an element of trans-border activity.

SELEC also provides assistance to the member states in order to align their respective law enforcement legislation with EU standards and requirements. SELEC ensures prompt and continued exchange of information among the member states relating to criminal investigation. It also supports their requests for operational assistance, as appropriate.

EU Strategy for the Danube Region ("EUSDR")

EUSDR is a macro-regional strategy adopted by the European Commission in December 2010 and endorsed by the European Council in 2011. The strategy was jointly developed by the European Commission and together with the Danube Region countries and stakeholders, in order to address common challenges. The strategy represents a platform for cooperation and acceptance of the EU Acquis by candidate countries and aims to create synergies and coordination between existing policies and initiatives in the Danube region. The strategy is based on three basic thematic pillars: (a) connectivity and communications – transport, navigation, related infrastructure and energy; (b) environmental protection, risk prevention (protection against floods) and sustainable use of natural resources; and (c) social, economic and institutional development and strengthening regional cooperation.

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Serbia has been designated by the EUSDR to coordinate two priority areas in the Danube: (a) improvement of mobility and intermodality: rail, road and air transport (together with Slovenia); and (b) society development: research, education and IT (together with Slovakia).

EU Strategy for the Adriatic-Ionian Region ("EUSAIR")

EUSAIR was adopted and launched at the international conference in Brussels, on 18 November 2014. The EUSAIR member states are Albania, Bosnia and Herzegovina, Croatia, Greece, Italy, Montenegro, Serbia and Slovenia. The EUSAIR priorities include strengthening cooperation in the fields of blue economy, transportation and energy networks, environmental protection and sustainable tourism. Membership in the EUSAIR is based on geographical principle (access to the Adriatic or Ionian Sea) as well as on the basis of international law, which was achieved in the case of Serbia, as a successor of the State Union. Serbia supports and actively contributes to the implementation of the EUSAIR. For instance, starting from 1 June 2019, Serbia will hold the presidency of the EUSAIR for one year. Such active participation continues to be of importance to the Government as Serbia's membership in EUSAIR contributes towards its EU accession process.

Berlin Process

A high-level summit was held in Berlin on 28 August 2014, at the initiative of the Chancellor of Germany, Angela Merkel. The summit included participation by the prime ministers, the foreign ministers and the ministers of the economy of Albania, Bosnia and Herzegovina, Croatia, Kosovo*, North Macedonia, Montenegro, Serbia, Slovenia, Austria, France, and representatives of the European Commission and resulted in the launch of the so-called "The Berlin Process".

The aim of the summit was to reach a common agreement on strengthening regional cooperation in the Western Balkans and establish a four-year framework (for 2014 to 2018) to resolve the remaining outstanding issues in the region. The first practical result, in terms of adopting the joint regional projects within the "Berlin Process", was achieved at the second summit held in Vienna on 27 August 2015. The third summit on the Western Balkans was held in Paris (4 July 2016) and represented the continuation of the Western Balkans Summit held in Berlin (2014) and Vienna (2015) within the "Berlin Process". The fourth summit on the Western Balkans within the Berlin Process was held in Trieste (4 July 2017). This summit adopted the MAP REA, which deals with the areas of trade, investment, mobility and digital economy. At the summit, the Transport Community Treaty between the EU and the five participants from the Western Balkans was signed (Bosnia and Herzegovina was invited to sign the treaty as soon as possible). The main role of the treaty is to connect the Western Balkans to the EU, by creating an integrated transport network between the Western Balkans participants, as well as other countries in the region, with the EU. The fifth summit on the Western Balkans within the "Berlin Process" was held in London (10 July 2018). One of the key moments at the London Summit for Serbia was signing the "Agreement on the headquarters of Transport Community Treaty Permanent Secretariat in Belgrade", between the representatives of Serbia and the European Council. In 2016, Serbia submitted the candidacy for headquarters of Transport Community Treaty Permanent Secretariat in Belgrade. The decision that Belgrade should be the headquarters of the Secretariat of the Transport Community was formally adopted at a ministerial meeting in Brussels, on 6 December 2017. The sixth summit on the Western Balkans within the Berlin Process, was held in Poznan, Poland, on 5 July 2019. After the Summit in Poznan, the Permanent Secretariat of the Transport Community, headquartered in Belgrade, opened on 13 September 2019 as the first regional organisation based in Belgrade. The next summit on the Western Balkans within the Berlin Process will be held in Bulgaria and North Macedonia in 2020. Among the most significant results of the Berlin Process to date have been: establishment of the Regional Youth Cooperation Office in Tirana based on the German-French model; establishment of the Western Balkans Chamber of Commerce; signing of the "Agreement on the headquarters of Transport Community Treaty Permanent Secretariat" in Belgrade; the establishment of the Western Balkans Chamber Investment Forum (representing the voice of over 350,000 companies from the region, mostly small and medium-sized enterprises) and the signing of the "Agreement on Lower Roaming Prices in the Western Balkans Region" by the representatives of the WB6 economies.

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"Brdo-Brioni" Process

The Republic of Slovenia and the Republic of Croatia together launched the idea of the "Brdo Process" during an informal meeting between the then Prime Ministers of the two countries, Borut Pahor and Jadranka Kosor, in Kranjska Gora, in January 2010. The aim of establishing this regional initiative was to strengthen the ties in the Western Balkans region, so that the strengthened cooperation in the region would accelerate the European integration progress. The Brdo Process was formally initiated by the meeting of the Western Balkan leaders in Brdo near Kranj, on 20 March 2010.

As an informal regional initiative, the process was initially called the "Brdo Process" and soon was renamed as the "Brdo-Briuni process". This initiative emphasised the common intention to connect the region, primarily in the areas of transport, infrastructure and energy, as well as mutual cooperation and mutual assistance on the path of Euro-Atlantic integration. So far, several meetings at the highest level under the "Brdo-Brioni" Process have been held: Summit in Dubrovnik (15 July 2014); MFA meeting on Brdo near Kranj (23 April 2015); Summit in Budva (7 to 8 June 2015); Extraordinary Summit in Zagreb (25 November 2015); Summit in Sarajevo (28 to 29 May 2016); Summit and meeting of MFAs at Brdo near Kranj (3 June 2016) and Summit in Skopje (27 April 2018). Serbia has been actively participating in this initiative since its establishment.

"Western Balkan Six-WB6" ("**WB6**")

After the Western Balkans Summit in Berlin on 28 September 2014, where the Berlin Process was launched, participants from the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Kosovo*) have started utilising the WB6 format with the assistance of the European Council more frequently in respect of the projects and programs which resulted from the first summit of the "Berlin Process".

A wide range of topics discussed at all high-level meetings has shown that WB6, as an informal format (although it has not been institutionalised), has added value for the region in both political and economic terms. So far, more than 20 meetings have been held within the WB6 at the MFA level, or at presidential and governmental level.

Other regional cooperation

On 10 October 2019, a meeting was held between the President of the Republic of Serbia, the Prime Minister of the Republic of North Macedonia and the Prime Minister of the Republic of Albania. At this meeting, the three countries discussed the provision of the four key EU freedoms (i.e. free movement of goods, capital, services and people) for strengthening the regional economic cooperation in Western Balkans.

Other key bilateral relations

China

Serbia enjoys amicable relations with China and has an embassy in Beijing and a general consulate in Shanghai, while China has an embassy in Belgrade. China is Serbia's most important trading partner in Asia, excluding Russia.

A strategic partnership agreement between Serbia and China has been established since 2009. Recently, along with good bilateral political relations, cooperation between the two countries has been marked by an upward trend in economic cooperation, specifically in the field of investments and infrastructure projects.

Germany

The relations between Serbia and Germany have been amicable and comprehensive, with an expectation of further improvement in political and economic relations. The political dialogue between the two countries is regular and constructive, focused on bilateral cooperation, further EU-integration, regional issues and implementation of the Brussels Agreement.

Germany remains the most important foreign trade and economic partner to Serbia (trade exchange of goods in 2018 amounted to EUR 4.88 billion and almost EUR 3.04 billion in the first seven months of 2019). Germany

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* The designation is without prejudice to positions on status, and is in line with the UN Resolution 1244 and the ICJ Opinion on the Kosovo declaration of independence.

is also a major bilateral donor (loans, donations and grants have reached EUR 1.8 billion). Amongst the EU member states, Germany is one of the principal investors in Serbia. Serbia's economic cooperation priority is to attract German investments in the infrastructure, energy and the automobile industry.

The German Development Bank (KfW) is funding several projects in Serbian municipalities and cities relating to the improvement of remote heating, water supply and wastewater treatment, as well as energy efficiency improvements.

Italy

Italy is one of the most important economic and foreign trade partners of Serbia. Trade exchange of goods amounted to EUR 4.034 billion in 2018 (Serbian exports amounted to almost EUR 1.987 billion) and EUR 2.35 billion in the first seven months of 2019 (Serbian exports amounted to EUR 1.12 billion).

Russia

Serbia has developed a strategic political and economic relationship with Russia based on strong political ties at all levels of government between the two countries and successful co-operation in international and regional organisations such as the UN and OSCE. On 24 May 2013, the President of Serbia, Tomislav Nikolić, and President Vladimir Putin, signed the Declaration on Strategic Partnership between Serbia and Russia. Serbia became the first Balkan state to sign such an agreement with Russia. This agreement confirms a considerable level of political cooperation in foreign affairs, economic relations, trade and strategic infrastructure projects and a readiness to extend the partnership to other fields of mutual interest for both countries. Russia is also one of Serbia's key trade partners (foreign trade in both directions cumulatively amounted to EUR 2.59 billion in 2018, with indications that it will rise in 2019) and the two countries have signed a bilateral free trade agreement in August 2000. See "*External Sector –International Trade Agreements*". Serbia also has strong relations with Russia in the energy sector. For instance, Serbia and Russia signed the Agreement on Co-operation in the Oil and Gas Industry in January 2008. Separately, the two countries signed a contract on the takeover of Naftna Industrija Srbije ("**NIS**"), the Serbian state-owned oil company, by Gazprom Neft in December 2008. As at the date of this Prospectus, Gazprom Neft owns 56.2 per cent. of the share capital in NIS, while 29.9 per cent. of NIS shares are owned by the Government.

United Arab Emirates

Serbia established diplomatic relations with the United Arab Emirates ("**UAE**") in 2007 and the Serbian embassy in Abu Dhabi opened on 26 August 2013. The UAE opened its embassy in Serbia in 2014. Since 2012, Serbia's relationship with the UAE has been rapidly evolving, particularly in the fields of economy and trade. A number of significant bilateral agreements have been signed between Serbia and the UAE, namely: an agreement on the promotion and protection of investments, an agreement on the avoidance of double taxation, an air traffic agreement, an agreement on cooperation to promote investment in various sectors (including infrastructure) and an agreement on the establishment of a joint committee, among others.

The volume of trade exchange with the UAE in 2018 was around EUR 157.4 million. In the first seven months of 2019, the volume of trade exchange between the two countries was EUR 76.0 million. The first session of a joint committee for cooperation between Serbia and the UAE was held in April 2019 in Belgrade. Companies from the UAE including Al Dahra, Al Ravafed, Eagle Hills, Mulk Holding, Mirabank, P&O Ports and others are working in Serbia and a number of Serbian companies (including Energoprojekt, Enterijer Jankovic, and Milanovic inženjering, among others) are present in the UAE.

United Kingdom

Serbia and the United Kingdom ("**UK**") have a strategic political relationship and their economic cooperation is improving with Serbia's increased efforts to attract foreign investments from the UK. The UK and Serbia have also maintained continued cooperation in the fight against organised crime and combating international terrorism, as well as in the field of security policy.

Following the UK's referendum on leaving the EU, the UK has increasingly focused on bilateral cooperation. Defence and security, in particular, are viewed as key cooperation areas. Considering the cooperation potential between the two economies, trade in goods is relatively low, although the past few years have witnessed a growing trend in this regard. In the first seven months of 2019, foreign trade between the two countries reached EUR 313.8 million (Serbian exports were EUR 180.2 million and imports were EUR 133.6 million).

The UK Government, through the Good Governance Fund ("**GGF**"), lends its support to Serbia in the context of encouraging the implementation of necessary reforms, particularly in: fighting corruption, enhancing the business environment, judicial reform, banking and energy sectors, strengthening the rule of law and supporting media independence.

United States

The United States has significant investments in Serbia (representing approximately U.S.$ 4 billion according to US data which includes both direct FDIs from the US and investments from the subsidiaries of the US companies from Europe). Trade in goods also increased from EUR 495.9 million in 2017 (exports were EUR 228.3 million and imports EUR 267.6 million) to EUR 622.0 million in 2018 (exports were EUR 224.8 million and imports EUR 397.2 million). In the first seven months of 2019, exports were EUR 136.3 million and imports were EUR 285.5 million.

ECONOMY OF SERBIA

Overview

Following independence since 1992, Serbia faced significant challenges as it transitioned from a centrally planned economy to a market led economy. In particular, the collapse of the former Yugoslavia and the subsequent closing of its markets in the early 1990s, contributed to macroeconomic instability in Serbia. This instability manifested through a sharp contraction of GDP, high unemployment and hyper-inflation. In 2001, the Government started introducing broad reforms to the economic system, including liberalisation of markets, privatisation of ownership and restructuring of industries, along with initiatives to reduce the previous high levels of inflation. After the first few years of recession, the Serbian economy experienced a sustained period of growth from 2005 to 2008, reflecting the progress of its economic reforms, free trade and regional cooperation. The growth in this period was mainly attributable to domestic demand, as its contribution to GDP increased from 1.4 per cent. in 2005 to 7.1 per cent. in 2008, while investments also recorded notable growth. However, the global financial crisis of 2008 exposed Serbia to economic uncertainty, largely because of its current account deficits. It also exacerbated depreciation of the domestic currency, inflationary pressures and fiscal imbalances, resulted in high unemployment levels, and led to the growth of the "grey" market economy.

As a result of the financial crisis, exports and foreign investments decreased by 11.5 per cent. and 16.8 per cent., respectively, while real GDP reduced by 2.7 per cent. in 2009. Following this decline in 2009, economic activity within Serbia recovered slowly in 2010, primarily due to a somewhat more favourable international economic environment, with exports increasing 16.9 per cent. year-on-year in 2010, while domestic demand remained weak. While Serbia's GDP increased by 2.0 per cent. in real terms in 2011, the pace of recovery slowed down as key sectors stagnated and even declined because of the slowdown in the economic activities of southeast Europe, Serbia's main foreign trade partners, and more generally due to the deepening of the Eurozone crisis. Such contraction led to a decline in GDP by 0.7 per cent. in 2012, mainly as a result of a continued decrease in exports and investment activity, while government and private consumption remained subdued. Such slowdown in economic activities also increased the external deficits and exacerbated the fiscal imbalances during the period from 2012 to 2013.

The Serbian economy contracted further in 2014 due to weak economic activities amongst its main trading partners, while the fiscal imbalances remained high (being 6.2 per cent of GDP) and the General Government Debt increased to 67.5 per cent. of GDP. During this period, the increase in the fiscal imbalance was largely as a result of the stagnated growth, weak labour market and high public spending, all of which contributed to a rapid build-up of Public Debt. To address such issues, the Government introduced a number of fiscal consolidation measures to contain public spending, which involved wage cuts, reducing state aid and eliminating liquidity support to state-owned enterprises. Structural reforms were also introduced to support such fiscal consolidation efforts, foster Serbia's growth potential and reduce fiscal risks. More specifically, a Fiscal and Structural Adjustment Program was adopted in 2014. At the same time, the Government entered into a Precautionary Stand-By Arrangement (the "**Precautionary Arrangement**") with the IMF for the period 2015 to 2018 to address the growing imbalances in a more fundamental manner. During the period of the Precautionary Arrangement, Serbia achieved the following improvements with respect to its economy:

- Real GDP growth moved from negative 1.6 per cent. in 2014 to 4.4 per cent. in 2018;
- Unemployment rates decreased from 19.2 per cent. in 2014 to 12.7 per cent. in 2018;
- General Government Debt to GDP decreased from 67.5 per cent. in 2014 to 54.4 per cent. in 2018; and
- Serbia achieved a fiscal surplus of RSD 32.2 billion (representing 0.6 per cent. of GDP) in 2018 compared to a fiscal deficit of RSD 258.1 billion (representing 6.2 per cent. of GDP) in 2014.

Such consistent fiscal performance under the Precautionary Arrangement, and reduction in the fiscal deficit which contributed to the build-up of Public Debt, has enabled the Government in recent years to address Serbia's large developmental needs and support private sector employment. More specifically, these efforts have contributed to a range of economic and social achievements, including a general increase in exports and FDI from 45.3 per cent. and 5.1 per cent. in 2015 to 50.9 per cent. and 7.5 per cent. in 2018. In particular, Serbia had its highest inward investments from net FDI (EUR 3.2 billion) in 2018. During the period from 2015 to 2018, an increasing share of FDI inflows were directed to export-oriented sectors. Within the manufacturing sector, most FDI inflows were directed to the automobile, base metals, food & beverage and chemical industries. This resulted in high growth of manufacturing employment, output and exports. The growth in GDP (of 4.4 per cent. in real terms) in 2018 (which was the highest in a decade) was driven by robust investments and expansion in exports, as well as due to labour market recovery.

The following table shows key indicators of economic development for the years 2014 to 2018 and for the first six months ended 30 June 2018 and 2019:

	Year ended 31 December					Six months ended June(6)	
	2014	2015	2016	2017	2018	2018	2019
Nominal GDP (EUR billions)(1)	35.5	35.7	36.7	39.2	42.9	20.4	21.5
Real GDP growth (%)............................	(1.6)	1.8	3.3	2.0	4.4	4.9	2.8
End of year retail price increase (Y-O-Y) (%)	1.7	1.5	1.6	3.0	2.0	2.4(5)	1.6(5)
Balance of goods (% of GDP)(2)	(11.6)	(10.2)	(8.5)	(10.2)	(12.2)	(11.3)	(12.4)
Current account deficit (% of GDP)........	(5.6)	(3.5)	(2.9)	(5.2)	(5.2)	(5.3)	(7.6)
Net FDI (EUR billions)	1.2	1.8	1.9	2.4	3.2	1.5(5)	2.2(5)
Net FDI (% of GDP)	3.5	5.1	5.2	6.2	7.4	6.9	8.3
Average rate of employment (Y-O-Y) (%)(3)	-	0.6	5.6	2.8	1.4	1.0	2.6
Real growth in average net wage(4) (%)...	(1.5)	(2.1)	2.5	0.9	4.4	4.3(5)	7.7(5)
Labour productivity real growth (%).......	-	1.2	(2.2)	(0.8)	3.0	3.9	0.2
ILO unemployment rate (persons of age 15 and over) (%)(3)	19.2	17.7	15.3	13.5	12.7	13.4	11.2
ILO employment rate (persons of age 15 and over) (%)(3)	42.0	42.5	45.2	46.7	47.6	46.8	48.3
General government fiscal balance (% of GDP)..	(6.2)	(3.5)	(1.2)	1.1	0.6	1.4	0.7
Foreign debt (EUR billions)...................	25.7	26.2	26.5	25.6	26.8	26.1	27.8
Foreign debt (% of GDP)	72.4	73.5	72.1	65.3	62.6	63.2	63.4
Foreign debt/goods & services exports (%)	177.7	166.8	152.4	132.4	126.3	129.4	124.6

Source: Office of Statistics; National Bank.

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Notes:

(1) Recalculated by the Ministry of Finance based on the average RSD/EUR exchange rate, as relevant, for the relevant period. See "*Exchange Rate History*".
(2) Imports and exports of goods are presented as free on board (F.O.B.).
(3) According to the International Labour Organisation Methodology. See "*Labour Market and Social Policy – Employment*" for a discussion of this methodology.
(4) Office of Statistics changed the methodology for calculation of net wages starting from 2018. See "*Labour Market and Social Policy –Wages*" for a discussion of this methodology.
(5) According to the data for the seven month period from January to July.
(6) Unless stated otherwise, all data is presented for the first six months in 2019 and comparable period in 2018.

Macroeconomic Policy

The Government's economic policies are focused on fulfilling Serbia's requirements for EU membership, accelerating economic growth, attracting foreign investments, developing relations between the private and public sectors, especially in the infrastructure sector, improving the management and transparency of public enterprises, increasing labour market flexibility to support job creation, curbing corruption and reforming the public sector and banking system to make them more efficient. These reform plans are more specifically set out in Serbia's Economic Reform Programme for 2019-2021, a three-year transformation plan that is prepared by the Government on a rolling basis for submission to the European Commission in connection with Serbia's candidacy for EU membership. The programme sets out the Government's broad economic growth strategies and contains a mid-term framework for its macroeconomic and fiscal policies as well as structural reform plans, which are designed to be implemented using a series of more detailed measures. These structural reforms are prepared in line with the priorities set out in Serbia's medium-term fiscal strategy of 2019 ("**2019 Fiscal Strategy**"), the 2019 Budget Law (as defined below), the Policy Coordination Instrument of the IMF ("**PCI**"), the NPAA and the New Growth Agenda of the World Bank, after taking into account the prevalent economic and fiscal indicators.

Economic Reform Programme for 2019-2021 ("ERP")

The ERP, which was published in 2018, contains Serbia's medium-term growth plans, as well as short-term growth initiatives. The structural reforms under the ERP are set out in respect of eight thematic areas: (1) energy and transport markets, (2) sectoral development, (3) business climate and 'grey' economy, (4) trade reforms, (5) research, development and innovations, and digital economy, (6) education and skills, (7) employment and labour market and (8) social protection and inclusion. The key targets of the ERP during the 2019-2021 period include (i) achieving low fiscal deficit of 0.5 per cent. of GDP by 2021; (ii) attaining cumulative growth of 11.9 per cent. during the period 2019 to 2021 with targeted average annual growth of 3.8 per cent.; (iii) realising average annual GDP growth of 4.1 per cent; (iv) achieving average annual investment growth of 6 per cent.; (v) realising average annual export growth of 9.4 per cent.; (vi) improving road, rail, and port infrastructure; (vii) driving industrialisation with targeted average annual growth of 3.8 per cent., 4.9 per cent. and 8 per cent. in the service, industry and construction sector, respectively; and (viii) having greater availability of foreign investments. There can be no assurance that such objectives in fact will be achieved.

The ERP defines three priority sectors: agriculture, industrial and services. Key policies intended to promote growth of these sectors under the ERP include:

- an action plan for adopting a new industrial development strategy, which aims to improve industrial competitiveness in Serbia by increasing focus on innovative and technologically driven sectors, reducing dependence on labour intensive sectors, and investing more in the improvement of human resources through education and training;
- a digital-led growth strategy, which aims to expand the information and communication technology ecosystem in Serbia; and
- a financial support strategy, which aims to improve the financial support available to micro, small and medium enterprises.

The PCI

After the successful completion of the Precautionary Arrangement, supported by the fiscal consolidation measures applied since February 2015, Serbia entered into a new 30-month PCI with the IMF in July 2018. The priorities set out in the PCI mostly include reforms aimed towards maintaining macroeconomic and financial stability and advancing structural and institutional reforms in Serbia. The PCI is an advisory instrument and does not envisage the use of IMF's financial resources. The most recent review by the IMF under the PCI was conducted in the first half of October 2019, following which the IMF noted that Serbia's economic performance continues to remain robust, with projected real GDP growth at 3.5 percent in 2019 and 4 percent in 2020. It also noted that unemployment has fallen to record-low levels and structural reforms continue to advance, although with delays in certain areas. The issuance of a final report following the review in October 2019 is subject to the approval of IMF's management and executive board, the meeting of which is tentatively scheduled in December 2019.

2019 Budget Law

In December 2018, the Government adopted the central government budget for 2019 (the "**2019 Budget Law**"), which aims to reduce Public Debt with projected economic growth of 3.5 per cent. On 7 October 2019, the parliament of Serbia adopted the revised budget for 2019 (the "**2019 Revised Budget**") which also assumes a real GDP growth of 3.5 per cent. The metrics set out in the 2019 Revised Budget are consistent with the objectives of the PCI. Some of the key projections under the 2019 Revised Budget include total revenues and proceeds of RSD 1,292.6 billion and total expenditures and outflows of RSD 1,316.2 billion. The 2019 Revised Budget envisages a low level of central budget deficit of RSD 23.6 billion or 0.4 per cent. of GDP, consistent with the objectives of the PCI. See "*Public Finance- Fiscal Policy and Reform – 2019 Budget and 2019 Revised Budget*". In 2019, the fiscal consolidation measures implemented since late 2014 were abolished. Moreover, the Amendments to the 2019 Budget System Law adopted on 8 December 2018 and 7 October 2019, envisage an increase in pensions (ranging from 5 per cent. to 13 per cent.) and public sector wages (ranging from 8 per cent. to 15 per cent) as well as provide for a one-off allowance of RSD 5,000 to pensioners. More specifically, these normalisation measures are aimed towards reversing the temporary cuts instituted in 2014.

2019 Fiscal Strategy

In the coming years, the Government intends to maintain strong, sustainable and broad-based economic growth. To achieve this objective, the 2019 Fiscal Strategy of the Government, adopted in consultation with the IMF mission, sets out the economic outlook and projections for the period 2019 to 2021. With this three-year plan, the Government remains committed to maintaining the economic growth based on investments and exports, supported by the growth in private consumption.

The NPAA

In July 2014, the Government adopted the NPAA for the period 2014-2018, a detailed plan prepared for the alignment of Serbia's domestic legislation with the EU Acquis. In March 2018, the Government adopted a third revision relating to the period 2018 – 2021. The EU Acquis is divided into 35 chapters for the purpose of negotiations with the European Commission in respect of EU membership. In order to meet the EU accession criteria, the chapters are screened by the European Commission, following which negotiations with respect to the relevant chapters are opened and continued until the European Commission is satisfied with its completion. The NPAA is an instrument designed to monitor the implementation of these chapters. Apart from addressing the adoption of the EU legislation, the NPAA sets out the steps that need to be implemented by Serbia in order to meet the political and economic criteria of EU membership. More specifically, the NPAA defines the development and strategic objectives, on the one hand, and policy reforms and measures necessary for the implementation of these objectives, on the other hand. It also sets out a detailed plan, timetable and priorities for the adoption of these reforms along with the budget resources necessary for the implementation of such steps.

The revised NPAA of 2018 envisages the harmonisation of the domestic legislation with EU regulations by the end of 2021. Harmonising its laws with those of the EU Acquis is a priority for the Government, which it plans to continue to pursue through an extensive amendment process aimed at domestic reforms, with particular focus on strengthening and adjusting the administrative capacities of its national institutions.

New Growth Agenda of the World Bank

The "Serbia New Growth Agenda" ("**NWG**") of the World Bank Group sets forth a new growth strategy to support Serbia in creating a competitive and inclusive economy in order to achieve EU integration. With the intention of maintaining fiscal sustainability and improving economic governance, on the one hand, and stimulating private sector growth and economic inclusion, on the other, the NWG identifies key sectors that need particular focus in the coming years and estimates the impact of selected reforms on GDP growth. The NWG identifies four areas on the domestic front, which require comprehensive, timely and sustained reforms: i) improved financial assistance to micro, small and medium enterprises; ii) enhancing the skills of the labour force, iii) strengthening competition in product markets; and iv) increasing government effectiveness. All these areas are part of the priority measures within the framework of the structural reforms in the ERP.

Recent Initiatives

For achieving its economic and development-related aims, the Government in recent years has adopted several amendments, measures and reforms aimed towards:

- increasing the competitiveness of public enterprises through structural reforms and strengthening the quality of the labour force;
- attracting greater levels of foreign and domestic investment by simplifying and improving regulations; increasing the transparency and efficiency of Government institutions and operations; improving public infrastructure and creating easier access to financial resources; and
- reducing the grey economy; providing greater protection for creditors; facilitating faster execution of financial obligations; decreasing public consumption and combating corruption.

Gross Domestic Product

The Office of Statistics published revised annual rates of GDP for the periods from 2005 to 2014 and 2015 to 2017 on 30 November 2018 and 1 October 2018, respectively. These revised annual rates were published to reflect more robust and accurate GDP estimates as it includes the use of new data sources as well as improved methodologies adopted by the Office of Statistics pursuant to the major revisions in the national accounts of Serbia. The calculation of these revised rates is aligned with the ESA 2010 and continues to be consistent with recommendations from the IMF statistics department and other technical assistance providers. On 1 October 2019, the Office of Statistics published the annual estimates of the GDP data for 2018.

Serbia's trade system includes a broad concept of exports and imports, which covers all goods that are imported and exported except goods in transit and transactions involving temporary goods.

The following table shows Serbia's real and nominal GDP, as well as RSD/EUR and RSD/U.S.$ exchange rates, for the years 2014 to 2018 and for the first six months ended 30 June of 2018 and 2019:

	Year ended 31 December					Six months ended 30 June	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
Nominal GDP (RSD billions)	4,160.5	4,312.0	4,521.3	4,754.4	5,068.6	2,409.8	2,536.7
Nominal GDP (EUR millions)(1)	35,467.5	35,715.6	36,723.1	39,183.3	42,855.5	20,370.6	21,480.1
GDP per capita (EUR)	4,973	5,034	5,203	5,581	6,137	-	-
Real GDP growth (%)	(1.6)	1.8	3.3	2.0	4.4	4.9	2.8
RSD/EUR (end of period)	120.96	121.63	123.47	118.47	118.19	118.07	117.91
RSD/EUR (period average)(2)	117.31	120.73	123.12	121.34	118.27	118.30	118.10
RSD/US$ (end of period)	99.46	111.25	117.14	99.12	103.39	101.34	103.77
RSD/US$ (period average)(2)	88.54	108.85	111.29	107.50	100.28	97.78	104.51
US$/EUR (end of period)	0.82	0.91	0.95	0.84	0.87	0.86	0.88
US$/EUR (period average)(2)	0.75	0.90	0.90	0.89	0.85	0.83	0.88

Source: Office of Statistics; National Bank.

Notes:
(1) Recalculated by the Ministry of Finance using average exchange rate for the period. See "Exchange Rate History".
(2) Calculation of average exchange rates is based on National Bank's daily data of exchange rates.

The following table shows contributions of expenditure (in percentage points) to real GDP growth for the years 2014 to 2018 and for the six months ended 30 June 2019:

	Year ended 31 December					Six months ended 30 June
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
			(percentage points)			
Household final consumption expenditure	(0.1)	(0.4)	0.9	1.4	2.2	2.2
NPISH* final consumption expenditure	0.0	0.1	0.0	0.0	0.1	0.0
Government final consumption expenditure	0.2	(0.7)	0.2	0.5	0.6	0.4
Gross fixed capital formation	(0.6)	0.8	0.9	1.2	3.2	1.5
Changes in inventories and acquisitions less disposals of valuables	(0.4)	(0.1)	(0.6)	0.9	0.9	0.2
Exports of goods and services	1.7	4.0	5.4	4.0	4.2	4.8
Imports of goods and services	2.4	2.0	3.5	5.9	6.6	6.2
Gross domestic product	(1.6)	1.8	3.3	2.0	4.4	2.8

Source: Ministry of Finance.

* Non-Profit Institutions Serving Households

The following table shows share of investments as a percentage of GDP for the years 2014 to 2018 and for the six months ended 30 June 2019:

	Year ended 31 December					Six months ended 30 June
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
			(%)			
Investments	17.8	18.6	17.9	19.6	22.7	21.7
Gross fixed capital formation	15.9	16.8	16.9	17.7	20.1	19.0
Private investments	13.6	14.1	13.9	14.9	16.1	15.5
Public investments	2.3	2.7	3.1	2.8	3.9	3.5
Stock building	1.9	1.8	1.0	1.8	2.6	2.7
Private investment plus stocks	15.5	15.9	14.8	16.8	18.7	18.2

Source: Ministry of Finance

After a few years of negative growth, the Serbian economy began its recovery in 2015 with GDP amounting to EUR 35,716 million at current prices. GDP in real terms expanded by 3.3 per cent. in 2016, as a result of positive contributions from all sectors, but mainly due to growth in the service sector which contributed 1.5 percentage points to GDP based on the increase in the GVA of information and communication services, followed by trade and transport. The GVA of the industry sector grew by 2.6 per cent in 2016, primarily due to foreign investments and access to lower costs of borrowing as well as continued increase in external demand and recovery of domestic demand. The largest growth in GVA amongst the industry sectors was recorded in the manufacturing industry (4.7 per cent.), which contributed to GDP by 0.7 percentage points. Within the manufacturing industry, the growth was diversified and mainly led by export-oriented activities. Also, positive contribution to GDP of 0.6 percentage points originated from agriculture, which recorded an increase in GVA of 8.3 per cent., owing to favourable agrometeorological conditions and large planted areas. Moreover, continued implementation of infrastructure projects as well as conducive legislations supported growth in the construction sector of 7.9 per cent., which resulted in a positive contribution of 0.3 percentage points to GDP.

GDP performance in 2017, when compared to the previous year, increased by 2 per cent. in real terms. This increase was primarily driven by the manufacturing and service sectors, which recorded an increase due to the growth in the external demand and recovery of the domestic demand. However, the decline in the percentage of growth compared to 2016 resulted from a fall in production, primarily in the agriculture and energy sectors. The GVA of the industrial sector in 2017 grew by 2.8 per cent. and led to a positive contribution of 0.6 percentage points in GDP, mainly as a result of persistent favourable trends in the manufacturing industry, which realised a growth of 4.8 per cent. due to the increase in foreign investments, growth in external demand and access to lower costs of borrowing. The growth in the manufacturing industry was broadly dispersed with the highest contribution from the tyre, mechanical and chemical industries. On the other hand, unfavourable hydrological situations in 2017, resulted in a slowdown in the production of electricity which declined to 4.9 per cent. Similarly, the adverse weather conditions in 2017 reduced agricultural production by 11.2 per cent., and consequently led to a negative contribution of 0.8 percentage points in GDP. In contrast, the recovery of domestic demand in 2017 had a favourable effect on the service sector, which grew by 3.3 per cent. and led to a positive growth of 1.7 percentage points in GDP. Also, a positive contribution of 0.2 percentage points to GDP originated from the construction sector, as its growth accelerated to 5.7 per cent. in 2017.

In 2018, real GDP increased by 4.4 per cent., driven mostly by the growth in the service sector and construction sector, primarily as a result of continuous implementation of infrastructure projects, recovery of the real estate market and gradual increase in domestic demand. In terms of year-on-year growth, the construction sector recorded a significant rise of 12.8 per cent. in GVA with a 0.5 percentage points contribution to GDP, while the service sector recorded a real growth of 4.2 per cent. with a positive contribution of 2.1 percentage points to GDP. While growth in the industrial sector remained stable owing to sustained growth in the manufacturing industry and electricity sector, the slowdown in mining activities negatively affected the overall growth rate of the industry sector. In contrast, a positive contribution of 0.9 percentage points to GDP stemmed from agriculture, which realised growth of 15.2 per cent., largely as a result of favourable agro-meteorological conditions and, to a lesser extent, due to the lower base of comparison with the previous year's calculation. Overall, the favourable macroeconomic environment, persistent intensive investment in the infrastructure and construction sector and gradual recovery of the real estate market, served as the catalyst to GDP growth of 4.4 per cent. year-on-year. Similarly, favourable borrowing conditions, coupled with rises in wages and employment resulted in higher disposable income, which led to an increase in private consumption. These developments also contributed positively towards the growth in GDP in 2018.

The trends of 2018 continued in the first half of 2019. According to the Office of Statistics, the Serbian economy recorded a real year-on-year growth of 2.8 per cent. in the first six months of 2019. On the production side of GDP, the growth was driven by services and construction. In terms of year-on-year growth, the GVA of the service activities increased by 3.8 per cent which contributed 2.0 percentage points to GDP, as a result of the growth of trade, tourism and catering, and increase in information and communication technologies. After a steady growth of 12.8 per cent. in 2018, the construction sector continued to grow in the first half of 2019. Despite the higher comparison base in the same period of 2018, the growth in GVA of construction was 14.1 percent in the first half of 2019, which contributed 0.5 percentage points to the overall rate of economic growth of Serbia. In the first six months of 2019, the industry sector had a negative impact on the overall growth rate. Regular overhaul of the production capacities of the leading companies in the oil and chemical industry contributed negatively to the manufacturing industry, while the additional slow-down in the electricity industry exerted pressure on the overall growth. On the consumption side, growth was driven by household consumption and investments. During the first six months of 2019, private consumption increased by 3.3 per cent. in real terms and this trend is expected to continue until the end of the year 2019. After having achieved high growth rates in 2018, the investment activity continued to record a growth of 8.3 per cent. in the first half of 2019. State consumption increased by 2.5 per cent. in compliance with the achieved fiscal results and contributed 0.4 percentage points to GDP.

Gross Value Added

Serbia measures the value of goods and services produced in a sector of the economy using the measure of GVA. As an aggregate measure of production, the sum of GVA of all economic sectors or institutional units plus taxes on products and services and less subsidies is equal to GDP. GVA is used to measure the growth in the output of each sector, as the information relating to taxes and subsidies on products and services is not available for individual sectors.

The following table shows GVA in current prices of the sectors in the Serbian economy for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019:

	Year ended 31 December					Six months ended 30 June	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
			(RSD billions)				
Agriculture	294.0	289.2	307.5	286.2	321.5	138.9	136.4
Industry(1)	917.1	947.8	987.6	1,044.7	1,065.5	532.9	533.4
Mining	95.5	92.4	88.2	101.2	100.8	-	-
Manufacturing	622.6	634.5	666.4	717.4	735.4	-	-
Electricity and gas	146.7	169.1	180.2	171.4	173.2	-	-
Water supply	52.3	51.7	52.8	54.7	56.1	-	-
Construction	132.9	161.4	175.5	195.7	225.8	93.0	111.3
Trade, transport and tourism	652.7	692.2	730.4	794.0	849.5	401.6	431.4
Trade	456.4	479.3	502.8	542.9	581.0	-	-
Transport	145.8	159.0	169.5	186.1	197.6	-	-
Tourism	50.4	53.9	58.1	65.0	70.9	-	-
Information and communication	197.9	208.0	218.8	235.4	243.3	122.5	132.7
Financial and insurance activities	119.3	128.3	133.2	134.8	152.1	70.9	75.2
Other(2)	1,180.8	1,168.0	1,196.1	1,255.5	1,341.1	645.6	688.4
Total GVA	3,494.7	3,594.8	3,749.0	3,946.4	4,198.7	2,005.5	2,108.7
Taxes less subsidies for products	665.9	717.2	772.2	808.0	869.9	404.3	427.9
GDP	4,160.5	4,312.0	4,521.3	4,754.4	5,068.6	2,409.8	2,536.7

Source: Office of Statistics.

Notes:
(1) According to the NACE rev 2 classification at A10 level this section includes water supply activities.
(2) Includes: real estate activities, professional, scientific and technical activities, administrative and support service activities, public administration and defence, education, human health and social work activities, arts, entertainment and recreation, other service activities and activities of households as employers

The following table shows nominal GVA growth rates measured in current prices of the sectors in the Serbian economy for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019:

	Year ended 31 December					Six months ended 30 June	
	2014	2015	2016	2017	2018	2018	2019
	(%)						
Agriculture	(3.8)	(1.6)	6.4	(6.9)	12.3	16.4	(1.7)
Industry[1]	(6.6)	3.3	4.2	5.8	2.0	5.3	0.1
Mining	(14.9)	(3.2)	(4.6)	14.8	(0.4)	-	-
Manufacturing	(6.3)	1.9	5.0	7.7	2.5	-	-
Electricity and gas	(6.9)	15.3	6.5	(4.9)	1.1	-	-
Water supply	9.0	(1.0)	2.1	3.6	2.5	-	-
Construction	7.2	21.4	8.7	11.5	15.4	26.3	19.6
Trade, transport and tourism	1.7	6.1	5.5	8.7	7.0	5.8	7.4
Trade	0.7	5.0	4.9	8.0	7.0	-	-
Transport	3.8	9.0	6.6	9.8	6.2	-	-
Tourism	4.3	6.9	7.7	12.0	9.0	-	-
Information and communication	9.0	5.1	5.2	7.6	3.3	6.6	8.3
Financial and insurance activities	2.5	7.5	3.8	1.2	12.8	4.3	6.1
Other[2]	4.0	(1.1)	2.4	5.0	6.8	5.8	6.6
Total GVA growth rate	0.2	2.9	4.3	5.3	6.4	7.1	5.1
Taxes less subsidies for products	5.1	7.7	7.7	4.6	7.7	5.3	5.8
Total GDP growth rate	1.0	3.6	4.9	5.2	6.6	6.8	5.3

Source: Office of Statistics.

Notes:

(1) According to the NACE rev 2 classification at A10 level this section includes water supply activities.

(2) Includes: real estate activities, professional, scientific and technical activities, administrative and support service activities, public administration and defence, education, human health and social work activities, arts, entertainment and recreation, other service activities and activities of households as employers.

The following table shows GVA in constant previous year prices, with the reference year being 2010, by economic sector for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019:

	Year ended 31 December					Six months ended 30 June	
	2014	2015	2016	2017	2018	2018	2019
			(*RSD billions*)				
Agriculture	221.8	226.2	245.0	217.4	250.5	103.0	103.0
Industry[1]	728.1	758.8	785.4	807.7	815.9	410.1	402.9
Mining	69.8	75.7	77.7	79.4	75.6	-	-
Manufacturing	514.9	528.6	553.7	580.2	589.5	-	-
Electricity and gas	108.8	122.1	125.4	120.1	121.3	-	-
Water supply	35.9	33.1	30.7	31.8	33.0	-	-
Construction	107.7	125.8	135.7	143.5	161.8	68.5	78.2
Trade, transport and tourism	492.6	507.1	530.6	559.6	598.7	282.1	297.6
Trade	337.3	346.1	361.3	380.0	407.9	-	-
Transport	117.6	122.3	127.3	133.0	140.5	-	-
Tourism	38.5	39.6	42.9	47.6	51.4	-	-
Information and communication	164.8	169.1	175.3	182.0	192.0	94.1	100.6
Financial and insurance activities	102.2	103.5	109.1	110.1	118.4	56.6	58.9
Other[2]	986.7	978.8	992.6	1,014.7	1,032.9	510.4	521.9
Total GVA	2,802.6	2,866.4	2,975.4	3,038.7	3,177.4	1,527.7	1,569.1
Taxes less subsidies for products	531.9	527.4	532.8	541.7	560.9	270.2	279.4
GDP	3,335.6	3,394.8	3,508.2	3,580.1	3,737.4	1,797.6	1,848.4

Source: Office of Statistics

Notes:

(1) According to the NACE rev 2 classification at A10 level this section includes water supply activities.

(2) Includes: real estate activities, professional, scientific and technical activities, administrative and support service activities, public administration and defence, education, human health and social work activities, arts, entertainment and recreation, other service activities and activities of households as employers.

The following table shows real GVA growth rates of the sectors in the Serbian economy for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019:

	Year ended 31 December					Six months ended 30 June	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
			(%)				
Agriculture	2.0	2.0	8.3	(11.2)	15.2	14.3	0.0
Industry(1)	(7.9)	4.2	3.5	2.8	1.0	3.9	(1.7)
Mining	(14.5)	8.5	2.6	2.2	(4.7)	-	-
Manufacturing	(6.4)	2.7	4.7	4.8	1.6	-	-
Electricity and gas	(12.1)	12.2	2.7	(4.2)	1.0	-	-
Water supply	0.1	(7.8)	(7.2)	3.6	3.7	-	-
Construction	1.4	16.8	7.9	5.7	12.8	23.0	14.1
Trade, transport and tourism	(1.1)	3.0	4.6	5.5	7.0	5.6	5.5
Trade	(1.4)	2.6	4.4	5.2	7.3	-	-
Transport	0.3	4.0	4.1	4.5	5.6	-	-
Tourism	(2.0)	2.8	8.5	10.8	8.0	-	-
Information and communication	2.8	2.6	3.7	3.8	5.5	4.9	6.9
Financial and insurance activities	(0.4)	1.2	5.4	0.9	7.5	1.4	4.0
Other(2)	0.5	(1.1)	1.7	2.2	1.8	2.5	2.3
Total real GVA growth rate	(1.9)	2.3	3.8	2.1	4.6	5.2	2.7
Taxes less subsidies for products	0.2	(0.9	1.0	1.7	3.5	3.6	3.4
Total real GDP growth rate	(1.6)	1.8	3.3	2.0	4.4	4.9	2.8

Source: Office of Statistics.

Notes:

(1) According to the NACE rev 2 classification at A10 level this section includes water supply activities.

(2) Includes: real estate activities, professional, scientific and technical activities, administrative and support service activities, public administration and defence, education, human health and social work activities, arts, entertainment and recreation, other service activities and activities of households as employers.

Agriculture, forestry and fisheries

Serbia occupies approximately 88,361 square kilometres (including Kosovo and Metohija), of which 68.9 per cent. is arable land. Utilised agricultural land covers over 5,000,000 hectares (or 0.69 hectares per capita, excluding Kosovo and Metohija). Agriculture is one of the key sectors in the economy of Serbia, as the land and climate conditions are highly conducive for cultivation.

In 2014, the agriculture, forestry and fisheries sector represented 8.4 per cent. of the total GVA in current terms. The GVA of this sector reduced by 3.8 per cent. in current terms, while the real growth accomplished was 2.0 per cent., as extensive and protracted flood conditions significantly reduced the total yields of all important plant crops.

In 2015, the agriculture, forestry and fisheries sector represented 8.0 per cent. of total GVA measured in current prices. The GVA of this sector reduced by 1.6 per cent. in current terms, to RSD 289.2 billion from RSD 294.0 billion in 2014, while it increased by 2.0 per cent. in real terms as compared to 2014.

In 2016, the agriculture, forestry and fisheries sector represented 8.2 per cent. of total GVA measured in current prices. The growth of this sector's GVA measured in current prices was 6.4 per cent. (RSD 18.4 billion), or 8.3 per cent. (RSD 18.8 billion) in real terms compared to 2015.

In 2017, the share of the agriculture, forestry and fisheries sector in the total GVA declined to 7.3 per cent. in current terms. Due to extreme drought conditions in 2017, the agriculture sector recorded a decrease in GVA of 6.9 per cent. (RSD 21.3 billion) in current terms, or 11.2 per cent. (RSD 27.5 billion) in real terms compared to 2016.

In 2018, the agriculture, forestry and fisheries sector represented 7.7 per cent. of the total GVA in current terms and contributed 0.9 percentage points to the total GDP growth. Compared to 2017, GVA of this sector increased by 12.3 per cent (RSD 35.2 billion) in current terms, or 15.2 per cent in real terms (RSD 33.0 billion), as a result of a surge in the yield of crops and industrial plants.

During the first six months of 2019, the agriculture, forestry and fisheries sector accounted for 6.5 per cent. of the total GVA at current prices. The GVA of this sector fell by 1.7 per cent. (RSD 2.4 billion), measured at current prices, while in real terms it remained unchanged, compared to the same period in 2018.

Being one of the main sources of economic growth, agriculture continues to be highly ranked on the economic reform agenda of Serbia. The National Agricultural Program of the Republic of Serbia for the period 2018-2020 and the Strategy of Agricultural and Rural Development of the Republic of Serbia for the period 2014-2024 (collectively referred to as the "**Agricultural Strategy**") were adopted in 2017 and 2014, reaffirming the Government's commitment to the development of this sector. The on-going structural reforms in the Agricultural Strategy include technological modernisation of agricultural production, implementation of land consolidation projects, harmonisation with the European market, health and safety standards and the implementation of an agricultural production support system. In parallel, other strategic goals of the Government include environmental protection from the adverse effects of agricultural technologies, preparation for the acceptance into the WTO and reform of the corporative food production sector.

Similarly, to support such initiatives, the Government has allocated RSD 43.7 billion under the 2019 Revised Budget as agricultural subsidies for the implementation of a range of development measures, which are expected to strengthen production and accelerate the development of agricultural activities.

Industry

The industrial output of Serbia has increased overall in recent years through the growth of manufacturing industry, stronger investments and exports, all of which have been exhibiting a stable trend. The principal components of the industrial sector are manufacturing, mining and electricity supply. Based on recent macroeconomic indicators, the Government remains committed to pursue the growth and development of the industry sector, especially manufacturing industry. The Government believes that strengthening medium and high tech businesses (including the chemical industry, equipment production, traffic equipment production, the electronic industry and food production) in the manufacturing industry would provide higher value added products and increase the contribution of the industry sector to GDP. Measures that have the potential to stimulate growth in the industrial output include diversification of production, sustained availability of foreign investments, technological improvements, privatisation of state and socially owned enterprises and continuous private sector development.

Similarly, the Government intends to improve the position of its mining sector by enhancing safety measures, modernising its technologies, and establishing conditions for higher inflow of foreign capital for the development of its mines. With this objective, the Government has been actively pursuing mining as a potential source of development with the assistance of foreign investors in the industry. Such efforts have contributed to, and resulted in, investments such as USD 130 million made by Rio Tinto, the Anglo-Australian multinational mining company, in lithium production in the "Jadar" mine. Moreover, to attract investments in the mining sector, the Government adopted the Law on Mining and Geological Explorations in 2016, a new legislative framework which protects the interests of the state, provides investment security and aims to achieve national energy security based on strategic management of the mining sector. As at the date of this Prospectus, a strategy for the reconstruction of mines is being developed with the support of the Ministry of Natural Resources, Mining and Spatial Planning to identify a solution for closing economically unviable mines in Pe Resavica Coal Mine. This strategy is expected to provide for gradual closing of mines that no longer contain any reserves and the development of mines with existing reserves. Similarly, an action plan is being developed for the restructuring of the "Public Enterprise for Underground Exploitation of Coal Resavica" to identify a sustainable business model to streamline and reduce the budget subsidies. Such initiatives are also expected to support the Government's long-term objective set out in the Strategy of Mineral Resources Management, which envisages the share of the mining industry in the total GDP to increase to 5.0 per cent. by 2020. There can be no assurance that such objectives in fact will be achieved.

The Government is equally committed to the development of Serbia's electric power system to increase energy efficiency and production capacities, maintain environmental sustainability and diversify supply sources. At the same time, Serbia's energy policy aims at strengthening cooperation in regional projects to ensure energy stability. In recent years, Serbia has enacted several key measures to harmonise its energy legislation with EU directives. For instance, in 2013, the Law on Efficient Use of Energy was adopted, and in 2014, the new Energy Law was adopted which is harmonised with the EU's third energy package. In addition, the "Energy Development Strategy of Serbia for the period by 2025" was adopted by the Government in 2015, which contains projections through 2030. This strategy defines in detail measures, projects and activities in respect of all areas of energy: electricity, heat energy, renewable energy sources, coal, oil, natural gas and energy efficiency. Also, with a view to increase the security of supply, the Government maintains minimum reserves of oil and oil derivatives in line with the EU directive EU 2009/119/EC. In recent years, the Government has made efforts to promote renewable energy source and attract investors to construct hydro power plants and wind power plants in Serbia. The Energy Law in Serbia transposes, for the most part, the renewable energy directive, and several bylaws have recently been adopted in 2016 to support this initiative. In the medium to long term, energy production, in particular, the production of renewable energy, is expected to be one of the largest sources of growth in the energy sector. In the coming years, in order to provide uninterrupted energy supply, the Ministry of Mining and Energy has identified the following projects as it main priorities:

Interconnection Bulgaria - the Republic of Serbia

In the area of trans-European energy networks, the Government continues to support realisation of projects with the South East Europe gas ring. In this respect, a memorandum of understanding for the construction of a gas interconnector Niš - Dimitrovgrad, between the Republic of Serbia and the government of Bulgaria, was signed on 19 January 2017. This interconnector is expected to diversify the source of supply, improve the safety of supply to Serbia, Bulgaria and the entire region, and significantly reduce the reliance on the north part of the trans-European gas pipeline system. At the same time, this project enables the integration of existing and future natural gas storage capacities into a unique energy system. The Bulgaria-Serbia gas interconnector is expected to be operational in May 2022. In December 2018, the Government signed a financial agreement with the European Commission under the IPA 2017 pursuant to which EUR 49.6 million of funds were earmarked for this project. In addition, the Government is in discussions with EIB for a loan amount of EUR 25 million to finance this project.

Trans-Balkan Electricity Corridor

The Trans-Balkan Electricity Corridor includes a set of projects relating to the restoration of outdated infrastructure for electricity transfer, all of which are aimed at increasing cross-border transfer capacities, as well as raising the level of power supply to consumers in Serbia. Out of the total length of the 400 kV transmission line, the construction of the first phase (a 320 km line) is underway. The total cost of the project is estimated at EUR 157 million. The first phase of the Trans-Balkan Electricity Corridor includes the following infrastructure facilities and electricity transmission sections:

- **Section 1**: Consists of double transmission lines 2x400 kV Pančevo – Rešica, between Serbia and Romania. The transmission line from TS Pančevo 2 to Romanian border has been in operation since December 2017. The total investment value of Section 1 amounted to EUR 27.4 million, which was fully financed from the funds of Serbia's transmission system operator, Elektromreža Srbije ("**EMS**").

- **Section 2**: Consists of a transmission line 400 kV between TS Kragujevac 2 - TS Kraljevo 3 and involves increasing the voltage level in TS Kraljevo 3 to 400kV. A tender for the selection of the contractor is **expected** to be announced in 2019. The construction of Section 2 is expected to commence in 2019, while the transmission line is expected to be operational in 2021. The total investment value of Section 2 is estimated at EUR 29.6 million, of which EUR 15 million will be financed by the German Development Bank (KfW), EUR 6.6 million will be donated by Western Balkans Investment Framework, and the remaining EUR 8 million will be financed from the funds of EMS.

- **Section 3**: Consists of a transmission network of 400 kV between TS Obrenovac and TS Bajina Basta and involves construction of a new double transmission lines 2x400 kV between TS Obrenovac and TS Bajina Basta, reconstruction of the existing infrastructure at TS Obrenovac and raising the voltage level in TS Bajina Basta to 400 kV. The total investment value of Section 3 is estimated at EUR 58.95 million.

- **Section 4**: Consists of double interconnection transmission lines 2x400 kV between Bajina Bašta (Serbia), Višegrad (Bosnia and Herzegovina) and Pljevlja (Montenegro). The feasibility study, involving the technical, economic and financial assessment, for the construction of Sections 3 and 4 is in progress.

Construction of a new block at Kostolac B3 thermal power plant

In order for the Public Enterprise Electric Power Industry of Serbia ("**PE EPS**") to meet increased needs for electricity, the reconstruction of blocks A, B1 and B2 in the thermal power plant in Kostolac has been completed, and the construction of block B3 (350 MW) has commenced. The construction of this new block B3 is expected to increase the production capacities and improve the energy stability in Serbia. The project also includes expansion of the Drmno mine, which involves the increase of coal production from nine to twelve million tons per year.

Kostolac Wind Farm

Serbia, which produces 70 per cent. of its energy from coal and the rest from hydropower, aims to secure 27 per cent. of its energy consumption from renewable sources by 2020 in accordance with the priorities set out in the Government's "National Action Plan for Renewable Energy Sources". The Kostolac Wind Farm is expected to be Serbia's first utility-scale wind farm. The wind power plant is expected to have a capacity of 66 MW. In November 2017, PE EPS signed a loan agreement with the German Development Bank (KfW) for an amount of EUR 80 million to finance the construction of this plant. The construction permit was obtained in February 2019. The construction is expected to commence in 2019, with the commissioning of the plant in 2021.

South East Europe Electric Power Exchange – ("SEEPEX")

SEEPEX is a licensed market operator of the organised electricity market in Serbia, which serves as a gradual link between the amount of trade and the number of participants. On 5 February 2018, EMS, SEEPEX, Hungary (Mavir and HUPH) and EPEXSPOT signed a memorandum of understanding with the objective of supporting the integration of their business activities in accordance with the CACM Guidelines (EU Regulation 2015/1222) for achieving a target model, i.e. establishing an internal energy market across Europe.

The following table shows the growth rate of industrial production (physical volume), mining, manufacturing and electricity, gas and steam for the years 2014 to 2018 and for the first seven months of 2018 and 2019:

	Year ended on December 31					**Seven months ended 31 July**	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
				(%)			
Industrial production, physical volume	(7.3)	7.3	5.2	3.9	1.3	3.7	(1.3)
Mining	(15.8)	12.2	3.2	2.2	(4.8)	(1.0)	(1.2)
Manufacturing	(4.8)	5.7	6.0	6.3	1.9	3.4	(1.4)
Electricity, gas, steam	(14.9)	12.5	2.7	(6.2)	1.2	7.3	(0.5)

Source: Office of Statistics.

In 2014, adverse weather conditions contributed to the slowdown in the mining and electricity sectors. As a result, the GVA of the industry sector declined by 6.6 per cent. (RSD 65.0 billion) in current terms, or 7.9 per cent. (RSD 62.8 billion) in real terms compared to 2013. However, with recovery in 2015, this sector represented 26.4 per cent. of total GVA when measured in current prices, correlating to an increase in GVA of 3.3 per cent. (RSD 30.7 billion) in current terms, or 4.2 per cent. in real terms as compared to 2014.

In 2016, the industry sector represented 26.3 per cent. of total GVA measured in current prices. The growth of this sector's GVA measured in current terms was 4.2 per cent. (RSD 39.8 billion), or 3.5 per cent. (RSD 26.7 billion) in real terms compared to 2015. This increase was largely influenced by positive trends in manufacturing activities, being the largest contributor (accounting for 17.8 percent. in current terms) from the industry sector to total GVA. Compared to 2015, the growth in the GVA of the manufacturing sector measured in current terms was 5.0 per cent (RSD 31.9 billion), or 4.7 per cent in real terms.

In 2017, the industry sector represented 26.5 per cent. of total GVA measured in current prices. Despite seasonal fluctuations and slowdowns in mining and electricity production, GVA of the industry sector in the total GVA recorded an increase of 5.8 per cent. (RSD 57.2 billion) in current terms, or 2.8 per cent. (RSD 22.3 billion) in real terms, owing to the steady growth of the manufacturing sector. The share of the manufacturing sector in the total GVA accounted for 18.2 per cent. in current terms in 2017. Similarly, the GVA of this sub-sector recorded a growth of 7.7 per cent. (RSD 51 billion) when measured in current prices, or 4.8 per cent. in real terms compared to 2016.

In 2018, the industry sector represented 25.4 per cent. of total GVA measured in current prices. This sector's GVA grew by 2.0 per cent. in current terms, corresponding to an increase from RSD 1,044.7 billion in 2017 to RSD 1,065.5 billion in 2018, or 1.0 per cent. (RSD 8.2 billion) in real terms compared to 2017.

In the first six months of 2019, this sector's GVA in nominal terms recorded a slight increase of 0.1 per cent (RSD 0.5 billion), while it recorded a decrease of 1.7 per cent. (RSD 7.2 billion) in real terms, compared to the same period in 2018.

Construction

During the period from 2015 to 2018, the Government sought to achieve greater transparency and reduce cost and bureaucratic barriers in the construction sector. Partly as a result of this focus, and with the support of investment in public infrastructure, the construction sector has realised high growth in recent years, most notably in 2017 and 2018, which witnessed an increase of 11.5 per cent. and 17.4 per cent., respectively, in current terms. Growth in this sector, however, is dependent upon the availability of multilateral and bilateral funding in order to support national and regional infrastructure projects. As at the date of this Prospectus, the Government has concluded bilateral loans for infrastructure projects with the Chinese Export-Import Bank, the Republic of Azerbaijan, the Russian Federation and the Abu Dhabi Development Fund. The growth of this sector in the coming years will in part depend upon appropriate future policy measures. Therefore, with the aim of introducing conducive legislations, the Government has adopted several measures in recent years, including the Spatial Plan of Serbia for the period 2010 – 2020, to establish conditions for efficient project development through faster approval of construction permits.

Major construction projects in Serbia are mainly seen in the transportation sector as the existing infrastructure is in need of upgrade. In addition to the existing projects, the Government has commenced, or expects to start, the implementation of infrastructure projects in 2019, such as the construction of Highway E-763, Preljina-Pozega section of 30.9 km; Highway E-761 , Pojate-Preljina section (Morava River Corridor) of 110 km; Highway Belgrade-Sarajevo, Sremska Raca-Kuzmin section of 17 km, Highway Ruma-Sabac and Expressway Sabac -Loznica; reconstruction and modernisation of Novi Sad-Subotica railway of 108 km; reconstruction of Nis-Dimitrovgrad railway of 108 km and reconstruction and modernisation of Nis – Brestovac (23.4 km).

In 2019, the construction of Corridor 10 (one of the pan-European corridors) is expected to be fully completed and open for use, i.e. the southern part from Niš to Preševo (74.2 km) leading to North Macedonia and the eastern part from Niš to Dimitrovgrad (86.9 km) leading to Bulgaria. Moreover, three sections of the Highway E-763 from Obrenovac to Ljig (62.7 km) were opened for traffic in August 2019 which, together with the section Ljig-Preljina opened in 2016, resulted in 103 km of continuous route being available. In addition, the Government intends to open the section Surcin-Obrenovac (17.6 km) that connects Belgrade with the western part of Serbia and Montenegro at the end of 2019. As well construction of the Belgrade bypass (19.5 km) is in progress. All together 135.8 km of railways were either reconstructed, modernized or rehabilitated in 2017, while 276 km of railways were reconstructed in 2018. In addition, the reconstruction and modernisation of two sections of the high-speed Belgrade-Budapest railway from Belgrade to Novi Sad, with a total length of 74.9 km, is currently under way. Similarly, the renovation of 235.5 km of railways (consisting of the sections Subotica-Senta, Zajecar-Nis, Lapovo-Kragujevac, Markovac-Resavica and Kumane - Banatsko - Miloševo) and reconstruction of railway line Jajinci-Mala Krsna (60.4 km) is underway. Separately, on 15 April 2019, Serbia entered into a financial contract with EIB for an amount of EUR 22 million to finance the implementation of the project "Partnership for Local Development". The preparatory phase of this project commenced in 2018, while the full implementation is expected to be completed in 2022. The implementation of the project involves the repair and improvement of public buildings, the reconstruction and construction of local markets, the strengthening of the management capacities of municipal administration and the reconstruction of public places (including sports fields, parks, street lighting and pedestrian walkways). The estimated value of the project is EUR 30 million, of which 75 per cent. will be financed through the EIB loan, 15 per cent. will be financed from funds of local self-government units and the remainder will be financed from the Budget and donations. These projects are of particular importance to the growth of the Serbian economy as they are expected to increase activity in the construction sector.

In 2014, the construction sector represented 3.8 per cent. of total GVA measured in current prices. GVA of this sector in 2014 grew by 7.2 per cent. (RSD 8.9 billion) in current terms, and by 1.4 per cent. (RSD 1.5 billion) in real terms compared to 2013.

In 2015, the construction sector witnessed a notable growth as it accounted for 4.5 per cent. of total GVA measured in current prices. GVA of this sector significantly increased by 21.4 per cent. in current terms, to RSD 161.4 billion from RSD 132.9 billion, and by 16.8 per cent. in real terms compared to 2014.

In 2016, the construction sector represented 4.7 per cent. of total GVA measured in current prices. This sector's GVA grew by 8.7 per cent. (RSD 14.1 billion) in current terms, and by 7.9 per cent. (RSD 9.9 billion) in real terms compared to 2015.

In 2017, the construction sector represented 5.0 per cent. of total GVA measured in current prices. This sector's GVA accelerated by 11.5 per cent. (RSD 20.2 billion) in current terms, and by 5.7 per cent. (RSD 7.8 billion) in real terms compared to 2016.

Due to the removal of the administrative barriers, and owing to the continued implementation of the infrastructure projects and acceleration of investments in 2018, this sector's GVA increased by 15.4 per cent. (RSD 30.1 billion) in current terms, or 12.8 per cent. (RSD 18.3 billion) in real terms compared to 2017. This resulted in the construction sector being one of the main drivers of economic growth in 2018, contributing 0.6 percentage points (or 0.5 percentage points in real terms) to nominal GDP.

The GVA of the construction sector continued to grow in the first half of 2019, with an increase of 19.6 per cent in current prices (RSD 18.3 billion) and 14.1 per cent in real terms (RSD 9.7 billion), compared to the same period in 2018. The share of construction sector in the total GVA expressed at current prices was 5.3 per cent, reflecting a growth of 0.6 percentage points compared to the first half of 2018**.**

Wholesale and retail trade and repair of motor vehicles

After a few years of slowdown, the trade sector in Serbia recovered in 2015 and has since then continued to remain a dominant growth driver. As at the date of this Prospectus, the trade sector consist of wholesale accounts, retail accounts and motor vehicle accounts, representing 55 per cent., 36 per cent. and 9 per cent., respectively, of the total sector.

In 2016, the Government reaffirmed its commitment to the development of the trade sector by adopting the Strategy for Development of Trade in Serbia from 2016 to 2020, which amongst other things, includes the development of a new trade network structure, the internationalisation of trade, intensification of market competition and measures for stabilisation and development of the domestic market. This strategy also aims to support small and medium enterprises and entrepreneurs, development of e-commerce, enhancement of consumer protection and harmonisation of the legal framework with the EU standards.

In 2014, this sector in real terms decreased by 1.4 per cent. (RSD 4.7 billion) and accounted for 13.1 per cent. (RSD 456.4 billion) of the total GVA measured in current prices. This contraction was largely due to the reduction in trade in motor vehicles and wholesale accounts, which declined by 4.3 per cent. and 3.4 per cent., respectively, in real terms. This decline, to some extent, was offset by the increase of 2.4 per cent. in retail trade when measured in real terms.

In 2015, the output of this sector increased as it accounted for 13.3 per cent. (RSD 479.3 billion) of total GVA measured in current prices. The GVA of this sector grew by 5.0 per cent. (RSD 22.9 billion) in current terms, or 2.6 per cent. (RSD 8.8 billion) in real terms compared to 2014. These trends spurred growth in all three segments, with the real growth percentage being the highest in the motor vehicles accounts (5.3 per cent), followed by the wholesale accounts (2.9 per cent.) and retail trade (1.6 per cent.).

In 2016, this sector continued to grow as it represented 13.4 per cent. of total GVA measured in current prices. The GVA of this sector grew by 4.9 per cent. in current terms, or by 4.4 per cent. in real terms as compared to 2015. All three segments contributed to this growth, with motor vehicles accomplishing a real growth of 18.4 per cent. and wholesale and retail trading recording a real growth of 1.4 per cent. and 6.1 per cent., respectively.

In 2017, this sector continued to show a gradual increase as it represented 13.8 per cent. (RSD 542.9 billion) of total GVA measured in current prices. Compared to 2016, the GVA of this sector grew by 8.0 per cent. (RSD 40.1 billion) in current terms, and by 5.2 per cent. in real terms. This growth primarily resulted from an increase in trade of motor vehicles (14.5 per cent.) and, to a lesser extent, due to an increase in wholesale (4.8 per cent.) and retail trade (3.7 per cent.).

In 2018, this sector continued to show a gradual increase as it represented 13.8 per cent. (RSD 581.0 billion) of total GVA measured in current prices. Compared to 2017, the GVA of this sector grew by 7.0 per cent. (RSD 38.1 billion) in current terms, and by 7.3 per cent. in real terms. The wholesale trade recorded growth of 8.5 per cent. in current terms, with retail trade representing nominal growth of 6.9 per cent, or 4.2 percent when expressed in real terms. Within retail trade, the highest nominal growth was recorded by non-food products (7 per cent.), followed by motor fuels (3.8 per cent.) and food products (2.3 per cent.).

Since GVA information for the trade subsector is not available for 2019, the aggregate data of the Office of Statistics have been used for identifying short- term indicators. In the first half of 2019, GVA of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation & storage and accommodation & food services continued to grow, with nominal growth of 7.4 per cent. (RSD 29.7 billion) and real growth of 5.5 per cent (RSD 15.5 billion), compared to the first half of 2018. The share of these sectors in the total GVA measured in current prices was 20.5 per cent.

Transport

The geographical location of Serbia, i.e. being positioned at intersections of important European transport routes and connecting Western Europe, Turkey and the Middle East, encourages the development of the transportation sector. The transportation sector comprises land transport, water transport and air transport. Serbia is aiming to increase the scope, quality and efficiency of its transport services by developing and modernising its transportation infrastructure and increasing its transportation capacities.

The construction and refurbishment of the road and railway projects listed in the construction sector above, are an important part of achieving these aims. See "–*Construction*". At the same time, the Government is focused on the development of logistic centres of regional and local character on the multimodal Corridors 10 and 7, in large regional economic hubs and their gravitational zones. The entire technical documentation for the intermodal terminal and logistics centre "Batajnica" has been completed, and the construction of this centre is expected to commence at the beginning of 2020. This future terminal is expected to reduce logistics costs and enable supply of products and goods to end customers in an efficient and more economical way.

In October 2017, the Government adopted the Spatial Plan until 2020 for highway Nis - Merdare - Pristina (connecting Corridor 10 with Adriatic through Drac). 20 per cent. of this construction will be financed through a grant from WBIF Investment Grant Fund for Road Construction (approved by EU in December 2018) and the remainder will be financed by EIB, EBRD and the Budget. Separately, the reconstruction and modernisation of the Belgrade - Budapest railway is of particular importance, as it is expected to increase activity in the transportation sector and result in economic and other benefits. On 16 May 2017, the Government entered into a loan agreement for an amount of USD 297.6 million with the Chinese Export-Import Bank to finance the reconstruction and modernisation of railway section Beograd - Stara Pazova. Similarly, in April 2019, the Government entered into a loan agreement of USD 988.4 million with the Chinese Export-Import Bank to finance the construction of the railway line from Novi Sad to Subotica, which is expected to commence in 2019. Similarly, the work related to the reconstruction and modernisation of railway lines, Niš – Dimitrovgrad and Nis - Brestovac, is expected to commence in 2020. Also, the Government expects to commence work relating to the modernisation of the technical passenger station Zemun -TPS Zemun (EUR 50.8 million) and the renovation of 299 km of railways (i.e. sections Kikinda-MSK Kikinda, Vrbas-Kula-Sombor, Doljevac-Merdare, Vršac - Bela Crkva and Kragujevac - Kraljevo). On the other hand, the construction of the Zezelj bridge in Novi Sad and the modernisation and reconstruction of the railway lines (Belgrade Center - Pancevo Glavna and six sections on Corridor 10 (Gilje - Ćuprija - Paracin, Resnik – Valjevo)) have been completed.

The Government has equally been pursuing reforms of public enterprises for the improvement of the railway network and overall railway transport service. Since August 2015, new railway companies have been spun off from Zeleznice Srbije a.d. (Serbian Railways Joint Stock Company), with the establishment of a new railway company: Infrastruktura zeleznice Srbije a.d. (state-owned public railway infrastructure manager), Srbija Voz a.d. (state-owned passenger railway undertaking) and Srbija Kargo a.d. (state-owned cargo rail undertaking).

The Government remains committed to maintaining the operational and financial sustainability of independent rail undertaking/infrastructure managers and opening of the railway market and infrastructure management. Since 2016, domestic railway undertakings have been able to use the railway infrastructure. As at the date of this Prospectus, two state-owned and eight private railway undertakings actively operate on the railway infrastructure of Serbia (five for transport of cargo and three for railway maintenance).

Likewise, the implementation of several projects in the field of inland waterways is underway with an estimated value of EUR 380 million, which will be financed partly by the funds of EIB's "Framework Loan for Infrastructure Development" in 2018, and partly by the Budget and grants from available funds (i.e. from Investment Framework for the Western Balkans and the Connecting Europe Facility, etc). In respect of air transportation, the Government signed a concession agreement with the French company "Vinci" for the "Nikola Tesla" Belgrade Airport on 22 March 2018. The 25-year contract includes financing, managing, maintaining, extending and upgrading the existing airport terminal and the runway.

The above initiatives are designed to expand Serbia's road, rail, water and air network and support development of this sector in general. The growth of this sector is, however, dependent upon foreign investment and co-operation with neighbouring countries, as the share of the inter-modality transportation is expected to increase the overall transportation of goods. With this objective, the Government has been actively promoting trans-European networks, in order to strengthen the internal market and contribute to the growth of GDP. As transport infrastructure is conducive to increasing productivity, the development of the existing infrastructure continues to be a priority on the regulatory agenda of Serbia, more specifically defined in the Transport Master Plan up to 2027 (the "**Transport Master Plan**"), which was prepared in cooperation with the EU. The Transport Master Plan aims to achieve better and safer transport networks, in order to attract investments in impoverished areas and improve the quality of trade. Since the growth of this sector is in part dependent upon future policy measures, three systemic railways laws, namely the Laws on Railways, the Laws on Safety in Railway Traffic and the Law on Interoperability of Railway Systems, have been adopted in order to align the domestic regulatory measures with EU Acquis. These reforms are expected to result in higher levels of traffic safety and more international transit flows and tourism as well as foster growth and development of the international trade and the construction sector.

In 2014, the transportation and storage sector represented 4.2 per cent. of total GVA measured in current prices. In 2015, the GVA of this sector grew by 9.0 per cent. (RSD 13.2 billion) in current terms, and by 4.0 per cent (RSD 4.8 billion) in real terms compared to 2014.

This sector continued to grow in 2016 and represented 4.5 per cent. of total GVA measured in current prices. The GVA of this sector increased by 6.6 per cent. in current terms, to RSD 169.5 billion from RSD 158.9 billion, or 4.1 per cent. (RSD 5 billion) in real terms compared to 2015.

In 2017, the transportation and storage sector represented 4.7 per cent. of total GVA measured in current prices. The GVA of this sector accelerated by 9.8 per cent. (RSD 16.6 billion) in current terms, and by 4.5 per cent. (RSD 5.7 billion) in real terms compared to 2016.

In 2018, the transportation and storage sector represented 4.7 per cent. of total GVA measured in current prices. The GVA of this sector accelerated by 6.2 per cent. (RSD 11.5 billion) in current terms, and by 5.6 per cent. (RSD 7.5 billion) in real terms compared to 2017.

Since GVA related information for the transport subsector is not available for 2019, the aggregate data of the Office of Statistics have been used for identifying short- term indicators. Based on the aggregate data for the first half of 2019, the physical volume of transport services continued to grow by 7.4 per cent. as compared to the same period in 2018, owing to the increase in the volume of service in road transportation (17 per cent.), air transportation (6 per cent) and inland waterway transport (19.9 per cent). On the other hand, railway transportation decreased by 13.1 per cent. compared to the same period in 2018.

Information and communications

The information and communications sector consists of information technologies, construction, maintenance, use and lease of public communication networks and equipment as well as electronic communication services. The information and communications sector represented 5.7 per cent., 5.8 per cent., 5.8 per cent., 6.0 per cent and 6.0 per cent. of total GVA in 2014, 2015, 2016, 2017 and 2018, respectively, when measured in current prices.

Given that the communication infrastructure has a multiplier effect, the Government continues to remain committed to the development and liberalisation of electronic communication services in an effort to achieve wider usage. According to data from the Office of Statistics, as at 31 December 2018, the number of households with computer and broadband internet access amounted to 72 per cent. of the total number of households, and the number of companies using computers and internet exceeded 99 per cent., of which 82 per cent continue to use websites for their business operations. These indicators reflect that access to computers and the internet in companies and households is widespread.

The development of this sector, however, is part dependent on the improvement of legislation regulating this area. With the adoption of the Law on Electronic Document and Electronic Identification and Services of Confidence in Electronic Business in line with the EU Acquis in 2017, the Government intends to continue making progress in the area of electronic business and trust services. Moreover, by establishing the "Office for Information Technology and Electronic Administration", Serbia became the first country in the region to have provided a legal and institutional environment in which the creation of digital economy has been set as the highest priority. Similarly, the Strategy on Scientific and Technological Development of the Republic of Serbia for the period 2016-2020, was adopted with the objective of establishing a national research system to be integrated into the "European Research Area". As at the date of this Prospectus, the draft Law on Broadband Communication is being prepared which aims to harmonise the policy measures with the EU Directive 2014/61 to reduce the cost of deploying high-speed electronic communications networks. These reforms are expected to establish the necessary infrastructure to provide for the efficient, safe and timely delivery of high quality information and communications services.

In 2014, the GVA of this sector grew by 9.0 per cent. (RSD 16.4 billion) in current terms, or 2.8 per cent. (RSD 4.5 billion) in real terms compared to 2013. The GVA of this sector in 2015 grew by 5.1 per cent. in current terms, to RSD 208 billion from RSD 198 billion, or by 2.6 per cent. in real terms compared to 2014. In 2016, the GVA of this sector increased by 5.2 per cent. (RSD 10.8 billion) in current terms, or 3.7 per cent. (RSD 6.2 billion) in real terms compared to 2015.

In 2017, this sector's GVA grew by 7.6 per cent. (RSD 16.6 billion) in current terms, or 3.8 per cent. (RSD 6.7 billion) in real terms compared to 2016. This sector's GVA grew by 3.3 per cent. (RSD 7.9 billion) in 2018 when measured in current terms, or 5.5 per cent. (RSD 10.0 billion) in real terms compared to 2017.

In the first half of 2019, this sector's GVA grew by 8.3 per cent. (RSD 10.1 billion) in current terms, or 6.9 per cent. (RSD 6.5 billion) in real terms compared to the first half of 2018. The share of this sector in the total GVA measured in current prices was 6.3 per cent.

Finance and insurance

According to statistics from the National Bank, as at 31 December 2018, Serbia had 27 banks (of which 20 were under foreign ownership), 20 insurance companies (of which 15 were under foreign ownership) and 17 financial leasing companies (of which seven were under foreign ownership and 10 were under the majority ownership of domestic entities of which eight were owned by domestic banks with foreign capital). As at 31 December 2018, the total assets in the banking sector amounted to RSD 3,774.1 billion, of which RSD 279.0 billion was in insurance companies and RSD 86.7 billion was in financial leasing.

As at 31 July 2019, 26 banks were operating in Serbia, of which 19 banks were majority owned by foreign entities, three banks were under domestic private ownership and four banks were state-owned. As at 31 July 2019, the total assets and capital in the banking sector amounted to RSD 3,877 billion (EUR 32.9 billion) and RSD 680 billion (EUR 5.8 billion) respectively.

The various reforms introduced by the Government since 2015, along with continuous improvement of the legal framework of the financial sector in line with international standards and EU regulations, has provided for stable and consistent growth in the financial sector. In particular, the Non-Performing Loan Resolution Strategy adopted in August 2015 (the "**NPL Resolution Strategy**"), along with the action plans of the Government and the National Bank, have contributed to the reduction of the volume of non-performing loans in the banking sector.

In 2014, the finance and insurance sector represented 3.4 per cent. of the total GVA when measured in current prices. In 2015, this sector's GVA grew by 7.5 per cent. in current terms, to RSD 128.3 billion from RSD 119.3 billion, and by 1.2 per cent. in real terms compared to 2014.

In 2016, the finance and insurance sector represented 3.6 per cent. of total GVA measured in current prices. This sector's GVA grew by 3.8 per cent. (RSD 4.8 billion) in current terms, and by 5.4 per cent. (RSD 5.6 billion) in real terms compared to 2015.

In 2017, the finance and insurance sector represented 3.4 per cent. of total GVA when measured in current prices. This sector's GVA recorded a moderate growth of 1.2 per cent. (RSD 1.6 billion) in current terms, or 0.9 per cent. (RSD 1.0 billion) in real terms compared to 2016.

In 2018, the finance and insurance sector continued to represent 3.6 per cent. of total GVA when measured in current prices. Although, this sector's GVA grew by 12.8 per cent. (RSD 17.3 billion) in current terms, it grew by 7.5 per cent. (RSD 8.3 billion) in real terms compared to 2017.

In the first half of 2019, the finance and insurance sector's GVA grew by 6.1 per cent. (RSD 4.3 billion) in current terms, or 4.0 per cent. (RSD 2.2 billion) in real terms compared to the first half of 2018. This sector represented 3.6 per cent of total GVA when measured in current prices.

Tourism

The tourism sector in Serbia has generally continued to grow year-on-year, with annual increases in the number of tourist arrivals and overnight stays. In 2016, a Strategy for Tourism Development 2016-2025 was adopted, which is expected to increase revenues from tourism services and establish conditions for employment in the tourism sector. The number of tourist arrivals increased gradually from 2.2 million in 2014, to 3.4 million in 2018. In this period, domestic arrivals increased by 47.8 per cent., while foreign arrivals increased by 66.3 per cent. In the first six months of 2019, the total number of tourist arrivals in the Republic of Serbia amounted to 1,651,280 (an increase of 5.3 per cent. compared to the same period in 2018), of which domestic tourists made up 896,447 (an increase of 5.7 per cent. compared to the same period in 2018), or accounted for 54.3 per cent. of total tourist arrivals. The number of arrivals of foreign tourists was 754,833 (an increase of 4.8 per cent. compared to same period in 2018), which represents a share of 45.7 per cent. in total tourist arrivals. Also, total overnight stays in 2018 increased by 3.2 million to 9.3 million, compared to 2014. During the period 2014 to 2018, domestic overnight stays increased by 44.7 per cent. while foreign overnight stays increased by 69.3 per cent. During the first six months of 2019, 4,539,009 tourist overnights were recorded (an increase of 5.8 per cent. compared to the same period in 2018), of which domestic tourists realized 2,848,474 overnight stays (an increase of 5.1 per cent. compared to the same period in 2018, and accounted for 62.8 per cent. of the total number of overnight stays), while foreign tourists realized 1,690,535 overnight stays (an increase of 7.2 per cent. compared to the same period in 2018, and accounted for 37.2 per cent. of the total number of overnights stays). Foreign currency inflow from tourism increased to EUR 1.3 billion in 2018, reflecting a 52.5 per cent. increase compared to 2014. From January to June 2019, the foreign exchange inflow from tourism increased by 6.4 per cent. in Euros (Euro 562 million), compared to the same period in 2018.

The surveys of the statistical yearbook of the Republic of Serbia ("**SORS**") covering tourism, show the total catering trade turnover in Serbia in 2014, at current prices, amounted to RSD 65.1 billion and was by 0.6 per cent. higher than in the previous year, while at constant prices, a decrease of 0.2 per cent. was noted. The turnover structure in catering trade in 2014, observed by type of services performed, shows that the largest share was that of food and beverages (49.2 per cent.), then of alcoholic and non-alcoholic beverages (29.6 per cent.) and overnights (18.9 per cent.) etc.

According to the statistics of SORS on tourism, the total catering trade turnover in 2015, at current prices, amounted to RSD 67.3 billion and was by 3.4 per cent. higher than in the previous year, while at constant prices, an increase of 1.9 per cent. was noted. The turnover structure in catering trade in 2015, observed by type of services performed, shows that the largest share was that of food and beverages (48.3 per cent.), then of alcoholic and non-alcoholic beverages (29.9 per cent.) and overnights (19.1 per cent.).

According to the statistics of SORS on tourism, the total catering trade turnover in 2016, at current prices, amounted to RSD 72.2 billion and was 7.3 per cent. higher than in the previous year, while at constant prices, an increase of 7.5 per cent. was noted. The turnover structure in catering trade in 2016, observed by type of services performed, shows that the largest share was that of food and beverages (51.1 per cent.), then of alcoholic and non-alcoholic beverages (26.8 per cent.), overnights (19.6 per cent.)

In terms of statistics of SORS on tourism, the total catering trade turnover in 2017, at current prices, amounted to RSD 79.3 billion and was by 9.7 per cent. higher than in the previous year, while at constant prices, an increase of 7.9 per cent. was noted. The turnover structure in catering trade in 2017, observed by type of services performed, shows that the largest share was that of food and beverages (51.2 per cent.), of alcoholic and non-alcoholic beverages (27.3 per cent.), overnight stays (19.0 per cent.).

In terms of statistics of SORS on tourism, the total catering trade turnover in 2018, at current prices, amounted to RSD 87.7 billion which was 10.6 per cent. higher than in the previous year, while at constant prices, an increase of 10.1 per cent. was noted. The structure of tourism in 2018, observed by type of tourists, indicates an increase in both domestic and foreign tourist arrivals (8.3 per cent. and 14.3 per cent., respectively) as well as overnight stays (10.3 per cent. and 15.2 per cent., respectively).

According to SORS statistics on tourism, in the first half of 2019, the total catering trade turnover increased by 10.3 per cent. at current prices, and by 9.1 per cent. in constant prices, compared to the first half of 2018. In this period, the total of arrivals and overnight stays of tourists increased by 5.3 per cent. and 5.8 per cent., respectively.

In 2014, the GVA of this sector increased by 4.3 per cent. in nominal terms, but reduced by 2.0 per cent. in real terms. In 2015, the tourism sector represented 1.2 per cent. of total GVA measured in current prices, and the GVA of this sector increased in both nominal and real terms by 6.9 per cent. and 2.8 per cent., respectively. In 2016, this sector grew by 7.7 per cent in current prices, and by 8.5 per cent. in constant prices. The tourism sector's GVA continued to grow in 2017, with nominal and real increase of 12.0 per cent. and 10.8 per cent., respectively. In 2018, the tourism sector represented 1.4 per cent of total GVA in current terms and increased by 9.0 per cent. in nominal terms, and by 8.0 per cent. in real terms.

Other sectors

The largest sectors comprising the "other" category are real estate activities, human health and social work activities, state administration, defence and mandatory social insurance.

In 2014, the other sectors represented 33.8 per cent. of the total GVA measured in current prices. The GVA of other sectors grew by 4.0 per cent. (RSD 45 billion) in current terms, and by 0.5 per cent. (RSD 5 billion) in real terms compared to 2013.

In 2015, the share of the other sectors in the total GVA slightly declined to 32.5 per cent. when measured in current prices. The GVA of the other sectors in current terms declined by 1.1 per cent (RSD 12.7 billion), or 1.1 per cent. in real terms compared to 2014.

In 2016, the other sectors represented 31.9 per cent. of total GVA measured in current prices. The GVA of these sectors grew by 2.4 per cent. (RSD 28.1 billion) in current terms, or by 1.7 per cent. (RSD 16.7 billion) in real terms compared to 2015.

In 2017, the other sectors accounted for 31.8 per cent. of total GVA measured in current prices. The GVA of these sectors continued to grow by 5.0 per cent. (RSD 59.4 billion) in current terms, and 2.2 per cent. in real terms (RSD 22.1 billion compared to 2016.

In 2018, the other sectors represented 31.9 per cent. of total GVA when measured in current prices. However, the GVA of these sectors increased by 6.8 per cent. (RSD 85.6 billion) in current terms, or 1.8 per cent. (RSD 18.2 billion) in real terms compared to 2017. As a result, these sectors contributed 0.5 percentage points to total GDP in 2018, with the highest contribution from the administrative services, state administration, defence, education and health and social welfare sectors.

In the first half of 2019, the other sector's GVA continued to grow, with nominal growth of 6.6 per cent. (RSD 42.8 billion), or real growth of 2.3 per cent. (RSD 11.5 billion), compared to the first half of 2018. In addition, this sector represented 32.6 per cent of total GVA when measured in current prices.

Labour Market and Social Policy

Wages

The following table shows the average gross wage and the average net wage in RSD and EUR for the years 2014 to 2018 and for seven months ended 31 July 2018 and 2019:

	Year ended 31 December(1)					Seven months ended 31 July	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
	(period average)						
Average monthly gross wage (RSD)....	61,426	61,145	63,474	65,976	68,629	68,176	74,922
Average monthly net wage (RSD)........	44,530	44,432	46,097	47,893	49,650	49,314	54,278
Public sector employees, net (RSD).....	49,445	46,721	47,636	48,865	55,423	55,312	60,736
Private sector employees, net (RSD)....	42,859	43,279	45,360	47,456	47,216	46,760	51,667
Average monthly gross wage (EUR)(2).	524	506	516	544	580	576	635
Average monthly net wage (EUR)(2)	380	368	374	395	420	417	460

Source: Office of Statistics.

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Notes:

(1) A new methodology for the calculation of the average salary based on data from the Tax Administration is applicable from 2018.

(2) Calculated using the average RSD/EUR exchange rate for the relevant period. See "*Exchange Rate History*".

In 2015, the average monthly net wage per employee was RSD 44,432, representing a decline of 2.1 per cent. compared to 2014. The decrease in the average wage was caused mainly by the fiscal consolidation measures implemented at the end of 2014. At the same time, the average net wage per employee in the public sector was RSD 46,721 compared to RSD 43,279 in the private sector. In euro terms, the average monthly net wage per employee amounted to EUR 368 in 2015, as compared to EUR 380 in 2014, representing a reduction of 3.2 per cent. In addition to the fiscal consolidation measures, this reduction was influenced by the depreciation of the Dinar against the Euro, which amounted to 2.8 per cent.

In 2016, the average monthly net wages amounted to RSD 46,097 per employee, representing an increase of 2.5 per cent. compared to 2015 in real terms. In the same period, the average net wage per employee in the public sector and private sector amounted to RSD 47,636 and RSD 45,360, respectively. In euro terms, the average monthly net wage in 2016 increased to EUR 374 per employee, recording a year-on-year increase of 1.6 per cent.

The average monthly net wage amounted to RSD 47,893 per employee in 2017, representing an increase of 0.9 per cent compared to 2016 in real terms. In the same period, the average net wage per employee in the public and private sector amounted to RSD 48,865 and RSD 47,456, respectively, reflecting a negligible difference due to the fiscal consolidation measures implemented since late 2014. At the same time, the average monthly net wages in Euros increased by 5.6 per cent. to EUR 395 per employee, primarily due to the foreign exchange appreciation of the Dinar against euro in 2017.

In 2018, the Office of Statistics changed the methodology for the calculation of the average wage. More specifically, these calculations are now based on data received from the records of the tax administration. Under the new methodology, the average wage represents the calculation for the reporting month whereas the breakdown by municipalities relates to the municipality of residence of employees. The previous methodology represented the calculation of the month in which the employees were paid and assumed the wages based on the municipality of the office of the employees. Moreover, the previous methodology referred to the surveys conducted by the Office of Statistics as the source of data. Adoption of the new approach resulted in a decline of 2.7 per cent. (on average) in the total wages of 2017 compared to the old method.

The average net wage per employee in 2018 amounted to RSD 49,650, reflecting an increase of 4.4 per cent. in real terms compared to 2017. This growth was mainly due to the nearly corresponding increase in wages of both, the public and private sector, and partly due to the increase in the minimum wage from RSD 130 per working hour in 2017 to RSD 143 in 2018. When expressed in euros, the average net wage amounted to EUR 420, representing a 6.3 per cent. increase compared to 2017.

During the period from January to July of 2019, the average net wage nominally increased by 10.1 per cent., and in real terms by 7.7 per cent., and amounted to RSD 54,278. An increase in the average net wage was recorded in all regions, with the largest in the region of Belgrade. As a result, real wage growth in the public sector amounted to 7.4 per cent., and was supported by a 8.1 per cent. increase in wages in the private sector. The greatest contribution to the growth of average earnings, as was the case in 2018, originated from the trade and manufacturing industry.

Employment

Positive labour market trends in Serbia have persisted since 2014 and continue to improve as a result of number of factors including improved economic activities, more intensified investments, expanded production capacities and recent labour market measures. Since 2013, the Government has implemented several policy measures aimed at increasing employment levels, including the National Employment Action Plan that defines the following as the key priorities of employment policy in 2019:

- improving conditions in the labour market and advancement of the labour market institutions;
- encouraging employment and inclusion of hard-to-employ persons in the labour market and providing support to the regional and local employment policy; and
- enhancing the quality of the labour force and investing in the human capital.

The Government is in the process of preparing a proposal in respect of the National Employment Action Plan for 2020.

The following table shows key employment statistics for the years 2014 to 2018 and for the six months ended 30 June of 2018 and 2019:

	Year ended 31 December(1)					**Six months ended 30 June**	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
	(period average, in thousands, unless otherwise indicated)						
Labour force	3,167.6	3,126.1	3,208.8	3,229.8	3,245.1	3,222.7	3,224.1
Employed persons	2,559.4	2,574.2	2,719.4	2,794.7	2,832.9	2,792.6	2,863.5
Public sector	764.1	729.8	726.3	735.4	732.7	739.8	720.0
Private sector	1,744.5	1,785.3	1,956.4	2,029.7	2,061.0	2,019.4	2,105.4
Other	50.8	59.0	36.8	29.6	39.1	33.4	38.3
Unemployed persons	608.2	551.9	489.4	435.2	412.1	430.2	360.6
Persons actively seeking employment(1)	890.5	873.7	845.7	779.7	692.6	726.7	668.6
Change in average rate of employment (Y-O-Y) (%)		0.6	5.6	2.8	1.4	1.0	2.6
Employment rate (%)	42.0	42.5	45.2	46.7	47.6	46.8	48.3
Unemployment rate (%)	19.2	17.7	15.3	13.5	12.7	13.4	11.2
GDP/employed person (RSD)	1,625,595	1,675,098	1,662,596	1,701,224	1,789,156	862,940	885,862
GDP/employed person (EUR)	13,858	13,874	13,504	14,021	15,128	7,295	7,501

Source: Office of Statistics, National Employment Service.

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Note:

(1) Data from the National Employment Service on "persons actively seeking employment" relates to those persons who are actively seeking to change jobs or find employment.

After conducting four Labour Force Surveys in 2014, the Office of Statistics improved the data collection methodology in 2015 by shifting to continuous survey and covering a larger number of households. However, in order to attain more robust estimates and results, the Office of Statistics changed the evaluation system for a second time in 2016 by introducing calibrated weights for calculating final weights.

According to the Labour Force Surveys conducted in 2015, the unemployment rate amounted to 17.7 per cent., representing a decrease of 1.5 percentage points compared to 2014. At the same time, the rate of unemployment among young people aged 15–24 amounted to 43.2 per cent., reflecting a decrease of 4.3 percentage points compared to 2014. In the same period, the average number of employed persons amounted to 2,574.2 thousands, and recorded an increase of 0.6 per cent compared to 2014.

According to the Labour Force Surveys conducted in 2016, the overall unemployment rate declined by 2.4 percentage points to 15.3 per cent., while the unemployment rate among young people aged 15-24 declined by 8.3 percentage points and amounted to 34.9 per cent. At the same time, the long-term unemployment rate reduced by 1.4 percentage points and amounted to 9.9 per cent. In the same period, the rate of employment was 45.2 per cent., representing an increase of 2.7 percentage points compared to 2015.

In 2017, the total population over the age of 15 decreased by approximately 33,000 and reduced to less than 6 million for the first time since 2014 (being the year from when the comparable data is available). At the same time, the total labour force with an age of 15+ increased by approximately 21,000 and amounted to 3,229.8 thousands, and consequently increased the activity rate of this category to 54.0 per cent., which represented an increase of 0.7 percentage points. As per the Labour Force Surveys conducted in 2017, the unemployment rate declined by 1.8 percentage points to 13.5 per cent., while the unemployment rate among people with the age of 15-24 reduced by 2.9 percentage points to 32 per cent. Similarly, the long-term unemployment rate reduced by 1.7 percentage points to 8.2 per cent. in 2017. At the same time, the number of employed persons increased by approximately 75,000 (of which approximately over 95.2 thousands were formally employed) while the informal segment decreased by 20,000.

Compared to 2017, employment in Serbia increased by 1.4 per cent. and amounted to 2,832.9 thousands in 2018. At the same time, the employment rate increased by 0.9 percentage points. The most significant growth in the employment stemmed for the age group of 25-54 (representing 1.8 per cent. of the growth rate). During this period, the unemployment rate declined by 0.8 percentage points and amounted to 12.7 per cent. Similarly, formal employment as a proportion of total employment increased by 2.9 per cent. and amounted to 2,279.1 thousands, while informal employment decreased by 4.4 per cent. amounting to 553.8 thousand. Moreover, an increase in fixed-term and indefinite-term employment, as well as full-time employment supported the recovery of the labour market in 2018. The unemployment rate among persons aged 15-24 declined by 2.2 percentage points and amounted to 29.7 per cent., which, to some extent, resulted from a fall (i.e.1.8 per cent.) in the total population in this category. In the same period, the private sector employment increased by 31,000 people, while the employment in the public sector reduced by 3,000 people. Within the industries, employment dropped by 30,000 people in the agricultural industry, while the other industries experienced an increase in the number of employees, with the industrial production being in the lead with 45,000 people.

According to the Labour Force Surveys conducted in the first six months of 2019, the unemployment rate reduced by 2.2 percentage points, to a level of 11.2 per cent. The total employment increased by 2.6 per cent., with formal employment growth of about 100 thousand, and reduction in informal employment of about 30 thousand persons. This was largely as a result of more efficient operation of inspection services on the suppression of the grey economy. The unemployment rate in the category of young people (15-24) decreased to 27.6 per cent., which is 3.5 percentage points lower compared to the first half of 2018.

These consistent trends are direct indicators of the measures implemented by the Government towards the improvement of the labour market. Through implementation of conducive regulations, the Government intends to continue to pursue the development of the labour market, to ensure the continuation of these positive trends, despite rationalization in the public sector.

Similarly, in recent years, the Government has increasingly allocated funds from the Budget for active employment policy measures ("**AEP**"), for example: In 2014, RSD 1.19 billion was allocated from the Budget, while an amount of RSD 4.55 billion has been allocated in 2019. Continued increase of funds for the realisation of active employment policy measures, with simultaneous introduction of new or modification of existing measures, are expected to provide more substantial support to "hard-to-employ" categories of unemployed persons, improve their position in labour market and increase possibilities of employment or self-employment in Serbia. In 2017, the AEP measures included145,356 unemployed persons (of whom 78,235 were women), while another 8,880 persons (5,923 women) were included in AEP measures with the support of the IPA 2012. Furthermore, based on 43 technical cooperation agreements with local government units, AEP measures covered additional 2,633 unemployed persons.

In 2018, 152,936 unemployed persons (of whom 83,210 were women) were covered by AEP measures, with additional coverage for 1,896 unemployed persons (of whom 943 were women) based on the support from the IPA 2013. Furthermore, with the implementation of 54 technical cooperation agreements with local government units, additional 2,160 unemployed persons were included in AEP measures. As of 31 December 2018, the share of women included in AEP measures in the total number of registered unemployed women was 28.21 per cent. in 2018. As of 31 December 2018, the share of Roma included in the AEP measures in the total number of registered unemployed Roma was 23.97 per cent. in 2018.

Along with active job-seeking measures, the Government intends to extend employment subsidies and implement public works programmes along with other programmes on additional education and trainings in 2019, with particular focus on young people to facilitate their efficient transition from the education system to the workspace. Moreover, two new apprentice programs have been introduced which involve training for independent vocational work and employment from the private sector. In addition, both apprentice programs provide for inclusion of young unemployed persons, as well as those highly educated, and with special priority to young Roma, persons with disabilities and young people from special care institutions, foster care families and guardian families. These reforms are expected to further reduce the unemployment figures and have impact on the continued improvement of the labour market situation in Serbia.

Social Insurance System

Unemployment

The Law on Employment and Unemployment Insurance regulates the labour market policies and workers' rights to unemployment insurance in Serbia. The National Employment Service assists workers to find employment and protects workers' rights by keeping a record of employment and performing other professional, organisational and administrative functions related to employment and unemployment insurance.

In cases of unemployment, compulsory insurance as well as health insurance and retirement and disability insurance is typically provided as unemployment benefits. A person covered by compulsory insurance is entitled to unemployment benefits if the person has been insured for at least 12 months continuously or intermittently within the past 18 months. Insurance with an interruption shorter than 30 days is deemed as continuous insurance. An unemployed person is also entitled to cash benefits when employment or the compulsory insurance is terminated in certain cases. Such social security contributions are calculated and withheld by the employer from the salary paid to an employee, up to a specified cap. Amendments to the Law on Compulsory Social Insurance Contributions, which came into effect on 8 December 2019, lowered the contribution rate for unemployment insurance from 1.5 per cent. to 0.75 per cent. of gross wage deducted at source. Moreover, the monetary compensation is now determined in accordance with number of calendar days of the month in which the right of payment arises, subject to a minimum threshold of RSD 22.838 and maximum threshold of RSD 52.943. These thresholds are adjusted by the Government once every year based on inflation.

Retirement and disability

The retirement and disability system in Serbia is regulated by the Law on Retirement and Disability Insurance ("**LRDI**"), which is currently in the process of being amended. Serbia currently has a compulsory retirement and disability insurance system based on current financing, where the present employees pay contributions to the state fund, wherefrom the pensions are paid to the present pensioners. The compulsory national system offers insurance against three basic types of risk: old age, occurrence of disability and incidence of death.

The conditions for old-age retirement in Serbia are 45 years of insurance coverage (for both sexes) or at least 15 years of insurance coverage for men with the age of 65 years, compared to 15 years of insurance coverage for women with the age of 62 years and 6 months. Whereas the conditions for early retirement in Serbia are a combination of age and insurance coverage, which includes 40 years of insurance coverage with 57 years and 8 months of age for men compared to 38 years and 6 months of insurance coverage with 57 years of age for women. However, in the case of premature old-age retirement, the calculated pension is permanently reduced by 0.34 per cent. for every month preceding the age criteria, subject to a maximum limit of 20.4 per cent.

As of 31 July 2019, the total number of retired persons in Serbia was approximately 1.7 million, while the contributions were made by approximately 2.75 million persons. As at the date of this Prospectus, the contribution rate for retirement and disability insurance is 26 per cent. of gross salary deducted at source, with the employee and employer contribution rates at 14 per cent. and 12 per cent., respectively.

The following table presents the retirement and disability fund finances for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

	Year ended 31 December					Seven months ended 31 July	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
				(RSD billions)			
Current Revenues	**597.84**	**573.73**	**582.63**	**590.33**	**614.18**	**342.10**	**367.44**
Social Contributions	340.95	353.14	368.44	396.49	432.66	242.93	268.23
Grants and Transfers	255.86	219.67	213.04	192.98	180.30	98.37	98.59
Non-tax Revenue	1.04	0.92	1.15	0.86	1.22	0.80	0.62
Financing Inflows	**0.20**	**0.21**	**0.74**	**0.34**	**1.84**	**0.02**	**2.92**
Current expenditures	**593.27**	**569.28**	**583.87**	**588.19**	**612.82**	**349.52**	**376.26**
Expenditures for employees	3.91	3.53	3.43	3.47	3.46	1.79	1.85
Purchase of goods and services	2.07	1.86	1.76	1.78	1.99	1.06	1.06
Interest payment	0.03	0.04	0.05	0.03	0.02	0.02	0.01
Social grants and transfers	587.19	563.96	578.55	582.21	606.99	346.46	373.06
Other current expenditures	0.07	(0.12)	0.08	0.70	0.35	0.19	0.27
Capital expenditures	**0.35**	**0.33**	**0.22**	**0.34**	**0.48**	**0.16**	**0.26**
Net lending	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.0**
Financing outflows	**0.00**	**0.16**	**0.30**	**0.06**	**0.71**	**0.00**	**2.78**

Source: Ministry of Finance

The Government funds the retirement and disability insurance principally from income contributions. However, as the income contributions do not cover all the pension related expenditures, the retirement and disability insurance fund is subsidised by allocations from the Budget. In 2018, 28.1 per cent. (RSD 172.2 billion) of the fund's total expenditure was financed by allocations from the Budget, compared to 31.5 per cent. (RSD 185.1 billion) in 2017 and 35.2 per cent. (RSD 205.5 billion) in 2016. Pension expenses in 2018 amounted to 10.4 per cent. of nominal GDP. As a result, the expenditure on public wages and pensions currently represents the largest single category of public expenditures in the Budget. See "*Risk Factors – Risks Associated with Serbia's Economy – Reduced revenues, together with higher expenses, may adversely affect Serbia's ability to repay principal and make payments of interest on the Notes*" and "*Public Finance – Consolidated General Government Budget*". However, over the years, transfers from the Budget for financing the retirement and disability insurance fund have decreased from 42 per cent. in 2014 to 28 per cent. of all earnings and incomes of the fund realised in 2018. In 2019, such transfers are set at 26.4 per cent. of total earnings and incomes of the fund as estimated in the 2019 Revised Budget. In the first seven months of 2019, revenues from the contributions were higher than expected by 2.5 per cent., allowing RSD 11.5 billion less to be withdrawn from the 2019 Revised Budget grants against the allocated amount of 105.8 billion. Therefore, over the medium and long term, the Government expects slowdown in the growth in pension and pension related expenditures.

In 2013, the financial balance in the pension system of Serbia was disrupted due to a drastic increase in pension expenditures and deficits in the funds for pension payments. Since 2014, a series of reforms have been introduced by the Government to address such systemic issues. For instance, the Government introduced progressive reduction of pensions for all pensioners who received income over RSD 25,000. Pensions ranging from RSD 25,000 to 40,000 were reduced by 22 per cent. to over RSD 25,000, while pensions over RSD 40,000 were additionally reduced by 25 per cent. to over RSD 40,000. Due to these as well as other parametric reforms, including the suspension of the indexation of pensions, the introduction of early retirement penalties, the gradual unification of retirement age for men and women, and changes to hardship, disability and survivor pensions, the pension fund deficit declined, and pension spending declined to around 10.4 percent of GDP in 2018 from 12.2 per cent in 2014. Underpinned by such fiscal and macroeconomic fundamentals, the Government in 2018 reversed the temporary pension cuts and introduced up to 5 per cent. supplement for pensions below RSD 34,000 to allow an increase for lower pensions. Also, in the recent Amendments to the 2019 Budget System Law adopted on 7 October 2019, a one-off allowance of RSD 5,000 was provided to pensioners. Additionally, on 24 October 2019, the Government approved the bill on amendments to the LRDI and submitted the bill to the National Assembly for adoption. The LRDI will be amended to set out the parameters for the pension adjustment. Accordingly, the pension adjustment will be calculated based on the Swiss formula, whereby payments will be indexed 50 per cent. to the increase in wage growth (excluding applicable taxes and contributions) in the previous year and 50 per cent. to the increase in the consumer price index over the same period. Pensions are expected to be adjusted on this basis from 1 January 2020.

The long-term sustainability of the retirement and disability insurance system in Serbia depends upon the continued commitment of the Government to contain pension increases and maintain the pension expenses at a sustainable level.

Health insurance

The Law on Health Insurance in Serbia regulates the policy of compulsory health insurance and voluntary health insurance, rights and obligations of patients and activities of participants and institutions that provide healthcare services. Pursuant to the Law on Health Insurance, the fund for Health Insurance was established with responsibility to coordinate the health insurance. This fund is financed from the compulsory contributions of the health insurance.

The contribution rate for health insurance is 10.3 per cent. of gross income. The Law on Health Insurance defines the list of categories of people that are entitled to health security from the Budget. This includes persons that are part of the groups of population with high risk of falling ill, persons for whom healthcare protection is necessary for prevention and diagnosis in early stages, persons with diseases of social and medical importance and persons that belong to socially vulnerable categories of population.

In the first seven months of 2019, revenues from health insurance amounted to RSD 144.7 billion and expenditures amounted to RSD 145.2 billion (a deficit of RSD 0.5 billion). In 2018, revenues from health insurances amounted to RSD 255.1 billion, compared to RSD 225.7 billion in 2017 and RSD 219.1 billion in 2016. Expenditures were RSD 253.6 billion in 2018 (a surplus of RSD 1.5 billion), compared to RSD 221.9 billion in 2017 (a surplus of RSD 3.8 billion) and RSD 216 billion in 2016 (a surplus of 3.1 billion).

Privatisation Process

Serbia adopted the new Law on Privatization in August 2014, with 556 public sector companies and 90,000 employees in the portfolio, of which 17 public enterprises were protected from forced collection by creditors. As at the date of this Prospectus, no company within the privatisation portfolio is protected from forced collection. Similarly, no company receives financial support from the Budget, except for the "Public Enterprise for Underground Exploitation of Coal Resavica" which is financed from the Budget line of the Ministry of Mining and Energy. Privatisation in Serbia is an ongoing process with a number of entities yet to be privatised. As of 31 July 2019, 86 out of the original 556 companies, with a total of 31,000 employees, remain non-privatised.

The most significant privatisation in 2018 was the sale of the dairy farm, PKB Corporation AD Padinska Skela, to Al Dahra Srbija DOO from UAE for EUR 150 million. Similarly, on 28 September 2018, RTB Bor ("**RTB**") was privatised, with 63 per cent. of its shares sold to Zijin Mining Group ("**ZMG**") from China, under a strategic partnership agreement for USD 350 million, with a commitment to cover RTB's current debts (approximately USD 180 million) and invest USD 1.26 billion in the metal complex in the next six years. For a certain number of state-owned companies, either strategic partnerships or other privatisation models, i.e. the implementation of pre-packs, or bankruptcy are being sought. For instance, in 2019, privatisation tenders are expected to be announced in respect of 16 companies, while bankruptcy proceedings are expected to be initiated in respect of companies without viable business activities. Similarly, privatisation procedures are intended to be suspended in respect of companies where there are circumstances that prevent sale of capital or assets. As at the date of this Prospectus, the Government has announced 14 public invitations for the sale of equity and assets of certain state-owned companies, of which 12 invitations related to the sale of equity and the remaining two related to the sale of assets. The Government expects that privatisation of the remaining state-owned companies will improve the competitiveness and productivity of the economy and is, therefore, focused on completing the process.

The following table shows the results of the privatisation process for the years 2014 to 2018 and for the seven months ended 31 July 2019:

	Year ended on 31 December					Seven months ended 31 July	
	2014	2015	2016	2017	2018	2019	Total
Number of sold companies	0	39	4	7	10	4	64
Number of employees	0	4,229	4,818	1,908	6,521	492	17,968
Sale price (EUR millions)	0	28.1	47.6	27.8	127	12.5	243

Source: Ministry of Economy

In the coming periods, the Government intends to consider all options for further privatisations including, joint ventures, sales to foreign investors and bankruptcies and to complete the reform of large public enterprises, which were the source of huge fiscal costs in the past. Recent strategies adopted by the Government for improving transparency of operations in these enterprises have largely been successful, but some companies are yet to be fully reformed. For instance, the process of corporate and financial restructuring, aimed at increasing efficiency, improving revenues and reducing costs, is being implemented in respect of the following enterprises: PE Roads of Serbia (the state-owned company for maintenance and preservation of public roads), PE "Elektroprivreda Srbije" (the state-owned electric utility power company) and PE "Srbijagas" (the state-owned natural gas provider).

Privatisation of state-owned banks

In May 2017, the Government of Serbia issued an executive act, on by-law on the manner and procedure of sale of shares of banks owned by the Republic of Serbia, for the privatization of the last state-owned shares in domestic banks. As at the date of the Prospectus, Serbia has a direct interest in the capital of the following banking institutions:

- Banka Poštanska štedionica a. d. Beograd (74.5%);
- Komercijalna banka a. d. Beograd (48.7%); and
- Srpska banka a. d. Beograd (76.7%).

For the purpose of implementing its exit strategy, and with the aim of reducing fiscal risks, the Government has been actively pursuing reforms of the state-owned financial institutions. For instance, a new strategy for Banka Poštanska štedionica is being developed with the support of the World Bank that focuses on improvement of the bank's internal organisation, corporate governance and risk management and IT infrastructure, as well as, its operating plan for the period 2018-2020.

In March 2018, the Government recommended the sale of Jubmes Banka's capital. Consequently, the Republic of Serbia sold 28 per cent. of shares of Jubmes banka for EUR 5.05 million to Alta Pay Group in May 2019.

The process for the sale of the shares in Komercijalna Banka is in progress, with the Government having appointed a financial adviser. The Government launched a tender for the privatisation of Komercijalna Banka on 31 May 2019. Four non-binding bids for the privatization of Komercijalna Banka have been submitted. The Government aims to finalise the sale by the end of 2019.

In accordance with the Government's strategy for state-owned banks, the establishment of an expert working group for the transformation of Srpska banka into a financial institution that extends all types of financial services and support to the arms industry in Serbia, has been initiated. Moreover, the sale of non-performing loans ("**NPLs**") holding a nominal value of EUR 1.82 billion from the Deposit Insurance Agency's ("**DIA**") portfolio was announced on 30 September 2019. This proposed sale is expected to be completed by the end of June 2020.

Organised Crime, Corruption and Money Laundering

One of the Government's main priorities is to fight against organised crime, corruption and money laundering. The Special Prosecutor's Office for Organised Crime, Special Departments for suppressing corruption within the Higher Public Prosecutors' Offices and Higher Courts, the Anti-corruption Agency and the FIU are the main arms of the Government, which are specifically tasked with fighting against organised crime, corruption and money laundering. In conjunction with its efforts to improve the country's overall business climate, the Government has been actively pursuing several reforms since 2015. As part of these efforts, on 21 May 2019, the Government adopted the new Law on Prevention of Corruption which comes into force on 1 September 2020. In conjunction with the country's Criminal Code, the Law on Prevention of Corruption prohibits corruption in Serbia and strengthens the independence and competencies of the Anti-Corruption Agency. More specifically, the Criminal Code stipulates potential offenses for corruption and economic contraventions, including but not limited to giving or accepting a bribe, abuse of office, abuse of a monopoly, misfeasance in public procurement, abuse of economic authority, fraud in service, and embezzlement. On 13 November 2018, the Government adopted the Law on Lobbying, with the aim of establishing a normative framework in the field of lobbying to protect the interest of the public by increasing the accountability of lobbyists who perform public functions. In 2014, Serbia also enacted its first Whistle-blower Protection Law with the aim of providing comprehensive and effective protection to whistle-blowers. Further, in November 2016, the new "Law on Organization and Jurisdiction of State Authorities in the Suppression of Organized Crime, Terrorism and Corruption" was adopted, for establishing specialised departments for suppressing corruption within the police force, public prosecutor's offices and judiciary courts.

In recent years, the Government has also adopted several rules and regulations which, for the most part, are consistent with the accepted international standards and EU norms. For instance, the Government adopted the amendments to the Law on Confiscation of Proceeds from Criminal Offences in 2016 in accordance with the EU Directive 2014/42 on freezing and confiscation of instrumentalities and proceeds of crime. Serbia is also a signatory to the Council of Europe's Civil Law Convention on Corruption and has ratified the Council's Criminal Law Convention on Corruption, the United Nations Convention against Transnational Organized Crime, and the United Nations Convention Against Corruption, all of which continue to be an integral part of the country's legal system. Similarly, Serbia is a member of the Group of States against Corruption (**GRECO**), which is the Council of Europe's anti-corruption body that provides peer-based assessments of members' anti-corruption efforts on a continuing basis. According to the recent Interim Compliance Report published by GRECO on 2 April 2019, the overall level of compliance by Serbia with the recommendations of GRECO on preventing corruption in respect of members of parliament, judges and prosecutors is no longer "globally unsatisfactory".

In order to combat money laundering and terrorist financing, the Government adopted a new "National Strategy against Money Laundering and Terrorism Financing" for the period from 2015 to 2019, which focuses on the following four strategic themes: i) reducing the risk of money laundering and financing of terrorism through strategic planning, coordination and cooperation of all participants in the system; ii) preventing the entry of property suspected of having been acquired by criminal activity into the financial system, or the detection and reporting of such entered property; iii) recognising and eliminating threats from money laundering and terrorist financing, punishing offenders and seizing illegal assets; and iv) training qualified personnel for effective participation in all segments of the anti-money laundering and terrorist financing system. The Government is currently in the process of preparing a new "National Strategy against Money Laundering and Terrorism Financing" for the period from 2020 to 2024.

In December 2017, the Government adopted the Law on the Prevention of Money Laundering and Financing of Terrorism, to implement the provisions of the 4th Anti-Money Laundering Directive of the European Parliament and of the Council. Similarly, in May 2018, the Government conducted a new Risk Assessment of Money Laundering and Assessment of the Risk of Financing Terrorism, to identify threats and vulnerability at the national level (the "**National Risk Assessment**"). The National Risk Assessment was conducted in accordance with the methodology of the World Bank. Based on the results of the National Risk Assessment in July 2018, the Government adopted an action plan to address the risk identified in the assessment. The Government also established a coordination body for the prevention of money laundering and the financing of terrorism to ensure effectiveness of national coordination and cooperation in implementing national strategy, as well as to monitor the implementation of the priorities identified in the National Risk Assessment action plan. Since June 2019, Serbia's Minister of Finance, Sinisa Mali, has been presiding over the coordination body.

Similarly, a delegation (made up of the representatives from FIU, the National Bank, the Ministry of Internal Affairs and the Ministry of Justice) actively participates in the work of the Committee of Experts on the Evaluation of Anti-Money Laundering and Financing of Terrorism of the Council of Europe ("**MONEYVAL**"). The objective of MONEYVAL is to ensure that all member states have effective systems to combat money laundering and terrorist financing and are equipped to comply with all relevant international standards, in line with the recommendations of the Financial Action Task Force ("**FATF**") and certain other international conventions. In 2019, MONEYVAL in its mutual evaluation report of 18 February 2019, re-rated Serbia on ten (out of 17) recommendations as "largely compliant", nine of which were originally rated "partially compliant" or "non-compliant" in its mutual evaluation report of 2016. It also noted that Serbia will continue to remain on the enhanced follow-up procedure until further evaluation in December 2019. The Government is currently in the process of amending the Law on the Prevention of Money Laundering and Terrorism Financing to align its provisions with the recommendations of MONEYVAL.

In February 2018, FATF included Serbia on its grey list of jurisdictions with strategic deficiencies in their anti-money laundering and counter-terrorist financing regimes. However, in light of the recent progress made by the Government in strengthening its framework to address money laundering and terrorist financing, FATF in its public statement on 21 June 2019 noted that Serbia has strengthened the effectiveness of its anti-money laundering and counter-terrorist financing regime and addressed the related technical deficiencies that FATF had identified in February 2018 and, therefore, will no longer be subject to FATF's monitoring process.

Despite such reform efforts, corruption continues to be a significant issue affecting Serbia. In Transparency International's 2018 Corruption Perceptions Index survey of 180 countries, the Republic of Serbia was ranked number 87, indicating that the perception of public sector corruption within the country remains widespread.

EXTERNAL SECTOR

Balance of Payments

The following table presents Serbia's balance of payments for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

	Year ended 31 December[1]					Seven months ended 31 July	
	2014	2015	2016	2017	2018	2018	2019
				(*EUR million*)			
Current account balance	**(1,984.7)**	**(1,233.8)**	**(1,074.9)**	**(2,050.8)**	**(2,222.8)**	**(1,261.2)**	**(1,928.2)**
Goods and services (net)	**(3,645.4)**	**(2,195.4)**	**(2,211.9)**	**(3,031.4)**	**(4,153.7)**	**(2,145.9)**	**(2,687.6)**
Goods (net)	(4,110.7)	(3,644.5)	(3,118.9)	(3,997.5)	(5,245.3)	(2,704.1)	(3,254.8)
Services (net)	465.3	729.2	907.0	966.1	1,091.6	558.2	567.1
Primary income (net)	**(1,342.6)**	**(1,658.0)**	**(2,022.2)**	**(2,533.4)**	**(2,206.6)**	**(1,346.1)**	**(1,354.7)**
Equity related income, net	(459.6)	(674.9)	(1,001.7)	(1,624.1)	(1,498.3)	(923.3)	(928.0)
Debt related income, net	(883.0)	(983.0)	(1,020.4)	(909.3)	(708.2)	(422.8)	(426.7)
Secondary income (net)	**3,003.3**	**3,339.6**	**3,159.2**	**3,513.9**	**4,137.5**	**2,230.8**	**2,114.1**
Capital account balance	**6.5**	**(17.5)**	**(9.9)**	**4.8**	**(6.6)**	**9.2**	**(41.2)**
Financial account balance	**1,705.1**	**919.8**	**535.3**	**1,648.2**	**1,683.1**	**930.2**	**1,494.7**
Direct investments (net)	1,236.3	1,803.8	1,899.2	2,418.1	3,187.9	1,527.4	2,162.4
Portfolio investments (net)[2]	374.9	(291.2)	(925.9)	(806.6)	(934.0)	165.6	319.5
Other investments (net)	(1,702.8)	(426.4)	(739.9)	264.8	552.4	657.7	322.5
Reserves assets (net) (negative sign indicates increase)	1,796.7	(166.5)	301.8	(228.2)	(1,123.2)	(1,420.5)	(1,309.7)
Errors and omissions (net)	**(273.1)**	**(331.6)**	**(549.4)**	**(397.9)**	**(546.3)**	**(321.8)**	**(474.8)**

Source: National Bank; Office of Statistics.

Notes:
(1) The data is prepared in accordance with the IMF Balance of Payments Manual, 6th Edition. (except sign convention in financial account items).
(2) Including financial derivatives.

The following table represents Serbia's balance of payments as a percentage of nominal GDP for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019:

	Year ended 31 December[1]					Six months ended 30 June[3]	
	2014	2015	2016	2017	2018	2018	2019
				(*% of GDP*)			
Current account balance	**(5.6)**	**(3.5)**	**(2.9)**	**(5.2)**	**(5.2)**	**(5.3)**	**(7.6)**
Goods and services (net)	**(10.3)**	**(8.2)**	**(6.0)**	**(7.7)**	**(9.7)**	**(8.9)**	**(10.2)**
Goods (net)	(11.6)	(10.2)	(8.5)	(10.2)	(12.2)	(11.3)	(12.4)
Services (net)	1.3	2.0	2.5	2.5	2.5	2.3	2.1
Primary income (net)	**(3.8)**	**(4.6)**	**(5.5)**	**(6.5)**	**(5.1)**	**(5.7)**	**(5.6)**
Equity related income, net	(1.3)	(1.9)	(2.7)	(4.1)	(3.5)	(3.9)	(3.9)
Debt related income, net	(2.5)	(2.8)	(2.8)	(2.3)	(1.7)	(1.7)	(1.7)
Secondary income (net)	**8.5**	**9.4**	**8.6**	**9.0**	**9.7**	**9.3**	**8.2**
Capital account balance	**0.0**	**(0.0)**	**(0.0)**	**0.0**	**(0.0)**	**0.0**	**(0.2)**
Financial account balance	**4.8**	**2.6**	**1.5**	**4.2**	**3.9**	**4.1**	**6.2**
Direct investments (net)	3.5	5.1	5.2	6.2	7.4	6.9	8.3
Portfolio investments (net)[2]	1.1	(0.8)	(2.5)	(2.1)	(2.2)	0.7	0.8
Other investments (net)	(4.8)	(1.2)	(2.0)	0.7	1.3	1.8	0.8
Reserves assets (net) (negative sign indicates increase)	5.1	(0.5)	0.8	(0.6)	(2.6)	(5.3)	(3.7)
Errors and omissions (net)	**(0.8)**	**(0.9)**	**(1.5)**	**(1.0)**	**(1.3)**	**(1.2)**	**(1.6)**

Source: National Bank; Office of Statistics.

Notes:
(1) The data is prepared in accordance with the IMF Balance of Payments Manual, 6th Edition. (except sign convention in financial account items).
(2) Including financial derivatives.
(3) All data presented for the first six months in 2019 and comparable period in 2018.

As Serbia's pre-crisis economic growth was primarily driven by personal consumption, Serbia entered the global financial crisis in 2008 with enormous external imbalances which led to the current account deficit increasing to 20 per cent. of GDP. However, as a consequence of the global crisis, capital inflows contracted and the ensuing decrease in imports reduced the current account deficit to 6.3 per cent. of GDP in 2009. With the expansionary fiscal policy in the years that followed, Serbia faced economic uncertainty in 2012, and its current account deficit increased to 10.9 per cent. of GDP. With the growing investment in export-oriented sectors, and owing to the fiscal consolidation and structural adjustment implemented since late 2014, the current account deficit ranged from 2.9 per cent. of GDP to 5.6 per cent. of GDP in the period 2014 to 2018.

In 2014, Serbia's current account deficit amounted to 5.6 per cent. of GDP and decreased to EUR 1,985 (by 5.4 per cent. compared to 2013, due to reductions in the trade deficit (by 5.2 per cent.) and the primary income deficit (by 5.4 per cent.), while the surplus in the secondary income account decreased by 5.1 per cent. The trade in goods deficit improved largely due to growth in exports (by 1.2 per cent.) mainly contributed by food and manufactured articles, while imports grew at a much slower pace (by 0.5 per cent.) due to a fall in energy prices, primarily in oil and gas. Compared to 2013, the surplus of services increased by 48.4 per cent. due to growth in exports of information and communication and other business services. Net outflows from the primary income account amounted to 3.8 per cent. of GDP in 2014 and declined by 5.4 per cent. compared to 2013, as a result of higher inflows, as well as decreased outflows. In contrast, the secondary income surplus amounted to 8.5 per cent. of GDP in 2014 and declined by 5.1 per cent., as compared to 2013, as a result of reduced inflows from private sector transfers which decreased by 6.7 per cent. compared to the previous year.

In 2015, Serbia's current account deficit amounted to 3.5 per cent. of GDP and decreased to EUR 1,234 million (or by 37.8 per cent. compared to 2014), primarily due to the 11.3 per cent. reduction in the trade in goods deficit and, to a lesser extent, due to the increase in surplus from trade in services (by 56.7 per cent.) and the secondary income account (by 11.2 per cent.). Exports of goods (on F.O.B. basis) amounted to EUR 11,454 million, reflecting an increase of 7.6 per cent. compared to 2014, while imports of goods (on F.O.B. basis) increased at a slower pace by 2.4 per cent. from EUR 14,752 million in 2014 to EUR 15,099 million in 2015. As a result, the trade deficit in goods decreased by 11.3 per cent. to EUR 3,645 million from EUR 4,111 million in 2014. The growth in exports mainly stemmed from the automotive industry, and the sale of chemical products, machinery and transport equipment. The relatively modest growth in imports, on the one side, resulted from growing imports of equipment and intermediate goods, while, on the other side, the value of energy imports declined due to rising import prices. The trade in services continued to record a surplus and increased by 56.7 per cent. in 2015 compared to 2014, primarily due to information and communication and other business services. Owing to such movements, the trade deficit improved to 8.2 per cent. of nominal GDP in 2015 from 10.3 per cent. in 2014. In contrast, the deficit in the primary income account increased by 23.5 per cent. in 2015 and amounted to 4.6 per cent. of GDP, as a result of higher outflows on net income from investments in equity (including reinvested earnings) and debt instruments. The surplus in the secondary income account increased by 11.2 per cent. (representing 9.4 per cent. of GDP) as a result of higher inflows from private sector transfers (by 9.4 per cent.) as well as public donations received for the rehabilitation of the damages caused by the floods of 2014. The substantial increase in the inflows to the financial account, driven mainly by FDI (EUR 1,804 million), more than fully covered and financed the current account deficit in 2015.

In 2016, the current account deficit continued to decrease to EUR 1,075 million, or by 12.9 per cent. compared to EUR 1,234 million in 2015, primarily due to narrowing of the trade deficit by 24.1 per cent. as a result of falling energy prices and continued growth of exports. These movements entirely neutralised the increase in the deficit of the primary income account (of 22.0 per cent.) as well as the decrease in the surplus of the secondary income account (of 5.4 per cent.). The export of goods and services (on F.O.B. basis) increased by 10.5 per cent. in 2016 compared to 2015, and amounted to EUR 17,385 million, while the import of goods and services (on F.O.B. basis) grew at a much slower pace of 5.1 per cent. The increase in exports was primarily due to the growth in exports of car parts, chemicals and food and agricultural products, as well as exports of information and communication services, which led to an increase of 24.4 per cent. in the surplus from trade in services. At the same time, the increase in imports stemmed primarily from electrical equipments, while imports of base metals, food products, oil and gas declined compared to 2015. In the same period, the primary income deficit amounted to 5.5 per cent. of GDP in 2016, reflecting an increase of 22.0 per cent. compared to 2015, as a result of higher net outflows on investments in equity instruments as well as higher interest payments on loans and securities. A decrease of 5.4 per cent. in the surplus of the secondary income account over the same period was partially due to lower inflows from private sector transfers which decreased by 3.4 per cent. in 2016 compared to 2015. The decrease, to some extent, was due to lower inflows from public sector grants which reduced by

48.0 per cent. in comparison to the high base in 2015 (when grants were paid for the purpose of remedying flood damage). Relatively large inflows from the financial account in 2016, driven by FDI (EUR 1,899 million), financed and more than fully covered the current account deficit.

In 2017, Serbia's current account deficit increased to 5.2 per cent. of GDP (an increase of 90.8 per cent. compared to 2016), primarily due to the 28.2 per cent. increase in the trade deficit of goods and the 25.3 per cent. increase in the primary income account deficit as a result of higher outflows of income related to investments in equity (mainly reinvested earnings). Compared to 2016, exports of goods (on F.O.B. basis) increased by 9.8 per cent., driven by exports of car parts, base metals, rubber and plastic products, while reduction in the agricultural output (due to the poor agricultural season) affected overall exports growth. At the same time, imports of goods (on F.O.B. basis) increased by 13.4 per cent., mainly as a result of imports of oil and gas, base metals, machinery and electrical equipment as well as partly on account of rising energy prices which led to the increase in the value of energy imports. On the other hand, the increase in the surplus from trade in services (by 6.5 per cent.) and the secondary income account (by 11.2 per cent.) reduced, to some extent, the widening of the current account deficit. In addition, the increase in the inflows to the financial account, mainly driven by the increase in net FDI, more than fully covered and financed the current account deficit (by 118 per cent.) in 2017.

In 2018, Serbia's current account deficit remained at the same level as 2017 in relative terms (5.2 per cent. of GDP), but grew in absolute terms by EUR 172 million to EUR 2,223 million (or by 8.4 per cent. from 2017) with 31.2 per cent. growth in the trade deficit of goods, which was the result of higher imports driven by rising investment and higher global oil prices. Although the slowdown of economic activity in the Eurozone in 2018 adversely affected external demand, exports of goods (on F.O.B. basis) continued to grow by 8.3 per cent. with positive contributions from manufacturing exports (by 9.1 per cent.). At the same time, the value of imports (on F.O.B. basis) increased by 13.4 per cent., mostly owing to the high prices of crude oil and gas as well as increased imports of raw materials and intermediates, and exacerbated pressures on the trade deficit. However, this deficit was largely compensated by the increase in surplus from the trade in services (amounting to EUR 1,092 million) and the secondary income account (amounting to EUR 4,137), as well as through the reduction in the deficit of the primary income account (which reduced by 12.9 per cent. to EUR 2,207 million), which maintained the current account deficit at 5.2 per cent. of GDP in line with the 2017 level. At the same time, the increase in net capital inflows to the financial account, mainly resulting from net FDI inflows of EUR 3.2 billion, more than fully covered and financed the current account deficit. As a consequence of the increase in FDI, which led to net capital inflows in the financial account amounting to EUR 2.8 billion (compared to EUR 1.9 billion in 2017), the foreign exchange reserves of the National Bank increased to EUR 11,261.8 million in 2018. The increase in the surplus from the trade in services stemmed from the growth in exports of information and communication services, while the deficit in the primary income account reduced as a result of the decrease in outflows of equity investments as well as interest payments owing to the redemption of Eurobonds issued in 2013 (the "**2013 Eurobonds**").

During the seven months ended 31 July 2019, the current account deficit increased to EUR 1,928.2 million, representing an increase of 52.9 per cent. compared to EUR 1,261.2 million in the corresponding period in 2018, primarily due to the widening of the trade deficit in goods by EUR 550.6 million. The import of goods (on F.O.B basis) over the same period increased by 11.5 per cent. compared to the corresponding period in 2018, primarily due to a surge in imports of intermediary products and equipment, while the export of goods (on F.O.B basis) grew at a slower pace by 8.8 per cent. mainly due to a slowdown in external demand. The largest contribution to the growth in exports stemmed from electrical equipment, agricultural products, various machines and equipment, and rubber and plastics. The increase in the trade deficit of goods was compensated by the increase in surplus from the trade in services (by 1.6 per cent. compared to the same period in 2018), while the deficit of the primary income account stayed almost at the same level and inflow of the secondary income account decreased by 5.2 per cent. compared to the same period in 2018. FDI inflows more than fully covered the current account deficit (by 112 per cent.) during this period.

Financial Account

During the period 2014 to 2018, the net inflow to the financial account (excluding foreign reserves) mainly consisting of FDI, amounted to 5.5 per cent. of GDP. This inflow contributed to the increase of foreign reserves from EUR 9.9 billion in 2014 to EUR 11.3 billion in 2018, representing 26.3 per cent. of GDP.

In 2015, the net inflow in the financial account (excluding changes in foreign reserves) amounted to EUR 1.1 billion, while net FDI increased by 45.9 per cent. to EUR 1.8 billion., as compared to 2014. At the same time, capital outflows were strongly affected by pronounced deleveraging of banks and enterprises (EUR 402 million and EUR 107 million respectively), while the public sector's net borrowing in the form of portfolio investments and loans amounted to EUR 179 million. Owing to such movements, the foreign reserves of the National Bank increased by EUR 166 million in 2015. The stock of gross external debt stood at EUR 26.2 billion or 73.5 per cent. of GDP at the end of 2015, which amounts to an increase by 1.1 percentage points as compared to 2014, as a consequence of depreciation of Euro against the U.S. Dollar and the Swiss franc.

In 2016, net FDI inflow increased by 5.3 per cent. compared to 2015 and amounted to EUR 1.9 billion, representing 5.2 per cent. of GDP. As a consequence of such increase in FDI, the net inflow to the financial account (excluding changes in foreign reserves) amounted to EUR 0.2 billion, despite the capital outflow of EUR 1.7 billion pursuant to debt repayments by the public and private sectors as well as domestic investments in foreign securities. The stock of gross external debt stood at EUR 26.5 billion or 72.1 per cent. of GDP at the end of 2016, representing a decrease by 1.4 percentage points compared to 2015.

As a result of net FDI inflows of EUR 2.4 billion, representing 6.2 per cent. of GDP, the financial account (excluding changes in foreign reserves) recorded a net inflow of EUR 1.9 billion in 2017, despite the capital outflow of EUR 0.5 billion pursuant to debt repayments by the public and private sectors (including the redemption of the Eurobonds issued by the Government in 2012) and borrowings by the domestic banks (of a net amount of EUR 0.4 billion in the form of loans). The stock of gross external debt stood at EUR 25.6 billion or 65.3 per cent. of GDP at the end of 2017, representing a decrease of 6.8 percentage points compared to 2016.

In 2018, the net inflow to the financial account amounted to EUR 2.8 billion, mainly due to the 32.0 per cent. increase in FDI inflows, amounting to EUR 3.2 billion or 7.4 per cent. of GDP. FDI inflows in 2018 intensified mainly as a result of the privatisation of several state enterprises and the 25-year concession granted to the French Company Vinci Airports for the Airport Nikola Tesla. At the same time, the portfolio investment account recorded an outflow of EUR 0.9 billion, primarily due to the redemption of the 2013 Eurobonds issued by the Government, while the net borrowings in the form of financial loans of the public sector, banks and enterprises amounted to EUR 0.3 billion, EUR 0.7 billion and EUR 0.5 billion, respectively. As a result, the stock of gross external debt stood at EUR 26.9 billion or 62.9 per cent. of GDP at the end of 2018, representing a decrease of 2.4 percentage points compared to 2017.

In the first seven months of 2019, the financial account recorded a net inflow of EUR 1.5 billion, mainly as a result of FDI net inflows of EUR 2,162.4 million, which increased by 41.6 per cent. relative to the corresponding period in 2018. At the same time, the net borrowings of the public sector in the form of financial loans and portfolio investments amounted to EUR 0.6 billion and net borrowings of enterprises amounted to EUR 0.3 billion, and the banks recorded a net outflow of EUR 0.1 billion.

Foreign Trade in Goods

The following table presents Serbia's trade balance in goods for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

	Year ended 31 December(1)					Seven month ended 31 July	
	2014	2015	2016	2017	2018	2018	2019
				(EUR million)			
Balance of goods	**(4,028.7)**	**(4,048.0)**	**(3,635.8)**	**(4,345.2)**	**(5,643.7)**	**(2,933.0)**	**(3,538.6)**
Exports of goods	11,158.6	12,038.7	13,432.1	15,050.8	16,274.8	9,452.4	10,131.2
Imports of goods	15,187.3	16,086.6	17,067.9	19,396.0	21,918.5	12,385.4	13,669.8

Source: Office of Statistics

Notes:

(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by Free on Board (F.O.B.) parity and imports by Cost, Insurance and Freight (CIF) parity at Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).

The following table presents Serbia's trade balance in goods as a percentage of GDP for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019:

	Year ended 31 December(1)					Six month ended 30 June(2)	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
				(% of GDP)			
Balance of goods	**(11.4)**	**(11.3)**	**(9.9)**	**(11.1)**	**(13.2)**	**(12.2)**	**(13.5)**
Exports of goods	31.5	33.7	36.6	38.4	38.0	39.5	40.0
Imports of goods	42.8	45.0	46.5	49.5	51.2	51.7	53.5

Source: Office of Statistics.

Notes:

(1) Data in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B parity and imports by CIF parity at the Serbia's border (rather than a F.O.B basis used under the IMF Balance of Payments Manual, 6th edition.

(2) All data presented for the first six months in 2019 and comparable period in 2018.

Serbia is seeking to develop a strong export base diversified across a number of industries with focus on higher value-added segments in order to reduce the trade deficit and to mitigate susceptibility to large external shocks. From a historical perspective, the export structure in the pre-crisis period (i.e. 2005 to 2008) was highly concentrated, with exports mainly consisting of manufactured goods (iron and steel, non-ferrous metals and metal products), with an average share in total exports of over 35 per cent. in the period 2005 to 2008. From 2012, the increase in foreign investments led to a diversification of the export structure towards higher value-added products (being machinery and transport equipment, manufactured products and miscellaneous manufactured articles) which accounted for approximately 65 per cent. of total exports in 2018.

In 2014 and 2015, the trade deficit in goods improved to 11.4 per cent. and 11.3 per cent. of GDP, respectively. In 2014, exports of goods increased by 1.5 per cent., while imports decreased by 1.8 per cent., as a result of a decline in the imports of energy (caused by the fall in the energy prices in the world market) and motor vehicles. In 2015, the exports of goods increased by 7.9 per cent. as a result of the growth of exports of automotive parts, chemical and tobacco products and machinery and transport equipment. At the same time, imports of goods increased at a slower pace of 5.9 per cent. as a result of the growth in imports of equipment and intermediate goods, while the decline in the value of energy imports impacted the overall growth of imports. Compared to 2015, the trade deficit in goods narrowed to EUR 3,635.8 million in 2016, representing 9.9 per cent. of nominal GDP. The largest contribution to such reduction stemmed from exports of electricity machinery, chemical products, tobacco products and rubber and plastic products within the manufacturing sector, which registered the highest FDI inflow in the previous years. In contrast, in 2017 and 2018, foreign investments increased in export-oriented manufacturing industries such as the automobile industry. This investment cycle resulted in a surge in the value of imports, mainly due to the increase in demand for imports of equipment and intermediate goods and partly on account of rising global oil prices which led to increases in the price of gas. On the other hand, exports reduced with a decline in external demand for automobiles manufactured in Serbia, and partly as a result of low agricultural output, which affected the exports from the agricultural sector in 2018. For these reasons, the trade deficit in goods increased to EUR 4,345.2 million (or 11.1 per cent. of GDP) in 2017 and to EUR 5,643.7 million (or 13.2 per cent. of GDP) in 2018.

In the first seven months of 2019, the trade deficit in goods increased by 20.6 per cent. to EUR 3,538.6 million as compared to the corresponding period in 2018, mainly as a result of the slowdown in external demand and partially due to the EU's decision to levy a cap on the imports of certain iron and steel products, which affected the production and overall growth of exports in this period.

Composition of trade in goods

Exports

The main sectors driving export growth in 2018 were machinery and transport equipment, processed iron and steel products, non-ferrous metals, rubber and plastic products, various finished products (clothes, furniture, etc.) and chemical products. The share of these products in total exports increased from 72.1 per cent. in 2014 to 75.1 per cent. in 2018, and to 75.8 per cent. in the first seven months of 2019.

The strongest contribution to exports in the period 2014 to 2018 originated from exports of automobile parts and equipments (classified under the various SITC sections and divisions), which together accounted for 7.0 per cent. and 11 per cent. of total exports in 2014 and 2018, respectively, and 12 per cent. of total exports in the first seven months of 2019. However, the export of automobiles manufactured in Serbia reduced in 2018 due to weak external demand, while the increase in the export of parts and accessories for motor vehicles fully compensated for the fall in the exports of automobiles. The same period (i.e. 2014 to 2018) also registered a growth in the export of iron and steel, chemical and various finished products (primarily clothes and furniture), although reduction in the agricultural output negatively affected the exports of food in 2017. The agricultural sector witnessed a negligible increase in 2018, followed by an increase of 26.1 per cent. in the first seven months of 2019, primarily due to exports of corn, the output of which increased as a result of the good harvest season in 2018.

The following table presents the value of Serbia's exports by product category for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

Exports[(1)]	**Year ended 31 December**					**Seven months ended 31 July**	
Groups of products[(2)]	**2014**	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
				(EUR million)			
Food and live animals	1,787.1	1,877.4	2,048.0	2,035.5	2,052.1	1,173.8	1,350.0
Beverages and tobacco	300.9	396.4	495.4	438.3	456.2	266.9	285.3
Crude material (inedible), except fuels	407.5	403.4	445.7	532.8	562.1	334.5	310.6
Mineral fuels, lubricants and related materials	414.2	342.6	329.5	382.5	485.8	258.1	239.2
Animal and vegetable oils, fats and waxes	114.3	141.6	174.6	166.3	143.0	74.3	103.8
Chemicals and related products	895.7	1,019.2	1,181.0	1,390.9	1,575.1	911.7	926.7
Manufactured goods classified chiefly by material	2,335.3	2,582.7	2,752.5	3,553.2	4,039.9	2,376.5	2,521.1
Machinery and transport equipment	3,350.3	3,505.6	3,966.9	4,220.8	4,515.1	2,656.9	2,917.3
Miscellaneous manufactured articles	1,461.2	1,585.7	1,786.8	1,997.6	2,091.2	1,203.7	1,321.1
Commodities and transactions not specified	**92.1**	**184.0**	**251.8**	**332.9**	**354.2**	**196.0**	**165.2**
Total	**11,158.6**	**12,038.7**	**13,432.1**	**15,050.8**	**16,274.8**	**9,452.4**	**10,131.2**

Source: Office of Statistics.

Notes:

(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).

(2) Sectors and divisions of SITC – Standard International Trade Classification, Rev.4.

The following table presents the value of Serbia's exports by product category as a percentage of total exports for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

Exports[(1)]	**Year ended 31 December**					**Seven months ended 31 July**	
Groups of products[(2)]	**2014**	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
	(*Share of total export, %*)						
Food and live animals	16.0	15.6	15.2	13.5	12.6	12.4	13.3
Beverages and tobacco	2.7	3.3	3.7	2.9	2.8	2.8	2.8
Crude material (inedible), except fuels	3.7	3.4	3.3	3.5	3.5	3.5	3.1
Mineral fuels, lubricants and related materials..........................	3.7	2.8	2.5	2.5	3.0	2.7	2.4
Animal and vegetable oils, fats and waxes..................................	1.0	1.2	1.3	1.1	0.9	0.8	1.0
Chemicals and related products...	8.0	8.5	8.8	9.2	9.7	9.6	9.1
Manufactured goods classified chiefly by material	20.9	21.5	20.5	23.6	24.8	25.1	24.9
Machinery and transport equipment	30.0	29.1	29.5	28.0	27.7	28.1	28.8
Miscellaneous manufactured articles	13.1	13.2	13.3	13.3	12.8	12.7	13.0
Commodities and transactions not specified...............................	0.8	1.5	1.9	2.2	2.2	2.1	1.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Statistics.

Notes:

(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).

(2) Sectors and divisions of SITC – Standard International Trade Classification, Rev.4.

Imports

The integration of domestic production in the global value chains, with cumulative investment growth of 30 per cent. in the period 2015 to 2018, resulted in a surge of imports of equipment and industrial raw materials. Such growth primarily stemmed from the increase in the share of imports of electrical machinery, power machinery and equipment, raw materials and iron. On the other hand, imports of energy declined in 2015 and 2016, primarily as a result of a decrease in imports of oil, petroleum and gas products following a decline in the prices of energy in the global market. As a result of growth in personal consumption, imports of consumer goods increased in line with nominal GDP growth, although personal consumption each year increased at a slower pace in comparison to the growth in GDP.

The following table presents the value of Serbia's imports by product category for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

Imports[(1)]	Year ended 31 December					Seven months ended 31 July	
Groups of products[(2)]	2014	2015	2016	2017	2018	2018	2019
				(EUR million)			
Food and live animals	977.2	996.4	985.8	1,123.0	1,244.0	684.4	782.7
Beverages and tobacco	155.7	199.9	279.4	277.9	292.1	172.5	205.7
Crude material (inedible), except fuel	492.2	661.2	701.0	944.4	921.8	537.2	719.3
Mineral fuels, lubricants and related materials.........................	2,175.7	1,876.3	1,549.4	2,033.1	2,548.9	1,317.6	1,429.1
Animal and vegetable oils, fats and waxes	43.3	45.0	45.5	58.5	52.0	33.1	23.8
Chemicals and related products ..	2,243.2	2,398.0	2,495.2	2,748.6	2,968.6	1,697.4	1,929.2
Manufactured goods classified chiefly by material......................	2,755.4	2,928.6	3,085.7	3,644.8	4,059.8	2,336.4	2,542.6
Machinery and transport equipment	4,067.0	4,444.2	4,759.6	4,962.8	5,665.4	3,296.3	3,468.8
Miscellaneous manufactured articles	1,182.2	1,177.4	1,297.8	1,440.8	1,599.9	866.7	989.6
Commodities and transactions not specified...............................	1,095.4	1,359.5	1,868.4	2,162.0	2,566.0	1,443.9	1,579.2
Total	**15,187.3**	**16,086.6**	**17,067.9**	**19,396.0**	**21,918.5**	**12,385.4**	**13,669.8**

Source: Office of Statistics.

Notes:
(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).
(2) Sectors and divisions of SITC – Standard International Trade Classification, Rev.4.

The following table shows the value of Serbia's imports by product category as a percentage of total imports for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

Imports[(1)]	Year ended 31 December					Seven months ended 31 July	
Groups of products[(2)]	2014	2015	2016	2017	2018	2018	2019
				(Share of total import, %)			
Food and live animals	6.4	6.2	5.8	5.8	5.7	5.5	5.7
Beverages and tobacco	1.0	1.2	1.6	1.4	1.3	1.4	1.5
Crude material (inedible), except fuel	3.2	4.1	4.1	4.9	4.2	4.3	5.3
Mineral fuels, lubricants and related materials.........................	14.3	11.7	9.1	10.5	11.6	10.6	10.5
Animal and vegetable oils, fats and waxes	0.3	0.3	0.3	0.3	0.2	0.3	0.2
Chemicals and related products..	14.8	14.9	14.6	14.2	13.5	13.7	14.1
Manufactured goods classified chiefly by material.....................	18.1	18.2	18.1	18.8	18.5	18.9	18.6
Machinery and transport equipment	26.8	27.6	27.9	25.6	25.8	26.6	25.4
Miscellaneous manufactured articles	7.8	7.3	7.6	7.4	7.3	7.0	7.2
Commodities and transactions not specified	7.2	8.5	10.9	11.1	11.7	11.7	11.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Statistics.

Notes:
(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).
(2) Sectors and divisions of SITC – Standard International Trade Classification, Rev.4.

Geographic diversification of trade in goods

The EU is Serbia's key trading partner, collectively accounting for around 64.0 per cent. of Serbia's total trade in goods during the period 2014-2018. The share of exports to these markets, as a percentage of total exports, increased from 65 per cent. in 2014 to 67 per cent. in 2018, while the share of imports, as a percentage of total imports, declined from 63 per cent. in 2014 to 60 per cent. in 2018. Serbia's trade flows in exports are broadly diversified within the EU, with a greater share from Germany, Italy, Romania and Hungary. However, in recent years, the Government has actively reduced its exposure to Italy from 17.3 per cent in 2014 to 12.2 per cent. in 2018 to mitigate external shocks in the Italian economy.

The value of exports to EU member states, as a percentage of total exports, amounted to 67 per cent. in 2018, representing a 9.6 per cent. increase compared to 2017, of which exports to Italy and Germany accounted for 36 per cent. of total exports to EU member states, followed by Romania, Hungary, Bulgaria, Slovenia and Croatia. In the same period, Serbia realised a surplus in trade with Romania, Bulgaria, Slovakia Croatia, Great Britain, Sweden, Lithuania, Slovenia and Cyprus.

Serbia also has a significant amount of trade with CEFTA parties, which represented approximately 10 per cent. on average of its total trade in the period 2014 to 2018. In 2018, exports to these markets accounted for 17.4 per cent. of Serbia's total exports, representing a decline of 1.6 per cent. relative to 2014. This was largely as a result of slower export growth in cereals and cereal products, beverages, vegetable fats and oils, as well as iron and steel in 2018, which to some extent was offset by the increased exports of petroleum products, motor vehicles and electrical machinery. The share of imports from CEFTA parties also decreased from 4.6 per cent. in 2014 to 4.2 per cent. in 2018 as a percentage of total imports, mostly due to a decrease in the imports of coal, iron and steel products and slow import growth of other product groups. Despite this, Serbia realised a surplus of EUR 1.9 billion in trade with CEFTA region in 2018. Within CEFTA, the surplus was achieved with all parties, except Moldova with which it registered a deficit of EUR 2 million. The above surpluses stemmed from exports of agricultural products, iron and steel, road vehicles, as well as exports of various finished products. Among the CEFTA parties, Bosnia and Herzegovina continues to be an important trade destination, accounting for 45.6 per cent. of Serbia's exports to the CEFTA parties in 2018.

The share of trade with CIS countries accounted for 9 per cent. (on average) of Serbia's total trade in the period 2014 to 2018. The share of exports directed to these countries (mainly to Russia) decreased by 2.0 percentage points from 2014 to 6.5 per cent. of total exports in 2018, and to 6.3 per cent. in the first seven months of 2019, while imports from these countries represented 10.3 per cent. of total imports in 2018, reflecting a decrease of 3.4 percentage points relative to 2014. However, the share of imports from these countries increased to 11.7 per cent. in the first seven months of 2019, as a result of a surge in imports of energy.

The following table presents the value of Serbia's exports of goods by destination and economic group for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

Exports[(1)]	**Year ended 31 December**					**Seven month ended 31 July**	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
Economic zones and countries[(2)]				(*EUR million*)			
EU – 28	**7,204.9**	**7,907.4**	**8,870.9**	**9,944.0**	**10,901.0**	**6,368.8**	**6,845.8**
Germany	1,330.1	1,503.8	1,750.1	1,888.7	1,942.2	1,151.5	1,281.4
Italy	1,932.4	1,945.6	1,954.2	1,990.3	1,986.6	1,261.3	1,123.2
Romania	628.0	670.5	769.5	726.1	969.4	524.1	604.1
Hungary	284.3	320.7	425.9	545.8	657.3	361.9	422.4
Slovenia	353.6	375.1	428.3	499.4	570.2	349.7	351.8
Poland	222.1	253.4	303.5	374.2	388.5	230.5	264.4
Other	2,454.5	2,838.3	3,239.4	3,919.6	4,386.8	2,489.7	2,798.4
CEFTA[(3)]	**2,124.2**	**2,239.4**	**2,412.0**	**2,635.1**	**2,836.2**	**1,610.5**	**1,694.4**
Bosnia and Herzegovina	993.7	1,055.1	1,119.5	1,211.6	1,294.0	736.9	764.9
Montenegro	568.1	611.8	651.6	725.9	764.7	449.7	464.0
North Macedonia	454.0	470.9	538.6	561.6	627.6	341.5	376.1
Other	108.5	101.6	102.4	136.1	149.9	82.4	89.4
CIS[(3)]	**938.9**	**782.5**	**865.6**	**1,063.4**	**1,059.6**	**628.8**	**640.8**
Russia	774.5	653.2	718.0	881.0	864.9	526.6	517.0
Other	164.4	129.3	147.6	182.4	194.7	102.2	123.7
Other Countries	**890.6**	**1,109.4**	**1,283.6**	**1,408.2**	**1,478.0**	**844.2**	**950.3**
China	10.7	18.2	22.9	55.0	78.1	41.6	140.8
USA	235.5	225.8	222.7	228.3	224.8	123.2	136.3
Turkey	173.2	223.9	243.4	273.2	251.6	159.3	175.3
Other	471.3	641.5	794.6	851.8	923.5	520.2	497.9
Total	**11,158.6**	**12,038.7**	**13,432.1**	**15,050.8**	**16,274.8**	**9,452.4**	**10,131.2**

Source: Office of Statistics.

Notes:

(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).

(2) According to EUROSTAT classification.

(3) Moldova is a member of CIS and CEFTA groups and has been included in CEFTA for the purpose of this table.

The following table presents the value of Serbia's exports by destination and economic group as a percentage of total exports for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

Exports[(1)]	**Year ended 31 December**					**Seven months ended 31 July**	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
Economic zones and countries[(2)]			*(Share of total export, %)*				
EU – 28	**64.6**	**65.7**	**66.0**	**66.1**	**67.0**	**67.4**	**67.6**
Germany	11.9	12.5	13.0	12.5	11.9	12.2	12.6
Italy	17.3	16.2	14.5	13.2	12.2	13.3	11.1
Romania	5.6	5.6	5.7	4.8	6.0	5.5	6.0
Hungary	2.5	2.7	3.2	3.6	4.0	3.8	4.2
Slovenia	3.2	3.1	3.2	3.3	3.5	3.7	3.5
Poland	2.0	2.1	2.3	2.5	2.4	2.4	2.6
Other	22.0	23.6	24.1	26.0	27.0	26.3	27.6
CEFTA[(3)]	**19.0**	**18.6**	**18.0**	**17.5**	**17.4**	**17.0**	**16.7**
Bosnia and Herzegovina	8.9	8.8	8.3	8.0	8.0	7.8	7.6
Montenegro	5.1	5.1	4.9	4.8	4.7	4.8	4.6
North Macedonia	4.1	3.9	4.0	3.7	3.9	3.6	3.7
Other	1.0	0.8	0.8	0.9	0.9	0.9	0.9
CIS[(3)]	**8.4**	**6.5**	**6.4**	**7.1**	**6.5**	**6.7**	**6.3**
Russia	6.9	5.4	5.3	5.9	5.3	5.6	5.1
Other	1.5	1.1	1.1	1.2	1.2	1.1	1.2
Other Countries	**8.0**	**9.2**	**9.6**	**9.4**	**9.1**	**8.9**	**9.4**
China	0.1	0.2	0.2	0.4	0.5	0.4	1.4
USA	2.1	1.9	1.7	1.5	1.4	1.3	1.3
Turkey	1.6	1.9	1.8	1.8	1.5	1.7	1.7
Other	4.2	5.3	5.9	5.7	5.7	5.5	4.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Statistics.

Notes:
(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).
(2) According to EUROSTAT classification.
(3) Moldova is a member of CIS and CEFTA groups and has been included in CEFTA for the purpose of this table.

The following table presents the value of Serbia's imports by country of origin and economic group for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

Imports (1)	**Year ended 31 December**					**Seven months ended 31 July**	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
Economic zones and countries(2)				(*EUR million*)			
EU – 28	**9,580.3**	**10,061.7**	**10,791.8**	**12,102.3**	**13,218.5**	**7,691.6**	**8,160.3**
Germany	1,780.7	1,988.0	2,189.5	2,454.7	2,942.2	1,682.9	1,757.5
Italy	1,707.5	1,703.6	1,766.0	1,955.1	2,047.9	1,231.6	1,226.7
Romania	441.6	461.6	492.4	569.1	600.6	345.1	445.7
Hungary	754.4	774.9	791.3	940.6	1,052.3	628.0	623.5
Slovenia	420.0	492.0	512.2	530.7	567.1	333.1	339.3
Poland	715.4	676.5	743.1	795.3	779.4	463.0	479.7
Other	3,760.6	3,965.2	4,297.4	4,856.8	5,229.0	3,007.8	3,287.8
CEFTA(3)	**697.2**	**671.4**	**685.0**	**821.1**	**931.2**	**503.0**	**538.8**
Bosnia and Herzegovina	402.6	384.0	400.5	515.6	579.6	318.8	349.9
Montenegro	50.5	56.4	56.0	50.6	60.4	29.8	32.5
North Macedonia	189.0	181.2	188.8	207.7	229.6	117.9	124.0
Other	55.1	49.8	39.7	47.1	61.6	36.5	32.4
CIS(3)	**2,084.0**	**1,941.4**	**1,705.4**	**1,821.1**	**2,247.0**	**1,210.8**	**1,597.4**
Russia	1,752.8	1,565.3	1,361.1	1,410.6	1,726.0	941.2	1,217.9
Other	331.2	376.1	344.2	410.5	521.0	269.6	379.4
Other Countries	**2,825.8**	**3,412.1**	**3,885.7**	**4,651.6**	**5,521.8**	**2,980.1**	**3,373.3**
China	1,115.4	1,318.9	1,375.5	1,560.8	1,836.5	999.5	1,201.8
USA	204.6	255.9	293.1	267.6	397.2	222.8	285.5
Turkey	437.3	510.5	593.7	724.8	832.7	470.6	541.7
Other	1,068.5	1,326.8	1,623.4	2,098.4	2,455.5	1,287.3	1,344.4
Total	**15,187.3**	**16,086.6**	**17,067.9**	**19,396.0**	**21,918.5**	**12,385.4**	**13,669.8**

Source: Office of Statistics.

Notes:
(1) The data is presented in accordance with foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).
(2) According EUROSTAT classification.
(3) Moldova is member of CIS and CEFTA groups and has been included in CEFTA for the purpose of this table.

The following table shows the value of Serbia's imports by country of origin and economic group as a percentage of total imports for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

Imports [1]	Year ended 31 December					Seven months ended 31 July	
	2014	2015	2016	2017	2018	2018	2019
Economic zones and countries[2]			*(Share of total import, %)*				
EU – 28	**63.1**	**62.5**	**63.2**	**62.4**	**60.3**	**62.1**	**59.7**
Germany	11.7	12.4	12.8	12.7	13.4	13.6	12.9
Italy	11.2	10.6	10.3	10.1	9.3	9.9	9.0
Romania	2.9	2.9	2.9	2.9	2.7	2.8	3.3
Hungary	5.0	4.8	4.6	4.8	4.8	5.1	4.6
Slovenia	2.8	3.1	3.0	2.7	2.6	2.7	2.5
Poland	4.7	4.2	4.4	4.1	3.6	3.7	3.5
Other	24.8	24.6	25.2	25.0	23.9	24.3	24.1
CEFTA[3]	**4.6**	**4.2**	**4.0**	**4.2**	**4.2**	**4.1**	**3.9**
Bosnia and Herzegovina	2.7	2.4	2.3	2.7	2.6	2.6	2.6
Montenegro	0.3	0.4	0.3	0.3	0.3	0.2	0.2
North Macedonia	1.2	1.1	1.1	1.1	1.0	1.0	0.9
Other	0.4	0.3	0.2	0.2	0.3	0.3	0.2
CIS[3]	**13.7**	**12.1**	**10.0**	**9.4**	**10.3**	**9.8**	**11.7**
Russia	11.5	9.7	8.0	7.3	7.9	7.6	8.9
Other	2.2	2.3	2.0	2.1	2.4	2.2	2.8
Other Countries	**18.6**	**21.2**	**22.8**	**24.0**	**25.2**	**24.1**	**24.7**
China	7.3	8.2	8.1	8.0	8.4	8.1	8.8
USA	1.3	1.6	1.7	1.4	1.8	1.8	2.1
Turkey	2.9	3.2	3.5	3.7	3.8	3.8	4.0
Other	7.0	8.2	9.5	10.8	11.2	10.4	9.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Statistics.

Notes:

(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Serbia's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).

(2) According EUROSTAT classification.

(3) Moldova is member of CIS and CEFTA groups and has been included in CEFTA for the purpose of this table.

International trade in services

In recent years, Serbia has witnessed a rapid increase in trade in services, with exports of services generally increasing at a faster pace than imports. As a result, Serbia's surplus from trade in services increased from 1.3 per cent. of GDP in 2014 to 2.6 per cent. of GDP in 2018. Key factors for such growth include the improvement of the business environment, the liberalisation of capital flows, visa liberalisation with many countries, and higher investments by the state and the private sector in the field of tourism. In addition, the growth of the manufacturing industry and the inclusion of domestic production in the global value chain has supported the growth of processing services, while investments in infrastructure and digitisation have propelled the growth of other business services.

The strongest growth in the export of services in 2015 originated from information and communication services ("**ICT**"). In addition, after being in deficit in the years leading up to 2014, exports of transport services recorded a surplus in 2015, due to the growth of passenger air transport.

In 2016, the surplus from trade in services amounted to EUR 907 million, representing annual growth of 24.4 per cent., as a result of the growth in exports of ICT services (by 21.1 per cent.) and other business services (by 8.4 per cent.). In 2017, the surplus in services, after four consecutive years of double-digit growth, recorded a modest growth of 6.5 per cent. and amounted to EUR 966 million. This was mainly due to growth in imports of construction services as a result of rehabilitation projects as well as railway and road infrastructure projects. In 2018, the surplus from trade in services continued to increase by 13 per cent. and amounted to EUR 1.1 billion, with the largest contribution from the growth in ICT services (growth of exports by 26.2 per cent.) and other business services (growth of exports by 17.3 per cent.). Consistent with the trends in 2018, during the first seven months of 2019, the surplus from trade in services increased by 1.6 per cent. in comparison to the corresponding period in 2018, mainly as a result of the exports of ICT services which grew by 29.8 per cent.

The following table presents the international trade in services of Serbia for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

	Year ended 31 December					Seven months ended 31 July	
	2014	2015	2016	2017	2018	2018	2019
				(*EUR million*)			
Services balance	**465.3**	**729.2**	**907.0**	**966.1**	**1,091.6**	**558.2**	**567.1**
Travel	(25.2)	(48.0)	(44.9)	(35.4)	(79.5)	(98.2)	(157.2)
Transport	(10.6)	49.5	73.6	64.7	28.0	22.7	(2.8)
Other business services	157.0	207.7	273.1	365.8	447.3	271.8	323.2
Telecommunications, computer, and information services	199.8	317.4	407.3	473.1	614.8	338.4	424.8
Charges for the use of intellectual property	(138.3)	(121.8)	(142.6)	(167.0)	(197.2)	(104.7)	(121.3)
Personal, cultural, and recreational services	36.6	71.5	97.8	103.3	136.9	63.2	70.7
Manufacturing services on physical inputs	162.2	163.7	202.4	222.6	238.8	133.4	126.8
Other(1)	83.8	89.2	40.3	(60.9)	(97.6)	(68.4)	(97.0)
Export	**3,809.6**	**4,273.5**	**4,570.8**	**5,245.7**	**6,000.3**	**3,267.2**	**3,841.8**
Travel	863.3	945.5	1,040.0	1,179.7	1,316.6	686.8	738.3
Transport	884.8	1,008.4	1,037.8	1,186.9	1,270.1	708.0	769.8
Other business services	843.4	957.6	1,038.0	1,211.4	1,421.0	799.2	1,004.3
Telecommunications, computer, and information services	486.8	610.8	739.5	898.9	1,134.6	617.9	801.9
Charges for the use of intellectual property	31.2	40.8	38.3	44.2	49.1	27.4	29.2
Personal, cultural, and recreational services	96.6	130.7	158.4	176.4	217.7	107.8	125.4
Manufacturing services on physical inputs	180.0	179.1	221.6	239.0	253.0	141.4	135.4
Other(1)	423.5	400.6	297.2	309.3	338.2	178.6	237.5
Import	**3,344.4**	**3,544.3**	**3,663.8**	**4,279.6**	**4,908.7**	**2,709.0**	**3,274.7**
Travel	888.6	993.5	1,084.9	1,215.2	1,396.1	785.0	895.5
Transport	895.3	958.8	964.2	1,122.2	1,242.1	685.3	772.6
Other business services	686.5	749.9	764.8	845.5	973.7	527.5	681.1
Telecommunications, computer, and information services	287.0	293.4	332.2	425.9	519.9	279.5	377.1
Charges for the use of intellectual property	169.5	162.6	181.0	211.2	246.2	132.1	150.4
Personal, cultural, and recreational services	60.0	59.3	60.6	73.1	80.7	44.5	54.7
Manufacturing services on physical inputs	17.9	15.4	19.2	16.3	14.2	8.0	8.6
Other(1)	339.7	311.4	256.8	370.2	435.8	247.0	334.6

Source: National Bank.

Note:
(1) Other includes construction, maintenance and repair services, insurance and pension services, financial services, government goods and services.

Trade Policy

Serbia's economic growth model focuses on the development of export-oriented and competitive industries. Over the last few years, with a view to attracting foreign investments, the Government has introduced tax reliefs, and increased investment in construction and the improvement of roads and infrastructure. The Government has also introduced subsidies to encourage the creation of new jobs by foreign employers (up to EUR 10,000 per employee) and incentives for business operations in free industrial zones. The Government expects its recent measures aimed at reducing the fiscal deficit (see "*Public Finance – Fiscal Policy and Reform*") to lead to a decrease in imports and to an increase in exports in 2019 and 2020. Some of these measures targeted at fiscal deficit reduction include subsidising interest rates on bank loans granted to exporters and extending incentives for export-oriented investments. Another key aspect of Serbia's trade policy is maintaining and entering into new free trade agreements with its trading partners. See "*– International Trade Agreements*".

The growth of 4 per cent. in Serbia's nominal GDP in 2018 stemmed from the increase in foreign investments and exports, as well as from the recovery of the labour market. Exports of goods and services as a percentage of Serbia's nominal GDP increased from 40.7 per cent. in 2014 to 49.6 per cent. in 2018. The export/import coverage ratio improved from 79.9 per cent. in 2014 to 83.6 per cent. in 2018. Compared to 2008, the share of the trade deficit of good and services as a percentage of nominal GDP declined from 24.3 per cent. in 2008 to 9.7 per cent. in 2018, mainly as a result of the growth of exports against imports. In order to continue the downward adjustment of the foreign trade deficit and increase the contribution of exports to GDP, Serbia remains committed to increase the contribution of higher value added tradable goods (such as motor vehicles, pharmaceutical products, metals and machinery, among others) to exports. The Government expects this to increase the share of machinery and transport equipment in total exports, with other products (such as drinks and tobacco) continuing at the same level.

Compared to 2017, the export of goods and services increased by 10.0 per cent., with growth in 22 out of 23 areas of the processing industry, while the growth in exports of services stemmed primarily from ICT services. In 2018, despite slowdown of economic activity in the Eurozone, the largest contribution to the growth in total exports originated from the EU. This resulted in exports of goods amounting to EUR 16.3 billion in 2018, representing an 8.1 per cent. increase relative to 2017, with the highest contribution being from companies producing steel, cars and petroleum. Similarly, other business services, tourism, transportation, and ICT were the largest contributors to exports of services in 2018, with a share of 23.7 per cent., 21.9 per cent, 21.2 per cent. and 18.9 per cent, respectively, in total exports of services.

While no significant changes are expected in Serbia's main import and export destinations, Serbia aims to strengthen economic relations with former Yugoslav republics as part of its trade policy, as well as increase its business and trade relations with the near and Middle East countries and North Africa. With a view to strengthening the share of exports of goods and services in GDP, Serbia remains committed to its macro-economic objectives, including: EU integration, intensification of economic cooperation with the CEFTA region, implementation of MAP REA, increasing exports to Russia and other members of the Eurasian Economic Union, the Organisaion of the Petroleum Exporting Countries ('OPEC countries') and Mediterranean countries, attracting increased FDI and enhancing its business environment by enabling foreign trade as well as educating local producers about potential export markets.

International Trade Agreements

Serbia has free trade agreements with its main trade partners, including the EU, CEFTA, the European Free Trade Association ("**EFTA**"), Turkey, Russia, Belarus and Kazakhstan. In 2018, these partners accounted for 86 per cent. of Serbia's total foreign trade, and 93 per cent. of total exports, of which the EU and CEFTA accounted for 67.0 per cent. and 17.4 per cent., respectively. In addition, Serbia is in negotiations to join the World Trade Organization and continues to be a party to bilateral market access negotiations with some of the WTO member states, including the United States of America in the area of goods, agriculture and genetically modified food. On 25 October 2019, Serbia entered into a free trade agreement with the Eurasian Economic Union, pursuant to which 99 per cent. of its exports of products to the other member countries will be free from custom duties.

Serbia signed the SAA with the EU in 2008. The Interim Trade Agreement, as a part of the SAA, came into effect in 2010, while the overall SAA entered into force in 2013. The SAA provides for the establishment of a free trade area between the EU and Serbia. Serbia has a preferential customs-free treatment for exports under the SAA, which has fully opened the EU markets for Serbian exports. Similarly, customs duties were abolished for 95 per cent. of tariff lines for imports from the EU in 2014. While imports of all industrial products and most agricultural products originating from the EU are free from customs duties, Serbia continues to enforce tariff protections for a certain number of products within the agricultural sector that are considered the most sensitive such as livestock and perishable foodstock. Additionally, under the agreements with partners of the Pan-Euro-Mediterranean Convention, Serbia also benefits from the principle of "diagonal cumulation of origin", which means products that originate in one partner country can be further processed or added to products that originate in another participating country as if the products had originated in the latter country. This principle is particularly important as preferential conditions for exports to the EU market apply only to goods of known origin, which could potentially cause problems in the trade of goods produced in more than one economy within the region. The SAA and the free trade agreements with EFTA, CEFTA and Turkey, along with the principle of cumulation of origin, is expected to attract foreign investments, strengthen economic relations with the EU and increase productivity as well as the competitiveness of the Serbian export sector.

Serbia signed the Agreement on the Amendments and Accession to the CEFTA on 19 December 2006. The CEFTA is a regional free trade agreement which provides the legal basis for policy formulation and implementation of trade and investment in the CEFTA region. Some of the provisions of particular importance under the CEFTA are: liberalisation of trade in goods in the region, application of the diagonal cumulation of origin within the region, extension of equal status to domestic and foreign investors and suppliers from the region, opening of the public procurement market, protection of intellectual property rights in line with international standards and application of the WTO rules. After the EU, economies within the CEFTA region are the main trade partners of Serbia. In 2018, Serbia recorded a trade surplus of EUR 1,905 million with the CEFTA region.

The EFTA States (consisting of the Republic of Iceland, Liechtenstein, Norway and the Swiss Confederation) signed a free trade agreement with Serbia on 17 December 2009, which entered into force on 1 October 2011. In 2014, the trade in industrial products with Serbia was fully liberalised, and different levels of trade liberalisation for agricultural products were adopted, considering that EFTA member states do not have a common agricultural policy. Although the EFTA's share in Serbia's international trade is not significant, exports to these countries increased by 143 per cent. in 2018 compared to 2011, while imports increased by 48 per cent. The cooperation with the EFTA states, being an integral part of the European Economic Area, is important to Serbia for the benefits of the cumulation of origin of the Pan-Euro-Mediterranean Convention.

Serbia entered into a free trade agreement with Russia in 2000, while the free trade agreements with Belarus and Kazakhstan came into effect in 2009 and 2012, respectively. Most of the products imported from Serbia to these countries are not subject to custom duties, representing a significant benefit for export-oriented industries in Serbia. The list of products not covered by the free trade regime currently includes fresh and processed poultry products, some cheese types, sugar, alcoholic drinks and sparkling wines, cigarettes, cotton, retreaded tyres and motor vehicles. The free trade regime, however, applies to goods that satisfy the origin criteria (i.e. products which are entirely produced in Serbia or sufficiently worked or processed, so that the value of material of foreign origin used in the production process does not exceed 50 per cent. of the exported goods).

On 12 July, 2017 at the Western Balkans Summit in Trieste, the MAP REA was adopted by the economies within the region. The objective of the MAP REA is to strengthen regional economic cooperation and increase competitiveness while focusing on four key components: trade, investment, mobility and digital agenda.

Serbia entered into a free trade agreement with Turkey on 1 June 2009. International trade in industrial products is exempted from customs duties under this agreement, while trade in agricultural products, not covered by quotas, are subject to Most Favored Nation (i.e. non-preferential) duty. The free trade agreement with Turkey was revised on 30 January 2018, to include trade in services and further liberalise agricultural products.

Foreign Direct Investment

The Government has announced and implemented several measures in recent years aimed at creating a favourable environment for FDI. See "*External Sector– Trade Policy*". FDI comprises equity capital, reinvested earnings and other capital inflows.

The following table shows the net FDI flows in Serbia for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

	Year ended 31 December(1) (2)					Seven months ended 31 July	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
Foreign Direct Investments, net, mln EUR	**1,236.3**	**1,803.8**	**1,899.2**	**2,418.1**	**3,187.9**	**1,527.4**	**2,162.4**
Direct Investment abroad, mln EUR	(264.2)	(310.4)	(227.8)	(130.0)	(307.9)	(92.5)	(154.7)
Direct Investment in Serbia, mln EUR	1,500.5	2,114.2	2,126.9	2,548.1	3,495.8	1,619.9	2,317.1
Foreign Direct Investments, net, % of GDP	**3.5**	**5.1**	**5.2**	**6.2**	**7.4**	**6.9**(3)	**8.3**(3)
Direct Investment abroad, % of GDP	(0.7)	(0.9)	(0.6)	(0.3)	(0.7)	(0.3) (3)	(0.6) (3)
Direct Investment in Serbia, % of GDP	4.2	5.9	5.8	6.5	8.2	7.2(3)	8.9(3)
Coverage of current account deficit by FDI, %	**62.3**	**146.2**	**176.7**	**117.9**	**143.4**	**121.1**	**112.1**

Source: National Bank; Office of Statistics.

Notes:
(1) Data prepared in accordance with the IMF Balance of Payments Manual, 6th Edition.
(2) Sign convention: positive sign indicates inflow of capital
(3) The data refers to the six month period from January to June.

The recovery of macroeconomic stability, together with the improvement of the business environment, resulted in an increase in the inflow of FDI in 2015, and turned it into the main source of finance to fully cover the current account deficits of Serbia. During the period 2014 – 2018, FDI inflows recorded a continuous year-on-year growth, both nominally and as a percentage of GDP, with cumulative net inflow exceeding EUR 10 billion.

In 2014, net FDI amounted to EUR 1.2 billion (3.5 per cent. of GDP). Net FDI increased in 2015 and amounted to EUR 1.8 billion (5.1 per cent. of GDP), driven by higher investments in tradable sectors, most notably in the manufacturing industry. In 2016, net FDI continued to show a gradual increase and amounted to EUR 1.9 billion (5.2 per cent. of GDP), representing a year-on-year growth of 5.3 per cent., mostly due to further increases in investments in manufacturing, real estate, as well as professional and technical activities. Net FDI increased to EUR 2.4 billion (6.2 per cent. of GDP) in 2017, as a result of the continuation of investments across different projects in tradable and non-tradable sectors. In 2018, net FDI increased notably compared to 2017, with an inflow amounting to EUR 3.2 billion (7.5 per cent. of GDP), representing a year-on-year increase of 31.8 per cent., mainly as a result of the large inflow relating to the concession agreement for the Belgrade airport as well as privatisation of several state-owned companies. Even if these "one-off" inflows were excluded, FDI in Serbia would have increased by 2 per cent. in 2018 compared to 2017.

During the period from 2014 to 2018, an increasing share of FDI inflows were directed to export-oriented sectors, primarily the manufacturing and agriculture sectors. Within the manufacturing sector, most FDI inflows were directed to companies involved in the production of automobile parts. According to preliminary data, in the first seven months of 2019, net FDI amounted to EUR 2,162.4 million, an increase of 41.6 per cent. compared to the same period in 2018. Approximately 60 per cent. of the FDI inflow during this period originated in the form of equity capital, consistent with the trends in the last three years, during which more than 60 per cent. of FDI was in the form of equity.

The following table shows the net inflow of FDI in Serbia by sectors for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019:

Foreign Direct Investments	**Year ended 31 December(1)**					**Six months ended 30 June**	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019(2)**
				(*EUR million*)			
Foreign Direct Investments in Serbia	**1,500.5**	**2,114.2**	**2,126.9**	**2,548.1**	**3,495.8**	**1,475.8**	**1,904.6**
Tradeable sectors	**577.2**	**913.3**	**859.9**	**910.7**	**2,183.1**	**668.9**	**891.6**
Share of tradable sectors in FDI (%)	38	43	40	36	62	45	47
Manufacturing	535.2	721.1	749.5	634.3	924.8	516.1	670.6
Mining	26.0	22.1	(33.0)	102.5	402.3	51.2	18.9
Agriculture, forestry and fishing	(0.3)	63.8	43.3	72.0	154.7	10.0	21.8
Supply of electricity, gas, etc.	9.9	12.8	15.0	52.2	10.2	38.8	32.1
Water supply	17.7	17.9	13.6	11.1	21.6	7.6	4.1
Transportation and storage	(9.4)	68.5	68.6	22.4	660.1	36.8	142.7
Accommodation and food service activities	(1.9)	7.0	2.9	16.3	9.4	8.4	1.4
Non-tradeable sectors	**878.9**	**1,168.9**	**1,257.7**	**1,629.6**	**1,276.3**	**798.4**	**1,009.9**
Share of non-tradable sectors in FDI (%)	59	55	59	64	37	54	53
Financial activities	358.0	484.0	447.0	367.5	494.8	295.3	226.4
Trade	224.8	208.5	138.2	312.3	317.7	211.1	127.4
Construction	162.7	264.5	272.9	406.8	457.1	162.5	386.3
Real estate activities	24.7	57.6	124.5	221.7	132.0	73.7	84.0
Professional, and technical activities	83.6	27.1	141.2	65.0	61.8	24.4	39.2
Information and communication	46.8	108.1	120.7	197.9	(212.4)	16.8	108.8
Other	(21.7)	19.0	13.2	58.3	25.2	14.6	37.8
Not allocated	**44.4**	**32.1**	**9.3**	**7.9**	**36.4**	**8.4**	**3.1**

Source: National Bank.

Notes:
(1) Data prepared in accordance with the IMF Balance of Payments Manual, 6th Edition.
(2) Preliminary estimates.

The following table shows the net inflow of FDI in Serbia by country of origin for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019:

Foreign Direct Investments	Year ended 31 December[(1)]					Six months ended 30 June	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019[(2)]**
				(*EUR million*)			
Direct Investments in Serbia	**1,500.5**	**2,114.2**	**2,126.9**	**2,548.1**	**3,495.8**	**1,475.8**	**1,904.8**
1. Europe	**1,344.2**	**1,818.6**	**1,748.7**	**2,167.8**	**2,468.2**	**1,281.3**	**1,687.5**
1.1. European Union (EU-28)	1,109.3	1,530.1	1,410.4	1,819.7	2,118.1	1,100.0	1,147.0
of which: Germany	36.5	72.4	179.6	185.4	263.7	146.8	149.4
France	51.5	76.5	72.4	85.0	710.7	72.0	85.3
Italy	101.1	144.9	(97.7)	195.6	153.7	90.9	93.7
Netherlands	372.7	361.7	341.8	542.8	317.5	151.5	263.9
Austria	119.2	352.5	232.4	248.7	148.6	70.4	132.3
1.2. Russia	73.5	96.4	41.1	170.4	237.3	98.7	278.1
1.3. Switzerland	139.1	96.0	234.6	135.4	(12.2)	21.8	220.0
1.4. Turkey	2.0	27.8	15.4	17.5	63.9	31.0	6.0
1.5. Other European Countries	20.2	68.4	47.2	24.8	61.1	29.7	36.4
2. Asia	**118.9**	**209.7**	**342.0**	**333.3**	**894.0**	**141.4**	**145.3**
2.1. United Arab Emirates	0.8	120.5	81.1	132.2	180.7	39.8	30.9
2.2. China (including Taiwan and Hong Kong)	86.4	66.5	219.4	179.2	694.1	84.4	103.3
2.3. Other Asian Countries	31.7	22.7	41.6	21.9	19.2	17.3	11.2
3. America	**20.8**	**69.6**	**51.0**	**45.0**	**97.8**	**53.0**	**60.2**
4. Other countries	**16.5**	**16.4**	**(14.8)**	**2.1**	**35.8**	**0.1**	**11.8**

Source: National Bank.

Notes:
(1) Data prepared in accordance with the IMF Balance of Payments Manual, 6th Edition.
(2) Preliminary estimates.

The table below shows the net FDI inflow to Serbia, by country of origin, for the years 2014 to 2018 and for the six months ended 30 June 2018 and 2019, as a percentage of the total FDI inflow:

	Year ended 31 December(1)					Six months ended 30 June	
	2014	2015	2016	2017	2018	2018	2019
	(% *share in FDI in Serbia*)						
Direct Investments in Serbia	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1. Europe	**89.6**	**86.0**	**82.2**	**85.1**	**70.6**	**86.8**	**88.6**
1.1. European Union (EU-28)	73.9	72.4	66.3	71.4	60.6	74.5	60.2
of which: Germany	2.4	3.4	8.4	7.3	7.5	9.9	7.8
France	3.4	3.6	3.4	3.3	20.3	48.8	4.5
Italy	6.7	6.9	(4.6)	7.7	4.4	6.2	4.9
Netherlands	24.8	17.1	16.1	21.3	9.1	10.3	13.9
Austria	7.9	16.7	10.9	9.8	4.2	4.8	6.9
1.2. Russia	4.9	4.6	1.9	6.7	6.8	6.7	14.6
1.3. Switzerland	9.3	4.5	11.0	5.3	(0.3)	1.5	11.6
1.4. Turkey	0.1	1.3	0.7	0.7	1.8	2.1	0.3
1.5. Other European Countries	1.3	3.2	2.2	1.0	1.7	2.0	1.9
2. Asia	**7.9**	**9.9**	**16.1**	**13.1**	**25.6**	**9.6**	**7.6**
2.1. United Arab Emirates	0.1	5.7	3.8	5.2	5.2	2.7	1.6
2.2. China (including Taiwan and Hong Kong)	5.8	3.1	10.3	7.0	19.9	5.7	5.4
2.3. Other Asian Countries	2.1	1.1	2.0	0.9	0.5	1.2	0.6
3. America	**1.4**	**3.3**	**2.4**	**1.8**	**2.8**	**3.6**	**3.2**
4. Other countries	**1.1**	**0.8**	**(0.7)**	**0.1**	**1.0**	**0.0**	**0.6**

Source: National Bank.

Notes:
(1) Data prepared in accordance with the IMF Balance of Payments Manual, 6th Edition.
(2) Preliminary estimates.

FDI inflows to Serbia originated from countries in the EU, Asia Pacific and Middle East. In the period 2014-2018, an increasing share of net FDI inflows originated from EU countries. However, the share of inflows from these countries reduced in 2016, while the share of investments from Asian countries increased from 7.9 per cent. in 2014 to 25.6 per cent. in 2018. Among Asian countries, the highest investment stemmed from China (including Hong Kong and Taiwan) and the United Arab Emirates, which accounted for 20 per cent. and 5.2 per cent., respectively, of total investment in 2018.

A number of foreign investors, including China's Linglong Shandong, China's Zijin, ZF Friedrichshafen, Boysen and Ball Packing, have announced further expansion of already existing investments in Serbia, which are entirely in the industrial and trade sectors and predominantly targeting the automobile industry. Therefore, in the coming years, FDI growth is expected mainly from the manufacturing (including companies producing components for the automobile industry), trade and energy sectors. Increasing the level of FDI remains an important priority for the Government, reflecting the importance of such investments in improving the competitiveness and structure of the economy. The Government aims to attract FDI in the manufacturing, energy, infrastructure, telecommunications and agriculture sectors and, in support of this objective, has adopted several initiatives to improve the ease of conducting business in Serbia and simplifying administrative processes.

Savings and Investment Balance

As a result of unsustainable economic growth driven by final consumption, the negative savings-investment gap peaked in 2008, and amounted to 20 per cent. of GDP. However, with the improvements in net exports in 2013, gross national savings of the private sector recorded growth and resulted in reducing the negative savings-investment gap to below 6 per cent. for the period 2013–2014. The narrowing of the gap continued in 2015 and 2016, with savings and investment recording sizeable growth. The increase in gross national savings, which exceeded investment growth in this period, was mainly supported by the implementation of the fiscal consolidation programme, which curtailed the fiscal deficit and reversed the upward trajectory of the public debt. During the period 2014 to 2018, workforce remittances (often being countercyclical in nature) represented a major component of private sector transfers and the overall secondary income account. In the same period of 2014 to 2018, workforce remittances had an average share of 63.2 per cent. of private sector transfers and 60.6 per cent. of overall secondary income account. Moreover, as part of its fiscal consolidation measures, the Government redirected part of the funds from consumption to investment for public investment growth. The growth in private investment was underpinned by improvement of the investment environment, owing to the overall macroeconomic stability, implementation of structural reforms and fiscal consolidation, as well as the decline in the country risk premium, a more favourable credit rating and lower cost of borrowing.

As for the public sector savings and investment balance, the Government by continuously increasing current consumption until 2009, contributed to the widening of the negative savings-investment gap. Due to the global economic crisis in 2008, Government revenues decreased considerably, while current expenditures increased, due to which Government savings declined significantly and resulted in widening of the overall savings-investment gap. As a result of the implementation of the fiscal consolidation programme, the current revenues surpassed current expenditures and gross government savings increased its share in GDP to 4.5 per cent. in 2018. At the same time, as a result of the intensive implementation of the infrastructure projects, the share of government investment increased to 3.9 per cent. of GDP in 2018.

Prior to the financial crisis, the share of private sector investments in GDP was higher than savings which decreased on account of the rising consumption, leading to a significant widening of the negative gap between private sector savings and investments. Moreover, investments were mostly directed towards non-tradeable sectors, which further fuelled consumption and exacerbated pressures on the current account deficit. With the occurrence of the crisis, investments declined significantly. At the same time, due to the considerable deterioration of conditions in the labour market, the propensity for consumption decreased, and the share of savings in GDP expanded. The recovery of the labour market since 2015, through the growth of employment and wages in the private sector, led to a gradual rise in private sector consumption, which remained within sustainable levels as it increased at a pace much slower than GDP growth. Also, as a result of the new investment cycle, private investment increased to 19.0 per cent. in 2018 and maintained the current account deficit at 5.2 per cent. of GDP in 2018, although such investments were accompanied by growth in imports of equipment and intermediate goods.

The table below presents the saving and investment balance expressed as a percentage of GDP for the years 2014 to 2018:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
			(% of GDP)		
GDP	100.0	100.0	100.0	100.0	100.0
Domestic demand	108.1	107.0	104.8	106.6	108.5
Final consumption	91.6	88.4	86.9	87.0	85.8
Private consumption	73.5	72.0	70.9	70.8	69.3
Government final consumption	18.1	16.4	16.0	16.2	16.6
Gross domestic savings	8.4	11.6	13.1	13.0	14.2
Private gross domestic savings	9.3	10.0	8.8	7.1	8.5
Government gross domestic savings	(0.8)	1.6	4.3	5.9	5.7
Net transfers	3.7	3.7	2.1	1.4	3.5
Private net transfers	5.0	5.5	3.7	2.7	4.4
Government net transfers	(1.2)	(1.8)	(1.6)	(1.3)	(0.9)
Gross national savings	12.2	15.3	15.2	14.4	17.7
Private gross national savings	14.2	15.5	12.6	9.8	12.9
Government gross national savings	(2.1)	(0.2)	2.6	4.6	4.8
Gross domestic investment	17.8	18.8	18.1	19.6	22.9
Private investments	15.5	16.1	15.0	16.8	19.0
Government investments	2.3	2.7	3.1	2.8	3.9
Total savings – investment balance	**(5.6)**	**(3.5)**	**(2.9)**	**(5.2)**	**(5.2)**
Private savings – investment balance	(1.2)	(0.6)	(2.5)	(7.0)	(6.1)
Government savings – investment balance	(4.4)	(2.9)	(0.5)	1.8	0.9

Source: National Bank

Bilateral Co-operation on Infrastructure Projects

Serbia has bilateral agreements with the governments of a number of other countries for the implementation of infrastructure projects in Serbia, and promoting cooperation and investment in infrastructure. These include, among others, China, Azerbaijan, Russia the United Arab Emirates, Turkey, Kuwait, Hungary and the United States of America.

Membership of the Republic of Serbia in the Asian Infrastructure Investment Bank

In December 2018, the Board of Governors of the Asian Infrastructure Investment Bank approved the membership application of Serbia. The Assembly ratified the articles of the Asian Infrastructure Investment Bank by passing the relevant law on confirmation, which came into force on 12 April 2019. On 15 August 2019, the Republic of Serbia became a non-regional member of the Asian Infrastructure Investment Bank.

MONETARY SYSTEM

The National Bank of Serbia

The National Bank is the main monetary authority in Serbia. The status, organisation, mandate and functions of the National Bank, and the relationship between the National Bank and other Serbian governmental bodies and international institutions, are regulated by the Law on the National Bank of Serbia (the "**NBS Law**").

The National Bank is independent and autonomous in fulfilling its functions as stipulated by the NBS Law as well as other related legislation. The National Bank is accountable for its work to the Assembly. The primary objective of the National Bank is to achieve and maintain price stability. Without prejudice to the primary objective, the National Bank contributes to maintaining and strengthening the stability of the financial system. The governing bodies of the National Bank consist of the Executive Board, the Governor and the Council of the Governor. During the negotiation process of Serbia's accession to the EU, the independence and autonomy of the National Bank has been positively assessed. Negotiations have been opened on Chapter 17 (Economic and Monetary Policy), which relates to full central bank independence, the prohibition of monetary financing of the public sector and the prohibition of privileged access by public authorities to financial institutions.

National Bank Procedure and Functions

The National Bank's responsibilities include, among other things, the following functions:

- determining and implementing monetary and foreign exchange policies;
- managing foreign exchange reserves;
- establishing and implementing activities and measures under its remit, relating to the preservation and strengthening of financial stability;
- granting and revoking operating licences, supervising bank solvency and legality of operations and performing other activities in line with the Law on Banks;
- granting and revoking operating licences and/or authorisations to insurance companies, supervising these companies and performing other activities in line with the Law on Insurance;
- granting and revoking operating licenses to payment institutions, e-money institutions and payment system operators, supervising these institutions and performing other activities in line with the Law on Payment Services;
- granting and revoking operating licences to voluntary pension fund management companies, supervising these companies and performing other activities in line with the Law on Voluntary Pension Funds;
- granting and revoking operating licences to financial leasing companies, supervising these companies and performing other activities in line with the Law on Financial Leases;
- granting and revoking authorisations to entities that perform exchange operations, supervising these entities and performing other activities in line with the Law on Foreign Exchange Operations;
- protecting the rights and interests of consumers of services performed by banks, financial leasing companies, insurance companies and voluntary pension fund management companies, pursuant to the NBS law;
- issuing banknotes and coins and managing cash flows;
- regulating, controlling and promoting the uninterrupted functioning of the payment system, domestically and abroad; and
- other matters prescribed under Serbian law or by treaties.

The Executive Board consists of the Governor and Vice-Governors. The Executive Board establishes measures and activities pertaining to the National Bank's remit for the purpose of maintaining and strengthening financial stability, as well as measures for maintaining bank liquidity. The Executive Board determines monetary and foreign exchange policies. In particular, the Executive Board determines: the conditions applicable to and the method for issuing National Bank securities, the terms and manner in which the National Bank carries out open market operations and discount operations, the short-term lending policy, the Dinar exchange rate policy, the foreign currency reserves management policy, the key policy rate and other interest rates of the National Bank, the base for calculating required reserves and the reserve requirement ratio. The Executive Board also makes decisions on the granting and revocation of operating licences for financial institutions and adopts regulations in the field of supervision of financial institutions in line with the NBS Law and sectorial laws.

Acting on proposals made by the Executive Board and with the Government's consent, the Council of the Governor establishes the Dinar exchange rate regime, adopts the National Bank's development strategy, and monitors its implementation. The Council of the Governor adopts the strategy of foreign reserves management on proposal of the Executive Board. Additionally, the Council of the Governor decides on membership of international financial institutions and organisations, adopts the financial plan and annual financial statements of the National Bank, appoints the external auditor and discusses the auditor's report. The Council of the Governor also supervises the National Bank's financial reporting system, assesses the adequacy of its accounting policies and procedures, supervises and adopts the annual internal audit plan and appoints the manager of the organisational unit in charge of internal audit. In addition, the Council of the Governor submits to the Assembly a report on its operations, at least twice a year, as well as the annual statement of accounts along with the certified auditor's report, for information purposes, by no later than 30 June of the following year.

Monetary Policy

Overview

Serbia's monetary policy during recent years has focused on maintaining a low and stable inflation rate and maintaining the stability of the foreign exchange markets and the country's financial system. The implementation of an inflation-targeted regime has played an important role in ensuring sustainable price stability, anchoring inflation expectations and strengthening the credibility of monetary policy, allowing the monetary policy to adjust to the requirements of the domestic economy. In 2017, the National Bank lowered its inflation target to 3 per cent. ± 1.5 percentage points. As a reaffirmation of its commitment to keep inflation low, stable and predictable in the medium term, the National Bank, in cooperation with the Government, made the decision to lower the target following the improvements in the macroeconomic fundamentals and outlook, supported by successful coordination between monetary and fiscal policies and the positive results of fiscal consolidation.

The National Bank seeks to achieve the targeted rate of inflation mainly by changing its key policy rate, i.e. the interest rate applied in main open market operations. Given the structural excess liquidity in the Serbian banking sector, the National Bank applies the model of liquidity-absorbing repo auctions (reverse repo transactions, i.e. repo sale of securities with a maturity of one week). Other monetary policy instruments play a supporting role by contributing to the smooth transmission of the impact of the key policy rate on the market, as well as to the development of the financial market, without jeopardising financial stability. Interventions in the foreign exchange market aim to ease excessive short-term volatility of the exchange rate, safeguard price and financial stability and maintain an adequate level of foreign exchange reserves.

The National Bank began monetary policy easing in May 2013, which has seen the key policy rate drop from 11.75 per cent. to 2.5 per cent. in 2019, its lowest level since the implementation of the regime. However, the National Bank has adopted a cautious approach to monetary policy in recent years, as a result of uncertainty about the future monetary policies of the leading central banks, the U.S. Federal Reserve and the European Central Bank ("**ECB**"), as well as general global uncertainty and potential shifts in capital flows towards emerging market economies, including Serbia. Monetary policy is expected to remain consistent in the near-term, in keeping with the achievement of the inflation target.

Implementation of Serbia's Monetary Policy

The instruments currently used by the National Bank to implement Serbia's targeted inflation monetary policy and to maintain price stability are divided into four categories: (i) open market operations; (ii) reserve requirements; (iii) lending and deposit facilities (standing facilities) and (iv) operations in the foreign exchange market.

Open market operations

The National Bank uses open market operations in order to regulate liquidity in the banking system and signal its monetary policy stance to market participants. The main operations on the open market are one-week reverse repo transactions (repo sales of securities that withdraw liquidity from the banking system). This allows the National Bank to react in the interbank money market in a timely manner in order to maintain the relative stability of short-term interest rates.

In 2014, the average stock of repo-sold securities amounted to RSD 70.8 billion, before decreasing significantly to RSD 28.5 billion in 2015. This was largely a result of interventions of the National Bank by selling foreign currency to the interbank foreign exchange market which resulted in no repo sales taking place in the period from mid-February to the beginning of April 2015. The average stock of repo-sold securities increased in 2016 and 2017, to RSD 45.0 billion and RSD 51.8 billion, respectively, following the creation of dinar liquidity in the foreign exchange market as a result of the National Bank intervention. In 2018, the average stock of repo-sold securities amounted to RSD 47.8 billion and at the end of 2018, the repo sold securities amounted to RSD 16.5 billion, which was RSD 28.6 billion below the level of repo sold securities at the end of 2017. At the end of September 2019, the value of repo-sold securities amounted to RSD 70.0 billion.

Reserve requirements

By changing the reserve ratio, the National Bank affects the ability of commercial banks to lend and, thus, influences the liquidity of the market. The reserve requirement is also an important macro-prudential tool, which is used to promote the use of the dinar and financial sector stability.

The main characteristics of the reserve requirements are:

i. reserve requirement rates are applied to the reserve requirement base (being the daily carrying average of liabilities in the prior calendar month) to calculate the reserve requirement. The reserve requirement rates are set relatively low for dinar liabilities, in order to promote banks to use Dinar as stable sources of funding. As at the date of this Prospectus, the applicable rates for dinar liabilities are 5 per cent. and 0 per cent., for liabilities with maturities up to, and over two years, respectively. For foreign currency liabilities, the rates are higher, at 20 per cent. and 13 per cent., for liabilities with maturities up to, and over two years, respectively. For Dinar liabilities with a foreign-currency clause, the National Bank applies the special reserve requirement rate of 100 per cent., in order to support the dinarisation process;

ii. banks are obliged to allocate the average amount of calculated reserve requirement over the maintenance period. According to the currency structure of allocation, 38 per cent. or 30 per cent. of required reserves calculated on foreign currency denominated liabilities (depending on their maturity), is required to be allocated in dinars. As for the foreign currency component, the banks are allowed to allocate in euros or exceptionally in US dollars; and

iii. to support local currency funding, the National Bank remunerates reserve requirements allocated in dinars (currently set at 1.00 per cent.), but does not remunerate reserve requirements in foreign currency.

In October 2018, the National Bank adopted the new "Decision on Banks' Required Reserves with the National Bank of Serbia", which governs the way in which banks calculate and allocate required reserves. While the main features of reserve requirements remained broadly unchanged, the new regulation makes adjustments in terms of the allocation of required reserves in line with the introduction of the Instant Payment System. See "-*Payment System*" for more details.

Standing facilities (liquidity loan and deposit facilities)

Standing facilities involve the use of collateralised loans to maintain daily liquidity and depositing banks' excess liquid balances with the National Bank. The National Bank extends daily liquidity loans against the collateral of eligible dinar securities (not indexed to a foreign currency), based on liquidity loan agreements with banks. Banks may access intraday liquidity loans (i.e. interest-free loans repaid on the same business day), or overnight loans (repaid by 11am on the following business day, including interest equal to the key policy rate plus 1.25 percentage points).

Deposit facilities provide banks an option to transfer excess daily liquidity to a special account of the National Bank, with an interest rate equal to the key policy rate reduced by 1.25 percentage points.

The interest rates on standing facilities set the floor and ceiling of other money market rates. In order to limit interest rates fluctuations on money markets, alongside key policy rate cuts, the National Bank has gradually narrowed the interest rate band, from ±2.5 percentage points in 2013 to the current band of ±1.25 percentage points below and above the key policy rate.

Operations in the Foreign Exchange Market (FX interventions and FX swap auctions)

Another important instrument in the implementation of the monetary policy of the National Bank is the ability to intervene in the foreign exchange market, to mitigate excessive short-term fluctuations in the dinar exchange rate against the euro, as well as strengthen the stability of prices and financial system and maintain an adequate level of foreign exchange reserves. In the first nine months of 2019, the National Bank intervened in the foreign exchange market with net purchases of EUR 2.1 billion. Other instruments at the disposal of the National Bank are foreign exchange swaps, short-term liquidity loans against collateral of securities and emergency liquidity assistance loans.

During the last five years, the National Bank has continued to organise regular three-month and two-week auctions of swap sales and purchases of foreign currency (euro) for dinars, in order to encourage the development of interbank swap trade and enable banks to manage their liquidity more efficiently. Thereby, the National Bank swap purchases and swap sells the same amount of foreign exchange so as not to influence dinar and foreign currency liquidity.

As well as holding regular FX swap auctions, the National Bank operates proactively to regulate dinar and foreign currency liquidity in the banking sector. In the first nine months of 2019, the National Bank conducted seven additional FX swap auctions (the last one being in June) in response to temporarily reduced dinar liquidity surpluses.

Credit Aggregates

The following table shows the liquidity and credit aggregates for the Serbian banking sector as at 31 December in each of the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	2015	2016	2017	2018	2019
			(RSD million)			
Liquid assets (core)[1]	450,413	477,897	440,413	426,646	549,295	485,911
Liquid assets (broad measure)[2]	457,913	508,498	474,213	471,748	565,800	560,912
Short-term liabilities	357,155	426,053	496,741	521,019	628,335	645,422
Total loans	2,377,698	2,515,242	2,664,578	2,695,506	2,901,062	2,987,739
Loans to public sector	660,533	739,009	785,925	748,940	775,448	785,339
Loans to private sector (excluding loans to other financial institutions)	1,696,139	1,752,676	1,850,386	1,916,814	2,099,615	2,170,594
Loans to households	724,614	759,050	838,621	904,192	1,017,273	1,062,648
Loans to companies	970,436	992,225	1,009,700	1,011,349	1,080,740	1,105,959
Loans to non-profit and other organization	1,089	1,401	2,065	1,273	1,602	1,986
Loans to other financial institutions	21,026	23,557	28,267	29,751	25,999	31,806

Source: National Bank.

Notes:

(1) Core liquid assets include currency, deposits and other financial assets that are available either on demand or within three months or less.

(2) The broad measure of liquid assets includes: (i) currency; (ii) deposits and other financial assets that are available either on demand or within three months or less; and (iii) securities that are traded in liquid markets (including repo markets) that can be readily converted into cash with insignificant risk of change in value under normal business conditions.

Monetary policy easing, increased competition among banks, the growth of economic activity along with the recovery of the labour market, the fall in the country's risk premium and low interest rates in the Eurozone have helped the recovery and acceleration of credit activity since 2015.

In 2016, total loans increased in nominal terms by 5.9 per cent., to RSD 2,664.6 billion as at 31 December 2016, mainly due to a 5.6 per cent. increase in loans to the private sector. Loans to the public sector increased by 6.3 per cent. in 2016, primarily due to banks' investment in government securities.

Despite high NPL write-offs and sales, credit activity continued to recover in 2017 and total loans increased in nominal terms by 1.2 per cent. to the amount of RSD 2,695.5 billion, driven largely by a 3.6 per cent. increase in loans to the private sector. On the other hand, public sector loans declined by 4.7 per cent. due to lower government borrowings and stricter terms on issuing government guarantees for public enterprise borrowing.

Growth of loans to the private sector further accelerated in nominal terms in 2018 by 9.5 per cent., despite continued NPL resolution activities, and continued to be the main driver of total loans growth (which increased by 7.6 per cent. and amounted to RSD 2,901.1 billion at the end of 2018). Additionally, positive but smaller contributions came from public sector borrowing (lending to public enterprises and banks' investment in government securities).

The positive trends in credit activity continued in 2019. In the first seven months of 2019, loans to the private sector rose in nominal terms by 3.4 per cent. as compared to the end of 2018, and were the largest contributor to the growth of 3.0 per cent. in total loans, which amounted to RSD 2,987.7 billion at end of July.

Monetary Aggregates

The following table shows certain statistics relating to monetary aggregates as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
	(RSD million, unless otherwise indicated)					
Narrow money (M1)	430,868	504,474	607,856	669,673	792,332	777,282
Broad money (M2)	613,888	702,476	808,309	872,007	1,017,826	1,039,298
Broad money (M3)	1,848,190	1,969,508	2,197,052	2,275,425	2,605,853	2,642,257
Broad money (M3) year-on-year growth rate (%)	7.6	6.6	11.6	3.6	14.5	12.2
Broad money (M3) share of GDP[1](%)	44.4	45.7	48.6	47.9	51.5[4]	50.9[4]
Reserve money	609,460	651,491	640,947	638,010	776,599	706,666
Reserve money, year-on-year growth rate (%)	(5.0)	6.9	(1.6)	(0.5)	21.7	5.8
Deposits in RSD	483,420	562,658	649,044	708,076	835,212	854,253
Deposits in foreign currencies	1,234,303	1,267,032	1,388,743	1,403,418	1,588,027	1,602,959
Loans in RSD[2]	581,066	549,528	612,686	660,818	727,932	767,477
Loans in foreign currencies[3]	1,282,258	1,370,099	1,352,043	1,345,662	1,477,412	1,512,990

Source: National Bank.

Notes:

(1) Calculated as a percentage of nominal GDP.
(2) Includes claims on public non-financial corporations, other non-financial corporations and individuals.
(3) Loans in foreign currencies comprise of fx-indexed claims and fx claims.
(4) The data refers to the first six months in 2019 and comparable period in 2018.

In 2016, narrow money (M1) increased by 20.5 per cent. to RSD 607,856 million, while broad money supply (M2) increased by 15.1 per cent. to RSD 808,309 million and the broader money supply (M3) increased by 11.6 per cent. to RSD 2,197,052 million.

The money supply increased in 2017, facilitated by the further recovery of lending. Narrow money (M1) increased by 10.2 per cent. to RSD 669,673 million, broad money (M2) rose by 7.9 per cent. to RSD 872,007 million and broader money supply (M3) increased by 3.6 per cent. to RSD 2,275,425 million. As at 31 December 2017, foreign currency loans and dinar loans stood at RSD 1,345,662 million and RSD 660,818 million, respectively. Total foreign currency deposits increased by EUR 598.5 million, primarily due to higher FX savings of households and corporate accounts.

Improved economic conditions and increased lending activity reflected positively on the money supply in 2018. Narrow money increased by 18.3 per cent., while broad money measure M2 increased by 16.7 per cent., and the broadest aggregate, M3, increased by 14.5 per cent. As at 31 December 2018, foreign currency loans and dinar loans stood at RSD 1,477,412 million and RSD 727,932 million, respectively.

Growth in dinar monetary aggregates in 2018 was led by the increase in demand deposits (by RSD 104.0 billion) and partly by term deposits growth (by RSD 23.2 billion), facilitated by macroeconomic stability, as well as more favourable interest rates and tax treatment compared to foreign exchange savings. The increase of EUR 1.6 billion in FX deposits was largely determined by growth in FX corporate deposits (by EUR 904.8 million), reflecting an inflow of foreign currency from exports, FDI and corporate cross-border borrowing. Additionally, households increased their FX deposits by EUR 574.1 million, to EUR 9.6 billion as at 31 December 2018.

The economic and credit activity continued to support money supply during 2019. In the first seven months of 2019, narrow money (M1) decreased by 1.9 per cent. due to the seasonal withdrawal of demand deposit during the first quarter of 2019. On the other hand, broad money (M2) and broader money (M3) increased by 2.1 per cent. and 1.4 per cent., respectively, as a result of the increase in longer-term source of funds. Time dinar deposits rose by RSD 36.5 billion, with dinar household savings reaching a new maximum of RSD 70.4 billion in July 2019. At the same time, FX deposits recorded growth of EUR 177.9 million, led by household FX savings, which stood at EUR 10.1 billion at the end of July. As at 31 July 2019, foreign currency loans and dinar loans stood at RSD 1,512,990 million and RSD 767,477 million, respectively.

Inflation and Interest Rates

Inflation policy and trends

The following table shows the year-on-year percentage change in consumer prices by type of product or service for the years ended 31 December 2014 to 2018, and for July 2019:

	Year ended 31 December					July (year-on-year rates)
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
			(% change)			
Fruit and vegetables	10.0	(1.5)	(6.8)	13.8	10.0	5.0
Regulated prices	1.1	5.5	2.2	2.9	2.4	1.8
Electricity	0.0	12.2	3.8	2.1	0.0	0.2
Gas for households	11.3	(15.0)	16.4	0.4	0.0	0.5
Utilities	4.8	2.5	0.5	0.2	1.3	1.3
Social welfare services	(0.5)	(7.5)	(1.0)	2.2	0.9	0.1
Transport services (regulated)	2.4	2.5	0.0	0.3	2.1	0.8
Postal and telecommunications services	(5.2)	0.0	0.0	0.0	0.0	0.0
Cigarettes	0.8	12.9	4.7	8.9	8.2	5.6
Medications	2.6	(5.2)	3.1	(0.8)	0.9	0.3
Other	1.5	1.5	1.3	1.6	0.6	5.1
Petroleum products	(6.2)	(5.9)	5.7	4.7	5.5	(1.3)
Core inflation[1]	**2.3**	**1.6**	**1.5**	**1.3**	**1.0**	**1.5**
Total inflation (CPI)	**1.7**	**1.5**	**1.6**	**3.0**	**2.0**	**1.6**

Source: National Bank.

Note:
(1) Core inflation is an indicator for measuring market-determined prices which do not display high volatility. It is calculated by excluding the prices of energy, food, alcohol and cigarettes from the CPI.

Since 2009, the National Bank has implemented a comprehensive inflation-targeting regime in Serbia, which has helped contribute to stable, low levels of inflation. Between 2012 and 2016, the National Bank's inflation target was 4.0±1.5 per cent. The current inflation target, in place since 2017, is 3 per cent. ± 1.5 per cent.

Inflation was below the lower bound of the target band between 2014 and 2016, in line with deflationary tendencies in most European economies. Low inflation during this period was influenced by a sharp decline in the prices of primary commodities, stabilisation in the EUR/RSD exchange rate and strong fiscal consolidation. In addition, specific factors such as a good harvest in 2015 and 2016 led to a fall in fruit and vegetable prices.

In 2017, average inflation increased to 3.0 per cent., due to rising prices of oil, fruits and vegetables, and a few other one-off price hikes. In 2018, average inflation decreased to 2.0 per cent. While vegetable and petroleum product prices oscillated over the course of 2018, other groups of consumer prices remained largely stable, including core inflation which averaged 1.0 per cent. during the year.

In the first seven months of 2019, inflation was largely driven by the movement of vegetable prices. As a consequence of the increase in vegetable prices, year-on-year inflation was on the rise for the first four months, reaching the target midpoint in April, after which, with the new agricultural season, the reverse trend in vegetable prices led to a slowdown in inflation to 1.6 per cent. in July. Petroleum product prices have similarly influenced inflation trends (with rising contribution to April, and declining since May). Other components of inflation had relatively stable movements. Core inflation rose slightly in early 2019, largely as a result of an increase in aggregate demand, and moved around the lower bound of the target tolerance band (being 1.5 per cent.in July). The National Bank of Serbia remains committed to maintaining inflation within the target tolerance band.

Interest Rates

The following table shows the monthly weighted average interest rates for total new dinar deposits in Serbian banks for each month for the years ended 31 December 2014 to 2018 and for the seven months ended 31 July 2019[(1)] :

	2014	2015	2016	2017	2018	2019
January	7.66	6.76	3.01	2.81	2.75	2.96
February	7.34	7.16	2.88	2.83	2.84	2.72
March	7.50	6.72	2.73	2.81	2.68	2.81
April	7.46	5.83	2.64	2.76	2.72	2.76
May	6.96	5.30	2.59	2.76	2.70	2.78
June	6.74	5.00	2.48	2.69	2.58	2.70
July	6.60	4.84	2.61	3.09	2.60	2.52
August	6.37	4.58	2.59	2.97	2.61	
September	6.46	3.95	2.66	2.82	2.77	
October	6.44	3.40	2.66	2.65	2.78	
November	6.43	3.24	2.69	2.70	2.88	
December	6.81	3.06	2.94	2.85	2.78	

Source: National Bank.

Note:
(1) These figures include interest rates on new deposits for dinar deposits, for both individual depositors and institutional and corporate depositors.

The following table shows the monthly weighted average interest rates for total new foreign currency deposits in Serbian banks for each month for the years ended 31 December 2014 to 2018 and for the seven months ended 31 July 2019[(1)] :

	2014	2015	2016	2017	2018	2019
January	2.22	1.32	0.90	0.58	0.71	0.88
February	2.08	1.25	0.77	0.59	0.83	1.03
March	2.22	1.20	0.66	0.42	0.95	0.78
April	1.89	1.11	0.79	0.57	0.82	0.96
May	1.81	1.08	0.70	0.50	0.77	0.98
June	1.99	0.94	0.80	0.61	0.72	0.65
July	1.74	0.90	0.65	0.56	0.87	0.90
August	1.71	1.00	0.64	0.59	0.86	
September	1.57	0.82	0.55	0.56	0.81	
October	1.60	0.96	0.58	0.69	0.95	
November	1.76	1.11	0.58	0.72	1.07	
December	1.51	0.82	0.54	0.91	1.38	

Source: National Bank.

Note:
(1) These figures include interest rates on new foreign currency deposits, for both individual depositors and institutional and corporate depositors.

Interest rates on loans have declined in recent years in response to the National Bank's monetary policy accommodation, lower interest rates in the euro area money market, lower country risk premium and increased interbank competition in the loan market.

Under the impact of the National Bank's monetary policy accommodation and the declining interest rates in the international money market, interest rates on savings recorded a continuous decline until the end of 2016, remaining relatively stable thereafter. In addition, interest rates on dinar savings were higher than those on FX savings, which was conducive to growth of dinarisation on the deposit side.

Exchange Rates and Exchange Rate Policy

The National Bank operates a managed floating exchange rate regime, under which the exchange rate of the dinar is not fixed against the exchange rate of any other foreign currency or basket of currencies. The dinar exchange rate is determined by demand and supply forces operating in the foreign exchange markets. While the National Bank does not set a specific range of exchange rate values within which the dinar must be maintained, it may intervene in the interbank foreign exchange market in order to mitigate excessive exchange rate volatility and preserve the financial stability of Serbia. See "- *Monetary Policy*". Since 2012, the National Bank has succeeded in establishing and maintaining the relative stability of the exchange rate of the dinar against the euro, despite turbulence in international markets.

The following table shows the exchange rate history for the years 2014 to 2018 and for the nine months ended 30 September 2019, expressed in dinars per euro and not adjusted for inflation:

	Dinar to Euro(1)			
	Low	**High**	**Average**	**Period End**
2019 (through 30 September 2019)	117.5283	118.4940	117.9635	117.5283
2018	118.0084	119.0027	118.2716	118.1946
2017	118.2934	124.0174	121.3367	118.4727
2016	121.5145	123.9531	123.1179	123.4723
2015	119.7162	123.5774	120.7328	121.6261
2014	114.7559	122.6321	117.3060	120.9583

Source: National Bank

Note:
(1) Not adjusted for inflation.

The following table shows the exchange rate history for the years 2014 to 2018 and for the nine months ended 30 September 2019, expressed in dinars per U.S. dollar and not adjusted for inflation:

	Dinar to U.S.$(1)			
	Low	**High**	**Average**	**Period End**
2019 (through 30 September 2019)	102.4454	107.6029	104.9716	107.4299
2018	94.9945	105.2369	100.2784	103.3893
2017	99.0217	118.6004	107.4987	99.1155
2016	106.7040	118.9946	111.2903	117.1353
2015	101.4863	114.6890	108.8543	111.2468
2014	82.9584	100.0601	88.5408	99.4641

Source: National Bank.

Note:
(1) Not adjusted for inflation.

Depreciation pressures prevailing in the domestic FX market in the first half of 2016 were prompted mainly by spill over effects from the international environment. The increased turbulence in the international financial markets and geopolitical tensions, (including crisis on Asian stock exchanges which spilled over to both the European and US markets, falling oil prices, diverging monetary policies of leading central banks, as well as Brexit), triggered the withdrawal of foreign investors from securities of emerging markets and thus from dinar securities in the secondary market. This was accompanied by net FX purchases by non-residents. In response to the strong depreciation pressures, the National Bank intervened (with a net selling of EUR 820 million), in order to maintain the relative stability of the foreign exchange rate.

Conversely, the second half of 2016 was characterised by appreciation pressures. Improved macroeconomic results in Serbia, including narrowing of internal and external balances, low and stable inflation and improved GDP growth, elevated the interests of foreign portfolio investors in long-term dinar government securities. In 2016, the National Bank intervened in the foreign exchange market by net selling of EUR 160 million (i.e. sold EUR 980 million and purchased EUR 820 million).

Depreciation pressures were present in early 2017, prompted by heightened uncertainty in the international environment due to the diverging monetary policies of the U.S. Federal Reserve and ECB, especially following the U.S. Federal Reserve's decision to raise its policy rate in December 2016, as well as seasonally higher FX demand in domestic energy-importing enterprises. However, the dinar began to strengthen against the euro in April 2017 which continued through most of 2018 and the first nine months of 2019, as a result of the improvement of macroeconomic indicators and perception of Serbia's prospects. Strong macroeconomic performance and positive perceptions of the domestic economy of Serbia also led to increased inflow of foreign exchange, partly due to increased interest from foreign portfolio investors in investing into long-term, primarily 10-year and 7-year dinar-denominated, bonds of Serbia.

In the nine months ended 30 September 2019, the dinar nominally strengthened by 0.6 per cent. against the euro and, nominally weakened by 3.8 per cent. against the U.S. dollar.

Dinarisation strategy

Approximately two thirds of Serbia's deposits and loans are denominated or indexed in foreign currency (mainly the euro) and Serbia faces the challenge of relatively high euroisation. During periods of macroeconomic instability, in order to protect from losses due to the expectations of inflation and depreciation of the domestic currency, individuals are increasingly saving in foreign currency, which now makes up a significant part of the liabilities in banks' balance sheets. This process was accelerated by the entry of foreign banks into the domestic banking market since 2000 and by greater availability of cheaper sources of financing from abroad.

Increased use of dinars in the financial system could have a beneficial impact on financial stability, decrease exposure to currency risk for the most vulnerable sectors of the economy and improve the effectiveness of monetary policy. In April 2012, the National Bank and the Government concluded a memorandum on the dinarisation strategy for the Serbian financial system to ensure macroeconomic and financial stability. In December 2018, the Government and the National Bank signed a new strategy to encourage further dinarisation and reduce the foreign currency risk in the financial system.

The dinarisation strategy rests on three interconnected pillars:

- The first pillar is comprised of monetary and fiscal policy measures aimed at preserving macroeconomic stability and ensuring conditions for sustainable economic growth.
- The second pillar includes measures aimed at further development of the dinar securities market and the introduction of new dinar products on the domestic financial market.
- The third pillar consists of activities aimed at the development of hedging instruments for foreign exchange risks.

Since 2012, Serbia has made progress in the field of de-euroisation, as evidenced by the movement of the main indicators of dinarisation:

- dinarisation of receivables to households and the corporate sector increased by 5.7 percentage points to 33.7 per cent. in July 2019. In particular, dinarisation of receivables to households has risen to 55.2 per cent., while dinarisation of receivables to the corporate sector has decreased to 14.8 per cent.
- dinarisation of deposits of households and the corporate sector has also grown since the end of 2012, amounting to 32.2 per cent. in July 2019, with increased dinarisation deposits of households (20.2 per cent.), as well as corporate deposits (54.2 per cent.). The increase in household deposits is related to the increase in dinar savings, which is largely the result of achieved macroeconomic stability and relative stability of the dinar exchange rate, relatively higher interest rates on dinar deposits (compared to foreign currency deposits), as well as more favourable tax treatment of interest income on RSD savings (compared to foreign currency savings). RSD savings increased by RSD 10.9 billion (22

per cent.) in 2018, and by a further RSD 12.9 billion (21.1 per cent.) in the first nine months of 2019, reaching RSD 74.0 billion at the end of September 2019.

- the dinar share of public debt has increased, reaching 27.5 per cent. at the end of July 2019, which is 8.4 percentage points above the position at the end of 2012.

The National Bank contributes to the process of dinarisation by:

- achieving and preserving price stability and relative stability of the exchange rate;
- lowering the target inflation rate from 4 per cent. to 3 per cent. in 2017, which contributes to the reduction of long-term dinar interest rates;
- adopting monetary policy measures that are in favour of dinarisation (e.g. preferential treatment of dinar sources of financing with the required reserve, as well as privileged treatment of dinar securities in the form of a permitted collateral);
- adopting prudential measures (e.g. obligations to deposit /participate in the approval of currency indexed loans, as well as loan-to-value limits for currency-indexed housing loans, giving a protective layer of capital for structural system risk whose amount depends on the amount of foreign exchange and foreign exchange indexed bank's placements to the economy and population in Serbia); and
- promoting protection against foreign exchange risk and developing market instruments for protection against foreign currency risk.

The Government also actively encourages the process of dinarisation through tax policy (for example, by giving preferential tax treatment to dinar savings: 0 per cent. tax on interest on dinar savings, compared to the foreign currency tax rate of 15 per cent.), as well as through the encouragement of the development of the dinar securities market (for example, by increasing the issuance of dinar bonds and gradually extending their maturity). The Government is seeking to increase both the breadth of the market of dinar instruments (for example, in February 2016 by issuing a benchmark dinar bond for the first time) and its depth (for example, from November 2015, trading in long-term government securities on the Belgrade Stock Exchange is allowed, which contributes to the increase of the investor base).

Foreign Assets

The following table shows the foreign assets of the National Bank as at 31 December for the years 2014 to 2018, and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
	(EUR million, except where otherwise indicated)					
Net foreign assets	9,689	10,315	10,164	9,934	11,241	12,746
Gross foreign exchange reserves	9,907	10,378	10,205	9,962	11,262	12,758
Use of IMF resources	-	-	-	-	-	-
Gold	556	566	661	675	736	871
Foreign exchange reserves (months of imports)[(1)]	6.6	6.7	6.2	5.4	5.3	5.6

Source: National Bank.

Note:
(1) Calculated as Gross Foreign Exchange Reserves excluding holdings of SDRs, in months of imports of goods and services.

During 2016 and 2017**,** the National Bank's gross foreign reserves reduced, by EUR 173 million and EUR 243 million, respectively. Over this period, net outflows were largely due to settling of liabilities of foreign creditors and withdrawals of foreign currency reserve requirements of banks. However, these outflows were mostly offset by net foreign exchange inflows primarily derived from National Bank's interventions (foreign exchange net purchases). In 2018**,** gross foreign reserves increased by EUR 1,300 million. This was largely as a result of National Bank interventions in the domestic foreign exchange market in the net amount of EUR 1,520 million. In the first seven months of 2019, the gross foreign reserves of the National Bank increased by EUR 1,496 million, to reach EUR 12,758 million as at 31 July 2019. This was largely as a result of National Bank interventions in the domestic foreign exchange market in the net amount of EUR 1,570 million.

Banking Sector

Overview

Commercial banks are dominant market participants in Serbia, with a market share of about 90 per cent. At the end of July 2019, the banking sector of Serbia consisted of 26 banks, of which 19 were majority owned by foreign shareholders, three banks were owned by domestic private individuals and four banks were state-owned. Foreign-owned banks (from 13 different countries) accounted for 76.6 per cent. of total assets, 82.4 per cent. of total loans and 74.8 per cent. of total deposits in the Serbian banking sector.

The following table shows a balance sheet of Serbia's banking sector and indicates the foreign ownership of the banks by country as at 31 July 2019:

	Pre-tax result	**Assets (net)**	**Equity (book value)**	**Loans**	**Deposits**	**Number of employees**
	(RSD millions)			*(% of sector total)*		
Greek banks	702.6	4.5	7.6	5.0	3.7	6.4
Italian banks	13,319.5	26.9	27.4	27.0	27.0	18.8
French banks	5,116.2	11.3	8.9	14.0	10.8	9.9
Austrian banks	6,572.5	14.2	12.8	14.2	13.7	11.9
German banks	371.1	3.1	2.4	4.0	2.3	1.6
Serbian banks	9,110.1	23.4	23.9	17.6	25.2	28.8
Other banks	6,015.3	16.6	17.0	18.1	17.2	22.7
Total banks	**39,802.2**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Bank.

Note:

(1) Other countries include: Slovenia, Hungary, United States, Russia, Turkey, China, Norway and United Arab Emirates.

As at 31 July 2019, Serbia's banking sector assets and capital amounted to RSD 3,877 billion (EUR 32.9 billion) and RSD 680 billion (EUR 5.8 billion), respectively, and the sector employed 23,135 people within the entire banking network, which comprised over 1,603 business units, branches, branch offices and teller units. Loans and receivables represented the dominant share of 61.0 per cent. of the banking sector's net assets.

With numerous banks holding a small share of total assets, lending, deposits and income, the Serbian banking sector is fragmented. The top five banks in Serbia have a market share of 54.5 per cent. of assets, 53.1 per cent. of loans and 56.0 per cent. of deposits. The share of the top 10 banks is 80.3 per cent. for assets, 79.4 per cent. for lending and 81.4 per cent. for deposits.

In July 2019, the average monthly liquidity ratio for the Serbian banking sector was 2.08, therefore above the regulatory minimum of 1.0. As at 31 July 2019, liquid assets amounted to 36.2 per cent. of the total balance sheet assets of Serbian banks and 51.1 per cent. of total short-term liabilities.

For the seven months ended July 2019, the net profit before taxes amounted to RSD 39.8 billion (EUR 338 million), with return on assets and return on equity profitability at 1.78 per cent. and 10.03 per cent., respectively. Of the total number of banks, 18 banks operated with a gain of RSD 42.6 billion, while eight banks operated with a loss in the total amount of RSD 2.8 billion (with participation in the total balance sheet of the banking sector of 10.9 per cent.).

The Serbian banking sector has undergone a number of changes in ownership in recent years, including:

- in 2016, the National Bank granted a license to operate to a newly established bank and extended prior approval to domestic individuals to acquire ownership in one bank;
- in 2017, the National Bank granted five consents for acquiring ownership in banks (four domestic banks and one foreign-owned bank), following which it also extended three consents to banks for merger in 2017 and 2018;

- in 2018, the National Bank withdrew a license to operate from one bank and extended its prior consent to foreign individuals to acquire ownership in one bank;
- in January 2019, the National Bank extended its prior consent to a foreign legal entity for acquiring ownership of one domestic bank;
- in April and June 2019, the National Bank extended its prior consents to domestic legal entities for acquiring ownership in two domestic banks; and
- in April 2019, the National Bank extended its consent for the merger of a bank.

Law on Conversion of Housing Loans indexed to Swiss Francs

On 25 April, 2019, the Government adopted the Law on Conversion of Housing Loans indexed to Swiss Francs-CHF ("**LCHL**"). LCHL came into force on 7 May 2019. Pursuant to the provisions of LCHL, banks in Serbia were obligated to offer conversion of Swiss franc indexed housing loans (which were outstanding on 7 May 2019) into EUR indexed housing loans. As part of this conversion, the principal amount of the housing loan was to be increased by the amount of interest (both due and unpaid on the day of conversion) payable on the loan and converted at the middle exchange rate of the National Bank, whereby after the conversion, the amount of receivables of the banks would reduce by 38 percent. Under the provisions of LCHL, the banks had a right to claim the reimbursement of costs related to any such conversion from the Republic of Serbia (subject to a maximum limit of 15 per cent. of the amount received on conversion). On 1 October 2019, the Government issued 5 years government bonds (denominated in RSD) in the total amount of RSD 8,972,738 to the banks who applied for the reimbursement of such costs.

According to the latest information available from the National Bank, approximately 91 per cent. of Swiss franc indexed housing loans, in the amount of RSD 59.64 billion (around EUR 507 million) have been converted into loans indexed in EUR. While such conversions have impacted the profitability of the banking sector in the amount of RSD 9 billion (around EUR 77 million), its impact on the capital adequacy of the banks has not been significant.

Non-performing loans

In accordance with regulations adopted by the National Bank, Serbia classifies NPLs as the stock of the total outstanding debt under individual loans (including the amounts of arrears) where: (i) payments of principal or interest are past due by 90 days or more; (ii) at least 90 days of interest payments have attributed to the loan balance, been capitalised, refinanced or delayed by agreement; or (iii) payments of principal or interest are overdue by less than 90 days, but there are other reasons to doubt that payments will be made in full.

The joint effort of the Government, the National Bank and other competent authorities led to the adoption of the NPL Resolution Strategy in August 2015 and the related action plan (to be implemented over the following three years). The strategy is aimed at providing incentives and removing obstacles identified in the system that prevent the timely resolution of NPLs, as well as establishing a system to prevent the accumulation of NPLs in the future. The strategy focuses on strengthening the capacity of banks for NPL resolution, enabling conditions for development of the NPL market, improving and encouraging extra-judicial debt restructuring and improving the framework for court debt settlement and mortgages.

Adoption of the NPL Resolution Strategy accompanied by realisation of the related action plan was a crucial step towards the removal of the high level of NPLs in the Serbian banking sector. In accordance with the action plan, the National Bank has introduced additional legislation and guidance to improve the regulatory framework for the treatment of restructured receivables, to upgrade collateral management in banks, to improve the application of IAS 39 and the reporting of NPLs, to increase the transparency of banks relating to asset quality and to promote supervisory requirements regarding the treatment of real estate used as collateral. Further, the Government has conducted a number of activities aimed at improving the legislative framework in the area of collateral valuation, tax issues, civil and bankruptcy procedure and out-of-court debt restructuring.

The implementation of the NPL Resolution Strategy has helped to reduce the high level of NPLs previously seen in the Serbian banking sector. The gross NPL ratio has decreased from 22.25 per cent. as at August 2015 to 4.98 per cent. as at 31 July 2019, while the absolute amount of gross NPLs has decreased by 72.1 per cent. from RSD 427.3 billion to RSD 119.0 billion over the same period.

Following the success of the strategy, the Government identified the need to resolve the remaining issues and to ensure the sustainability of the results. In December 2018, the Government adopted a program for resolving NPLs for the period 2018-2020, together with an action plan. Several key areas have been identified that need to be improved such as: solving problematic claims of state financial creditors; improving the insolvency framework; and activities aimed at preventing problem loans.

The following table provides an overview of the change in NPL loans in the Serbian banking sector in the period from the adoption of the NPL Resolution Strategy until 31 July 2019.

	Gross NPLs			**Gross NPL Ratio**		
	As at 31 August 2015	**As at 31 July 2019**	**% Change**	**As at 31 August 2015**	**As at 31 July 2019**	**Percentage Point Change**
		(RSD billions)			*(%)*	
Sector breakdown						
Total	427.3	119.0	(72.1)	22.2	5.0	(17.2)
Corporate[1]	210.2	47.6	(77.4)	26.0	4.5	(21.5)
Households	74.6	39.8	(46.7)	11.2	4.2	(7.0)
Other sectors	142.5	31.7	(77.7)	31.8	8.3	(23.5)
NPLs in relation to ownership structure						
State owned	66.4	24.2	(63.5)	26.2	9.1	(17.1)
Privately held	36.0	7.1	(80.3)	35.3	4.5	(30.8)
Foreign owned	324.9	87.7	(73.0)	20.8	4.5	(16.3)
NPLs in relation to country of origin						
Austria	60.7	7.1	(88.2)	20.7	2.1	(18.6)
France	37.0	15.4	(58.4)	16.1	4.6	(11.5)
Germany	2.4	1.7	(30.1)	3.8	1.8	(2.0)
Italy	84.3	26.7	(68.3)	17.5	4.1	(13.3)
Greece	78.1	9.9	(87.4)	27.0	8.2	(18.8)
Other foreign countries[2]	62.4	26.9	(56.9)	29.9	6.2	(23.7)
Serbia	102.4	31.3	(69.4)	28.9	7.4	(21.5)
NPL of corporate sector (privately owned) – industry breakdown						
Agriculture	9.5	1.6	(83.0)	16.0	2.1	(13.9)
Manufacturing	62.6	17.3	(72.3)	21.8	5.1	(16.7)
Trade	63.2	9.1	(85.6)	24.6	2.8	(21.8)
Construction	35.9	7.7	(78.4)	47.9	7.3	(40.6)
Other	39.1	11.8	(69.8)	30.0	5.7	(24.3)
Total	210.2	47.6	(77.4)	26.0	4.5	(21.5)
NPLs of retail products						
Cash loans	22.5	19.6	(12.6)	10.6	4.1	(6.5)
Credit cards	5.4	1.9	(65.1)	14.8	5.7	(9.1)
Overdrafts	4.3	1.7	(60.0)	15.7	7.3	(8.4)
Consumer loans	3.8	0.4	(88.7)	23.9	3.8	(20.1)
Mortgage loans	33.5	14.5	(56.6)	9.8	3.8	(6.0)
NPLs coverage overview (% covered)						
NPL IFRS provisions	-	-	-	56.4	61.3	4.9
Total IFRS provisions	-	-	-	60.5	80.0	19.5
Regulatory provisions (balance sheet)	-	-	-	116.2	-	-
Total regulatory provisions	-	-	-	120.0	-	-

Source: National Bank.

Notes:

(1) Private companies.

(2) Other foreign countries include Cyprus, Hungary, Norway, Russia, Turkey, Slovenia, United Arab Emirates and the United States.

The following table provides an overview of the change in Gross NPLs and Gross NPL ratio across sectors at 31 December for the years 2014 to 2018 and as at 31 July 2019.

	Gross NPLs (As at 31 December)					
	2014	**2015**	**2016**	**2017**	**2018**	**As at 31 July 2019**
			(RSD billions)			
Total	**421.26**	**424.62**	**345.78**	**204.93**	**130.65**	**119.04**
Corporates	227.85	198.28	157.66	102.37	53.37	47.57
Households	66.41	73.44	69.23	45.41	39.61	39.76
Other sectors	127.01	152.90	118.89	57.15	37.67	31.70

Source: National Bank.

	Gross NPL Ratio (As at 31 December) (1)					
	2014	**2015**	**2016**	**2017**	**2018**	**As at 31 July 2019**
			(%)			
Total	**21.54**	**21.58**	**17.03**	**9.85**	**5.70**	**4.98**
Corporates	26.70	23.56	17.58	10.80	5.20	4.48
Households	10.30	10.87	9.28	5.63	4.36	4.18
Other sectors	27.75	33.99	30.67	17.49	10.54	8.34

Source: National Bank.

Note:
(1) The data represents the ratio of gross non-performing loans to total gross loans.

The following table shows selected banking sector performance indicators as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Capital Adequacy						
Regulatory capital to risk-weighted assets	20.0	20.9	21.8	22.6	22.3	23.2
Tier 1 capital to risk weighted assets	17.6	18.8	20.0	21.6	21.1	22.1
Balance sheet capital to balance sheet assets	20.7	20.3	19.5	19.8	17.9	17.5
Leverage	N/A	N/A	N/A	11.09	12.64	13.79
Asset Quality						
Gross NPL/total gross loans	21.54	21.58	17.03	9.85	5.70	4.98
Regulatory provisions for balance sheet exposure/gross NPLs	114.50	114.18	118.92	133.24	160.49	N/A
IFRS provisions /gross NPLs	54.88	62.27	67.83	58.10	60.19	61.33
Profitability						
Profit before tax *(RSD billions)*	3.52	9.72	21.3	68.69	75.72	39.80
Return on assets (ROA)	0.12	0.32	0.68	2.08	2.12	1.78
Return on equity (ROE)	0.58	1.58	3.40	10.57	11.27	10.03
Net interest margin to average balance sheet assets	4.3	4.3	3.9	3.7	3.6	3.3
Net interest margin to gross operating income	71.39	70.73	70.42	63.73	66.49	68.00
Operating expenses to gross operating income	64.51	62.22	64.80	59.87	58.67	59.84
Operating expenses to average balance sheet assets	3.9	3.8	3.6	3.4	3.1	2.9
Personnel expenses to operating expenses	36.7	36.7	37.7	37.4	39.4	37.7
Liquidity and Foreign Exchange Risk						
Average monthly liquidity ratio	2.2	2.1	2.1	2.0	2.0	2.1
Average narrow liquidity ratio	1.7	1.7	1.7	1.7	1.7	1.7
Liquid coverage ratio	N/A	N/A	N/A	239.5	213.3	219.8
Liquid assets to total assets	35.6	34.3	36.9	36.7	37.4	36.2
Liquid assets to short-term liabilities	56.3	52.0	53.7	53.1	52.8	51.1
Liquid assets (core) to total assets	27.5	28.1	30.5	30.8	31.8	29.9
Liquid assets (core) to short-term liabilities	43.4	42.5	44.4	44.6	44.9	42.3
Loans to deposits	102.7	99.0	92.0	93.2	90.0	92.1
Sensitivity to Market Risk						
Net open FX position (overall) to regulatory capital	3.93	4.44	2.74	2.90	4.52	2.16

Source: National Bank.

Banking Supervision

In February 2015, the National Bank implemented several reforms with respect to banking operations in Serbia, primarily through amendments to the NBS Law and the Law on Banks, with the aim of improving the framework for bank recovery and restructuring in accordance with the principles and rules as set out in EU Directive 2014/59 on establishing a framework for bank recovery and restructuring (the "**Bank Recovery and Resolution Directive"** or **"BRRD**").

The National Bank is the body in charge of restructuring in the Serbian banking sector. Organisational separation of supervision activities and bank restructuring activities is a requirement of the BRRD, and accordingly, a special organisational unit within the National Bank has been established for these tasks. In addition, the Banking Law introduced a number of preventive mechanisms, such as recovery plans and early intervention measures that should be facilitated by the preventive action of the banks themselves, as well as the early reaction of the National Bank as a supervisor in order to prevent the increase of the problem in a timely manner and preserve financial stability.

In addition to the changes that relate to the recovery and restructuring framework, the National Bank has implemented certain changes in the framework for the operations of banks, including:

- abolishing separate (individual and aggregate) limits for persons associated with the bank in order to further align with international standards;

- changes in the term "affiliated persons" - instead of the participation of 5 per cent., a significant or controlling participation (more than 20 per cent.) is required to establish linkages with the expected higher involvement of banks in determining economic connectivity;

- inclusion of investment property as an indicator of investment of 60 per cent. of the bank's capital; and

- strengthening control procedures by simplifying measures and the expanding orders issuable by the National Bank, as well as provisions related to the financial penalties imposed on a bank and its management bodies.

In addition to the above changes, the National Bank enhanced the legal framework for the operation of banks in the areas of risk management of the bank, the reporting system, the publication of data and information of banks, by adopting the following regulations:

- Decision on measures to preserve financial stability in connection with the loans indexed in foreign currency ("Official Gazette of RS", no. 21/2015 and 51/2015), in order to preserve the stability of financial system of the Republic of Serbia, following negative developments in the international foreign exchange markets;

- Decisions on External Audit of Banks ("Official Gazette of RS", no. 18/2015);

- Decision on Detailed Terms and Manner of Performing Bank Supervision and Special Bank Audit ("Official Gazette of the Republic of Serbia "No. 30/2015), which prescribes conditions to control the creditworthiness and legality of banks' operations;

- Decision on detailed conditions and manner of conducting the interim administration in the bank ("Official Gazette of RS", no. 30/2015), which prescribes the conditions for appointing temporary manager, his powers and obligations, the objectives and tasks of the interim administration, the mandate of the temporary administrator, the reporting to the National Bank and other issues important for the performance of the interim administration in the bank;

- Decision on financial support within banking groups ("Official Gazette", no. 30/2015), which prescribes the process of concluding financial support within a banking group;

- Decisions on plans of recovery of banks and banking groups ("Official Gazette of RS", no. 71/2015); and

- Decisions on the implementation of the provisions of the Banking Act relating to granting preliminary approval, licenses to operate banks and individual approval by the National Bank ("Official Gazette of RS", no. 82/2015 and 29/2018).

Capital adequacy

During 2017 and 2018, the level of capital of the banking sector was stable. At the end of July 2019, the capital adequacy ratio was 23.2 per cent., which is well above the prescribed regulatory minimum in Serbia (8 per cent.).

The National Bank may set a higher capital adequacy ratio if it deems necessary for maintaining the safety and soundness of a bank's operations or the fulfilment of a bank's obligations towards its creditors. The decision will be based on the assessment of:

- the bank's business model, financing model and the bank's overall risk profile;
- whether a bank has ensured that it maintains, at all times, the level and structure of capital enabling it to cover all risks the bank is or may be exposed to in its operation under the bank's business model, financing model and the bank's overall risk profile;
- the manner in which the risks and weaknesses of the bank's business model, financing model and the bank's overall risk profile, identified in the supervision process, are covered, directly or indirectly, by additional capital requirements determined by the evaluation of the internal capital adequacy assessment process; and
- the effects of other orders and measures imposed on the bank regarding the risks and weaknesses of the business model, financing model and the bank's overall risk profile identified in the supervision process.

Implementation of Basel III standards

The domestic regulatory framework for the supervision of banks is based on the Basel III standards. From 30 June 2017, the implementation of Basel III standards started at the individual bank level and at the level of the banking group, and the National Bank introduced regulations regarding the structure of the bank's capital, new indicators of capital adequacy at the level of the banking group and certain other levels which the banking group is obliged to maintain.

The prescribed minimum capital adequacy ratio was lowered from 12 per cent. to 8 per cent., while capital buffers (conservation buffers, countercyclical capital buffer, structural system risk buffers and systemically important banks capital buffers) were set in parallel. The National Bank has also introduced new standards for calculating capital requirements for credit, market, operational and credit risk on the basis of securitisation, a more favourable risk weight for exposures secured by mortgages on business real estate and a new capital requirement for positions in a portfolio for trading in correlations. These standards are aimed at strengthening the resilience of the banking sector by increasing the quality of capital and introducing protection layers of capital buffers, better monitoring and control of the bank's exposure to liquidity risk, further strengthening of market discipline and transparency of banks' operations in Serbia by publishing all relevant information on the bank's operations.

In addition, new regulations stipulate that until the date of Serbia's entry into the EU, the risk-weight assigned to exposures to Serbia and the National Bank, as well as to the exposures to the member states of the EU and central banks that are expressed and settled in the currency of such member states shall be the same as the risk weight assigned to the exposures to these persons that are expressed and settled in their national currencies.

In July 2017, the National Bank adopted the Guidelines for the Identification of Default. These guidelines will apply from 1 January 2021, with some provisions applying from 1 January 2019. In addition, in September 2017, the National Bank adopted the Guidelines for the Implementation of Specific Provisions of the Decision on Capital Adequacy of Banks relating to bank capital, introducing more detailed conditions in the calculation of capital and the method of calculating deductible items of equity, including the calculation of certain regulatory adjustments. The guidelines prescribe cases of direct and indirect financing for purchase of capital instruments and subordinated liabilities of the bank, the amount of distribution of profits under the basic share capital instruments with the right to payment of the increased dividends, the preferential treatment of the instruments of the basic share capital in connection with the distribution of profits as well as the method of calculating the projected amount liabilities for dividends and other obligations from profit for which the current year's profit or profit from the previous year is reduced.

IFRS 9

Banks in Serbia are required to apply IFRS 9, beginning from 1 January 2018, and the National Bank adopted the following regulations in November 2017 to facilitate its implementation:

- Decision Amending to the Decision on the Chart of Accounts and Contents of the Accounts in the Chart of Accounts for Banks;
- Decision on the forms and content of positions in the financial statements for banks;
- Decision on collecting, processing and submitting data on the balance and structure of accounts from the Chart of Accounts;
- Decision Amending the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items of the Bank; and
- Decision Amending the Decision on Banking Reporting.

IFRS 9 requires a change in the classification, valuation and calculation of the impairment of financial instruments and is an important turning point for banks as regards the recognition and presentation of credit losses, since it introduces the concept of expected credit losses instead of the concept of incurred credit losses.

In addition, with the aim to promote sustainable household lending practices, the National Bank, in December 2018, adopted the following decisions:

- Decision on Managing Concentration Risk Arising from Bank Exposure to Specific Products;
- Decision Amending the Decision on Bank Capital Adequacy; and
- Decision Amending the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items.

The adopted set of National Bank regulations came as a response to the increasing trend of granting unsecured non-purpose loans to households at unreasonably long maturities. The National Bank has, therefore, expanded its supervisory role and adjusted prudential requirements for banks in order to bring such practice within acceptable bounds.

The above regulations relating to lending to natural persons (which excludes farmers and entrepreneurs) are as follows:

- Introducing a new indicator of concentration risk, which primarily includes a bank's current portfolio of cash, consumer and other loans (other than housing loans and current account overdrafts) with the agreed maturity of eight years or more;
- Prescribing a 60 per cent. credit indebtedness limit. If this limit is exceeded as a result of approval of any loan to a natural person, a bank is required to disclose its exposure to that particular borrower separately when reporting to the National Bank on its asset quality; and
- Introducing another new deductible from Common Equity Tier 1 ("**CET1**") if a bank, in the course of 2019, approves a consumer loan, cash or other loan (other than a housing loan or a current account overdraft), with a repayment term of eight years or more. (reduced to seven years or more in 2020 and six years or more other than for the purchase of motor vehicles in 2021).

Enforcement of financial regulation

The National Bank may take certain prescribed measures towards a bank if it is judged to be acting contrary to the regulations of the National Bank or other regulations or standards of cautious banking operations, or otherwise endangering the bank's creditworthiness. The National Bank has the power to send a written warning to the bank, make a decision on orders and measures or revoke the bank's licence.

The National Bank may also take certain early intervention measures, including instructing a bank's management to implement certain recovery measures, develop a restructuring plan, impose changes in the bank's business strategy or order a bank to contact potential purchasers. In the event of a significant deterioration in the financial position of a bank or a serious violation of the relevant laws or regulations of the National Bank or a bank's statute and when it considers early intervention measures are insufficient to remedy such situation, the National Bank may order the dismissal of all or some of the members of the managing bodies of a bank or order the replacement of other persons in a managerial position.

In addition to the above measures, the National Bank may impose a fine on a bank, as well as on members of a bank's administrative or executive board. Pursuant to the Banking Law, the fine imposed on a bank cannot exceed 10 per cent. of the total income of the bank realised in the previous financial year. The fine imposed on a member of the bank's management and executive board may not be less than one and not greater than twelve-times the amount of the average monthly salary.

The National Bank is obliged to revoke the bank's license in the following cases:

- if an interim administration has been introduced and until the expiration of the period for which this administration has been introduced, the reasons that led to its introduction have not been removed, and the National Bank estimates that the conditions for the initiation of the restructuring process have not been met;
- if the assets and liabilities of the bank under restructuring are transferred using the instruments referred to in Art. 128 and 128m of the Law on Banks, and the National Bank estimates that the restructuring goals were achieved by the transfer;
- if, after the start of the restructuring process, the National Bank assesses that the objectives of the restructuring cannot be achieved;
- if the bank uninterruptedly suspends the acceptance of the deposit or the granting of a loan for six months, unless it is imposed by a corrective measure of the National Bank or the measure in the restructuring process; and
- if the Government does not adopt a proposal for granting financial support under Article 128f paragraph 4 of the Banking Law.

Prevention of Money Laundering and Financing of Terrorism

The Administration for the Prevention of Money Laundering (the "**Administration**") is a financial intelligence unit which operates as an administrative body within the Ministry of Finance. The Administration performs the following financial-information activities: collects, processes, analyses and transmits to the competent authorities information, data and documentation that it acquires in accordance with the said law and performs other activities related to the prevention and detection of money laundering and terrorist financing. The Administration is a member of the international association of financial intelligence units called Egmont Group, which ensures that, within its membership, it efficiently and safely exchanges financial intelligence with international partners, whereby the information provided to these partners is confidential and can only be used in the manner prescribed by law.

Pursuant to its legal mandate, the National Bank acts both as a regulator and a supervisor of a significant number of financial institutions in Serbia and therefore the National Bank has an important role to play in the prevention of money laundering and the financing of terrorism.

The National Bank takes part in the preparation of relevant laws and by-laws aimed at reducing the possibilities for money laundering and terrorism financing through financial institutions supervised by the National Bank.

The role of the National Bank as a supervisor, besides the role of issuing work permits, is also reflected in the procedure of checking whether financial institutions under its supervision continuously apply the regulations, while at the same time assessing the adequacy of the system for the prevention of money laundering and the financing of terrorism in financial institutions. If weaknesses are identified, the National Bank undertakes corrective measures, or if significant irregularities are identified, sanctions are imposed in accordance with the regulations. See "*Economy of Serbia – Organised Crime, Corruption and Money Laundering*" for discussion of the relevant regulations adopted by the Government to combat money laundering and terrorist financing.

Stock Market

The Belgrade Stock Exchange (the "**BSE**") was established in 1894 as a closed joint stock company and is the only recognised stock exchange in Serbia. It existed until 1953, when it was formally abolished and was re-established in 1989. The BSE is organised as a joint-stock company that does not have a status of a public company and is the only stock exchange provided with a licence issued by the Securities Commission to act as the operator of the regulated market and the multilateral trading platform.

The following table shows certain statistics regarding trading on the BSE for the years 2014 to 2018 and for the seven months ended 31 July 2018 and 2019:

	Year ended 31 December					Seven months ended 31 July	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
Number of Trades at BSE	238,023	146,232	87,893	66,952	60,744	42,043	18,987
Average Number of Trades Per Month	19,835	12,186	7,324	5,579	5,062	6,006	2,712
Average Number of Trades Per Trading Session	945	580	347	266	242	292	132
Securities Traded at BSE (millions of shares)	52.7	42.7	20.8	10.9	9.3	5.0	10.6
Average Securities Traded Per Month (millions)	4.4	3.6	1.7	0.9	0.8	0.7	1.5
Average Trade Size (volume in no. of securities/no. of transactions)	221.3	292.3	236	163	153	119	558
Trading Volume at BSE (RSD millions)	20,259	22,429	44,574	66,907	63,188	37,611	37,961
Year-on-Year change (%)	(32.8)	10.7	98.7	50.1	(5.6)	11.3	0.9
Average Trading Volume Per Month (RSD millions)	1,688.2	1,869.1	3,715	5,576	5,266	5,373	5,422
Average Trade Size (Total trading value in RSD/no. of transactions)	85,112	153,381	507,139	999,333	1,040,228	894,578	1,99,305
BSE Total Market Capitalisation (RSD millions)	796,635	683,361	592,443	548,869	522,726	520,119	540,960
Year-on-Year Change (%)	3.1	(14.2)	(13.3)	(7.4)	(4.8)	(4.5)	4.0
BSE Total Market Cap/GDP (%)	19.1	15.8	12.1	11.0	10.3	-	-
Number of Trading Sessions	252	252	253	252	251	144	144
Stocks Traded on the BSE	946	844	717	635	572	604	540
Year-on-Year Change (%)	(6.7)	(10.8)	(15.0)	(11.4)	(9.9)	(10.7)	(10.6)

Source: Ministry of Finance.

The capital markets in Serbia are regulated by the Law on the Capital Market. The Securities Commission exercises supervision over operations of capital market participants (including the BSE, Central Securities House, investment companies, broker-dealer companies and authorised banks) as well as public companies, shares of which are traded on the stock exchange.

The BSE is an operator of the regulated market and the multilateral trade platform ("**MTP**"). Shares traded on the BSE are admitted to one of several regulated market segments or the MTP. Depending on fulfilment of criteria for listing, securities may be admitted to one of the regulated market listing segments: Prime Listing, Standard Listing and Smart Listing. Securities which do not qualify for admission to listing or the segment of the regulated market which is selected in the Listing Application, will be admitted to the Open Market.

Since 2015, long-term bonds of the Republic of Serbia, with the residual maturity date ranging from 1 to 11 years, denominated in RSD and EUR have been traded on the BSE.

Due to the global financial crisis, most key market indicators on the BSE have shown a decline in recent years. Compared with other capital markets in the region, liquidity is still relatively low. However, the value of trading securities has increased since 2016, mainly supported by trading in the bonds of Serbia on the secondary market.

The long-term efforts of the BSE to educate and motivate companies to raise additional funds on the capital markets resulted in the first initial public offering of shares by a Serbian company in 2018. The initial public offering of Fintel Energija a.d was successfully completed at the end of October 2018 and its shares began trading on 20 November 2018.

Insurance Sector

Overview

At the end of 2018, 20 insurance companies operated in Serbia, of which 16 engaged in insurance activities and four in reinsurance activities. Of the insurance undertakings, four were engaged in life insurance, while six companies dealt exclusively with non-life insurance and other were engaged in both life insurance and non-life insurance. The premium per capita in Serbia amounted to U.S.$ 138 in 2018, an increase of U.S.$ 40 compared to 2014. As a percentage of GDP, the premium has increased from 1.7 per cent. in 2014 to 2.0 per cent. in 2018.

15 insurance companies were majority foreign-owned in 2018. The foreign-owned insurance companies have the prevailing market share, representing 90.7 per cent. of life insurance premium, 62.0 per cent. of non-life insurance premium and 77.6 per cent. of total assets in 2018.

Motor vehicle liability insurance accounts for the largest part of the total premium, with a share of 33.6 per cent. in 2018.

The following table shows a breakdown of the total insurance premium in Serbia by type of insurance for the years 2014 to 2018 and the first six months of 2018 and 2019:

	Year ended 31 December					Six months ended 30 June	
	2014	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
					%		
Property insurance	20.4	18.2	17.5	17.9	19.5	21.9	20.5
Motor vehicle insurance	8.7	7.7	7.8	8.4	9.0	8.9	9.6
Life insurance	23.1	23.9	25.9	24.4	23.8	22.1	21.7
Motor vehicle liability	32.7	35.8	34.0	34.4	33.6	32.5	31.8
Other non-life insurance	15.1	14.3	14.8	14.9	14.1	14.7	16.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Bank.

Balance sheet

The balance sum of re-insurance companies at the end of 2018 amounted to RSD 279.0 billion. (EUR 2.36 billion or U.S.$ 2.70 billion), compared to RSD 167.9 billion (EUR 1.39 billion or U.S.$ 1.69 billion) in 2014, representing a five-year average growth of 13.6 per cent.

The balance sum of re-insurance companies at the end of June 2019 amounted to RSD 296.7 billion (EUR 2.52 billion or U.S.$ 2.86 billion)

As at 31 December 2018, the largest component of the assets of insurance companies was debt securities, with a share of 57.4 per cent., followed by technical reserves borne by the co-insurance, reinsurance and retrocessionaire (12.7 per cent.), deposits and cash (8.2 per cent.) and real estate, plants and equipment (6.7 per cent.). This structure of assets changed at the end of 2018, with an increase in the share of technical reserves borne by the coinsurance, reinsurance and retrocessionaire, from 7.5 per cent. in 2014 to 12.7 per cent. in 2018. This resulted from a single large damage claim, covered by two insurance and two reinsurance companies.

Although the share of debt securities was lower at the end of June 2019 as compared to the end of June 2018, it continued to be the largest component of the assets of the insurance companies at the end of June 2019 with a share of 56.7 per cent., while the share of technical reserves borne by the co-insurance, reinsurance and retrocessionaire increased to 12.2 per cent., as a result of the above single large damage claim.

At the end of 2018, technical reserves accounted for 70.7 per cent. of total liabilities, which amounted to RSD 197.3 billion (EUR 1.67 billion or U.S.$ 1.91 billion), compared to RSD 117.0 billion. (EUR 967 million or U.S.$ 1.18 billion) in 2014, representing a five-year average growth of 15.6 per cent. The growth in technical reserves of 22.8 per cent. at the end of 2018 was due to the reservation of the aforementioned major claim. The prevailing part of the technical reserves is a mathematical reserve.

At the end of June 2019, technical reserves accounted for 71.6 per cent. of liabilities, which amounted to RSD 208.1 billion (EUR 1.77 billion or U.S.$ 2.01 billion).

Performance indicators

The insurance sector is well-capitalised, as the main capital adequacy indicator was 227.9 per cent. at the end of 2018 and 220.5 per cent. at the end of the first half of 2019. The liquidity indicator indicates sufficient liquidity for the settlement of short-term liabilities in the insurance sector.

At the end of 2018, return on assets and return on equity were 3.2 per cent. and 15.5 per cent., respectively, an improvement compared to 2014, where returns were negative and amounted to -0.02 per cent. and -0.1 per cent., respectively.

At the end of June 2019, return on assets and return on equity were 2.0 per cent. and 10.8 per cent., respectively.

Financial Leasing Sector

Overview

Total balance sheet assets of the financial leasing sector increased by 15.2 per cent. in 2018, to RSD 86.7 billion. The largest share was that of financial lease receivables (portfolio), which amounted to RSD 77.8 billion as at 31 December 2018 (89.7 per cent. of total balance sheet assets), an increase of 19.1 per cent. compared to 31 December 2017. As at 30 June 2019, the total balance sheet assets of the financial leasing sector amounted to RSD 97.5 billion, reflecting an increase of 12.4 per cent. compared to 31 December 2018. The largest share in the total balance sheet assets was that of financial lease receivables (portfolio), which amounted to RSD 89.1 billion and recorded an increase of 14.6 per cent. compared to 31 December 2018.

Total capital amounted to RSD 9.7 billion as at 31 December 2018, an increase of 4.4 per cent. compared to 31 December 2017. Net profit at the end of 2018 reached RSD 1.0 billion. Out of the total 17 financial leasing companies, five financial leasing companies had a negative net result.

Total capital amounted to RSD 9.8 billion as at 30 June 2019, an increase of 1.1 per cent. compared to 31 December 2018. Net profit at the end of 30 June 2019 reached RSD 0.53 billion.

Structure of the portfolio of the financial leasing sector

In terms of lease assets, the financing of freight vehicles, minibuses, and buses accounted for the largest share (39.4 per cent.) as at 30 June 2019, followed by passenger vehicles (36.3 per cent.). Other lease assets had a share of less than 10.0 per cent.

In terms of the structure of investment by sector, the most significant share in the total financial lease investment was that of transport, warehousing, information and communications, accounting for 28.6 per cent. The trade sector accounted for 15.4 per cent., followed by manufacturing, mining and water, gas and steam supply (14.4 per cent.) and construction (10.8. per cent.). Other activities accounted for 21.6 per cent. of investment.

Performance indicators

As at 30 June 2019, the rate of return on average assets was 1.22 per cent. and the rate of return on equity was 11.51 per cent.

Also, as at 30 June 2019, the financial leasing sector had a relatively low share of non-performing assets in the total portfolio. At the end of June 2019, financial lease receivables past due more than 90 days accounted for 2.45 per cent. of gross financial lease receivables in this sector. The net carrying value of these receivables accounted for 0.1 per cent. of the total net portfolio.

Sector for Voluntary Pension Funds

General Overview

In the voluntary pension fund market, four management companies manage the assets of seven voluntary pension funds, one custody bank with fund accounts, five brokerage banks and one insurance broker.

As at 31 December 2018, the total capital of the management companies amounted to RSD 1.2 billion, an increase of 26.6 per cent. compared to 2014 when the total capital of management companies amounted to RSD 0.95 billion.

The total net assets of funds has steadily increased since 2014. The change in the value of net assets is influenced by net payments to funds, amounts disbursed from funds, and the profits earned by the funds from investment.

The following table shows the net assets of voluntary pension funds for the years 2014 to 2018 and for the seven months ended 31 July 2019:

	As at 31 December					As at 31 July
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Net assets (RSD billions)	23.6	28.9	32.8	36.2	40.2	42.7

Source: National Bank.

As at 31 July 2019, 198,119 beneficiaries were in the accumulation phase, with a total of 271,302 voluntary pension fund membership contracts. The average amount of accumulated funds in the accounts of the members who had paid the contributions for at least one year increased from RSD 148.3 thousand in 2014 to RSD 235.8 thousand at the end of 2018.

Total payments in 2018 amounted to RSD 3,468.57 million, compared to RSD 2,796.34 million in 2014, representing an increase of 24.0 per cent. In the first seven months of 2019, total payments amounted to RSD 2,312.22 million.

Structure of the portfolio of the voluntary pension funds sector

Government bonds remain the dominant investment of fund assets. The share of dinar government securities was 71.98 per cent. in 2018, while the share of euro-denominated government securities in 2018 was 11.16 per cent.

The investment activities of the funds were adjusted to the movement of global and local economic indicators, and through the rebalancing of certain classes of assets, which enabled the target yields of various financial instruments from the portfolio of funds to be maintained. Due to the declining average weighted interest rates on government securities, the funds were encouraged to maintain the existing level of exposure to the portfolios of these financial instruments by redirecting the position of cash into domestic monetary funds and time deposits.

The following table shows the structure of assets of voluntary pension funds for the years 2014 to 2018 and for the seven months ended 31 July 2019:

	As at 31 December					As at 31 July
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
	(%)					
Shares..	3.9	4.1	7.4	8.5	8.4	9.1
Government bonds	86.8	82.8	77.0	83.6	83.1	79.8
Corporate bonds	0.0	0.0	0.0	0.0	0.0	3.5
Other securities	0.0	0.0	0.4	0.3	0.3	0.3
Investment funds	0.0	0.0	0.3	0.3	0.5	0.6
Real estate	0.3	0.2	0.2	0.0	0.0	0.0
Term deposits..	1.3	0.5	1.0	1.6	3.1	4.0
Investment abroad	0.0	0.0	0.0	0.0	0.2	0.0
Transaction accounts...	7.5	12.2	13.0	5.4	4.4	2.3
Receivables	0.1	0.1	0.7	0.2	0.0	0.5

Source: National Bank.

The following table shows the currency composition of assets of voluntary pension funds for the years 2014 to 2018 and for the seven months ended 31 July 2019:

	As at 31 December					As at 31 July
	2014	2015	2016	2017	2018	2019
RSD	84.5	87.2	87.3	86.4	86.6	86.5
EUR	13.9	12.8	12.7	12.7	12.5	13.5
USD	1.6	0.0	0.0	1.0	0.9	0.0

Source: National Bank.

Performance indicators

The return on assets of voluntary pension funds measured by the FONDex index, which represents the movement of the value of investment units of all funds at an annual level was 5.5 per cent. in 2018, compared to 11.4 per cent. in 2014. As at 31 December 2018, the investment return amounted to RSD 2,042.2 million, a decrease of 12.6 per cent. compared to RSD 2,337.0 million in 2014.

Payment system

Legislation

Law on Payment Services

Since 2014, the National Bank has taken significant steps to improve Serbia's payment system. Accelerated technological development, the creation of new payment services and instruments and the general tendency of improvement of the provision of these services globally led to increased competition in the payment services market and the emergence of new entrants, on the one hand, and increased the need to provide comprehensive and effective protection for users of those services, on the other.

In December 2014, Serbia adopted the Law on Payment Services, a legal framework for modern forms of payments in the Republic of Serbia, established through comprehensive regulation of the domestic payment services market and the payment system. The law creates conditions for further improvement and modernisation of domestic and international payment transactions, while at the same time it increases the protection of end-users and consumers. In addition, to increase competition in the payment services market, the law contains conditions for the reliable, secure and transparent operation of payment service providers, with supervision from the National Bank over the operations of participants in the payment services market.

In recent years, Serbia has seen increasing usage of electronic payment methods. The use of mobile banking applications to execute payment transactions has increased significantly from 870,000 transactions in 2014 to 17.4 million transactions in 2018. Electronic banking transactions increased by 44.4 per cent. in the last five years, from 86.7 million in 2014 to 125.2 million transactions in 2018. The number of payment transactions executed using cards at POS terminals has almost doubled in the last 5 years, from 107 million transactions in 2014 to 206 million transactions in 2018, while the number of internet card purchases of goods and services in dinars increased nearly 6-fold, from 504,000 in 2014 to 2.8 million transactions in 2018.

Law on Amendments and Supplements to the Law on Payment Services

In June 2018, Serbia adopted the Law on Amendments and Supplements to the Law on Payment Services, and later adopted relevant secondary legislation in December 2018, in order to harmonise the domestic legal framework with the EU framework. The three main objectives of the new legislation were: the regulation of access to the payment account with basic services; the speeding up of the process of changing the payment account; and the further improvement of the transparency and comparability of fees associated with the payment account.

Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions

In 2018, Serbia adopted the Law on Multilateral Fees and Special Operating Rules for Card-based Payment Transactions. The legislation aims to promote further growth in non-cash payments, with its positive macroeconomic effects, through the adequate regulation of the payment card market, and to enable fair market competition by reducing the cost of accepting payment cards and increasing transparency and competitiveness in the market.

Being one of the key cost generators for card payments, this law focuses on interchange fees. Under the new legislation, inter-bank fees are limited to 0.2 per cent. for debit card transactions and 0.3 per cent. for credit card transactions, with a transitional period of six months, from 17 December 2018 to 17 June 2019.

Instant payments

On 22 October 2018, the National Bank, as the operator of the RTGS system, the Clearing system, the System of International and Interbank Clearing of Foreign Exchange Payments and the DinaCard Clearing System, implemented a new payment system for instant payments, i.e. the Instant Payment System National Bank of Serbia ("**IPS NBS**"). The IPS NBS system is the first instant payment system in the region, allowing payment users to make payments at any time of the day, with the recipient having available funds almost instantly.

The implementation of instant payment at points of sale is ongoing, which will enable customers to pay at the point of sale through the mobile application of their payment service provider (using QR codes). This form of payment allows merchants to have cash immediately available on their payment account. So far, almost 3 million transactions have been made in the IPS NBS system, and the average time needed to make the transaction is only 1.18 seconds.

PUBLIC FINANCE

Introduction

The economic policy of Serbia is regulated by the Budget System Law, the Public Debt Law, the Law on Official Statistics and the NBS Law. The Budget System Law establishes fiscal accountability, fiscal rules and procedures to ensure medium-term to long-term fiscal projections are sustainable. The consolidated general government budget (the "**Budget**") consists of: the central government budget, local government budgets (municipalities, towns and autonomous province Vojvodina) and financial plans of mandatory social insurance organisations (retirement and disability insurance fund, national health insurance fund and national employment service and social insurance fund for military beneficiaries) as well as extra budgetary funds.

Budget Process

The integrity of the budget system is ensured through uniform budget classification, the use of budget documentation for the preparation of draft budgets and financial plans and application of an appropriate accounting system, which consists of strict criteria for budget control and audit. The process of drafting and enacting the Budget is carried out in accordance with detailed budget calendars prescribed by the Budget System Law, which sets out key dates for adoption of the fiscal strategy and budget actions by central and local authorities, respectively. The budget calendar set by the Budget System Law, envisages two cycles for the preparation of the fiscal strategy. In the spring cycle, the Ministry of Finance presents the first draft of the fiscal strategy to the Government for the next fiscal year with projections for two years by April 15. Upon receiving Government approval, the draft is forwarded to the Fiscal Council in mid-May. The Fiscal Council, an independent institution, is in charge of assessing the credibility of macroeconomic and fiscal projections contained within the fiscal strategy. The Fiscal Council presents the financial projections, and the main assumptions on which the projections are based to the European Commission twice a year.

After assessment of parameters and objectives by the Fiscal Council, the Government adopts the fiscal strategy by June 15. The fiscal strategy represents the basis for preparation of the annual budget at all government levels. At the beginning of October in the autumn cycle, the Government adopts a revised fiscal strategy containing updated macroeconomic projections based on the available new information relevant to the medium-term fiscal and budget framework.

Upon the adoption of the fiscal strategy, the direct beneficiaries of the Budget prepare medium-term and financial plans for the preparation of the Budget on the instructions of the Ministry of Finance. The instructions contain the amount of proceeds the draft financial plan may contain based on the medium-term scope of expenditures set by the fiscal strategy, with projections for the following two fiscal years. Budget beneficiaries prepare financial plans for the period of three years, while the Budget Law is passed annually. Ceilings and financial plans of budget beneficiaries represent the baseline for the following budget cycle. The Government has until 1 November to adopt the draft Budget Law and Decisions on Approving Financial Plans of Mandatory Social Insurance Organisations ("**MSIO**"). The Assembly then has until 15 December to adopt the Budget Law and approve the financial plans. The deadline for the assemblies of local authorities to adopt the decision on the budget of local authorities is 20 December, following which the adopted decision is delivered to the Ministry of Finance.

General Government Finance Transparency

The Ministry of Finance publishes fiscal data on a monthly basis. The published fiscal data relate to:

- the Budget;
- the general government fiscal performance;
- the fiscal performance at each government level: local, MSIO and extra budgetary funds (e.g. for roads of Serbia and corridors of Serbia); and
- Public Debt (as defined below) and General Government Debt (as defined below).

Fiscal data at each government level cover the main categories of revenues and expenditures by economic classification. In addition, the Ministry of Finance publishes the Public Finance Bulletin, a monthly publication containing detailed fiscal data for each government level as well as aggregate data for the general government level. The Public Finance Bulletin is published within 60 days of expiration of the month covered by the bulletin. Such consolidated reports are preliminary in nature and are prepared on a cash basis, with the exception of debt that is recorded on an accrual basis. Previously, such data did not cover fiscal data of indirect Budget beneficiaries. However, in the period 2015-2019, the coverage of indirect Budget beneficiaries has been improved to include judicial bodies, cultural institutions, prisons and social welfare institutions and their data now constitute an integral part of the monthly reporting.

Moreover, to ensure harmonisation with the best international practice, the Ministry of Finance publishes the Citizens' Guide to the Budget of the Republic of Serbia. Separately, the Ministry of Finance prepares the draft Law on the Annual Financial Statement of the Budget and submits it to the Government. The Government furnishes the Proposed Law on the Annual Financial Statement to the Assembly for approval. Also, the rulebook on the accounting system and financial reporting in the Ministry of Finance defines the form and content of reports that the Public Debt Administration, which is part of the Ministry of Finance, can publish. These reports include public debt data, public debt structure, currency structure and interest rate structure, public debt trends, public debt servicing costs during the observed period, the trend of public debt-to-GDP ratio, overview of securities issued, overview of guaranteed debt presented by beneficiaries and overview of the most important elements of loans, etc. Similarly, the Public Debt Administration publishes the calendar of auctions of government securities, auction public invitations, results of held auctions, prospectuses for investors, etc. Furthermore, the Public Debt Administration publishes monthly data on the guaranteed debt as well as reports on costs of servicing such guaranteed debt.

Fiscal Policy and Reform

The main objectives of Serbia's fiscal policy are, "zero tolerance" toward tax avoidance and non-payment, a more efficient system for paying taxes, *ex ante* control of tax revenues and more efficient control of expenditures.

General and Special Fiscal Rules

The general fiscal rules under the Budget System Law set a target for medium-term fiscal deficit and a maximum ratio of debt to GDP with the aim of ensuring long-term sustainability. The objective of the general fiscal rules are to:

- target an annual fiscal deficit of 1 per cent. of GDP in the medium term; and
- achieve a ratio of General Government Debt, excluding obligations arising from restitution, to GDP below 45 per cent.

Special fiscal rules determine movements in salaries and pensions, as well as, the way in which public investments will be covered when calculating the fiscal deficit and public expenditures. Special fiscal rules impose sustainable levels of expenditures for salaries and pensions, whereby public sector wages and pensions are maintained at 7 per cent. and 11 per cent. of GDP, respectively. The special fiscal rules also restrict the deficits that may be incurred by local governments.

2019 Budget

On 7 December 2018, the Assembly adopted the 2019 Budget. Under the 2019 Budget:

- total revenues are budgeted at RSD 1,246.2 billion;
- total expenditures are budgeted at RSD 1,269.1 billion; and
- the resulting budget deficit at the central government is assumed at RSD 22.9 billion, or 0.4 per cent. of GDP.

The 2019 Budget assumes real GDP growth of 3.5 per cent. and average inflation of 2.3 per cent. in 2019.

2019 Revised Budget

On 7 October 2019, the parliament of Serbia adopted the 2019 Revised Budget. Under the 2019 Revised Budget:

- total revenues are budgeted at RSD 1,292.6 billion;
- total expenditures are budgeted at RSD 1,316.2 billion; and
- the resulting budget deficit at the central government is assumed at RSD 23.6 billion, or 0.4 per cent. of GDP.

The 2019 Revised Budget assumes real GDP growth of 3.5 per cent. and average inflation of 2.2 per cent. in 2019.

2020 Draft Budget

On 2 November 2019, the Government adopted the draft budget for 2020, which envisages a projected deficit of RSD 20.2 billion, representing 0.3 per cent. of the expected GDP. This draft budget is yet to be considered by the parliament of Serbia and may, therefore, be subject to changes. On receiving the formal assent of the parliament, which is expected in November 2019, the draft budget will be adopted as the Budget Law. There can be no assurance the draft budget will be adopted by the parliament in the current form or that such objectives in fact will be achieved.

Budget Execution

In 2014, the general Government budget deficit was RSD 258.1 billion, or 6.2 per cent. of GDP. In 2015, the general Government budget deficit was RSD 149.1 billion, or 3.5 per cent. of GDP, which was a 42.2 per cent. decrease from 2014. In 2016, the general Government budget deficit was RSD 54.0 billion, or 1.2 per cent. of GDP, which was a decrease of 63.8 per cent. as compared to 2015. In 2017 and 2018, the Government achieved a general Government surplus of EUR 52.3 billion (or 1.1 per cent. of GDP) and EUR 32.2 (or 0.6 per cent. of GDP), respectively. See "*—Fiscal Developments in 2014*", "*Fiscal Developments in 2015*", "*Fiscal Developments in 2016*", "*Fiscal Developments in 2017*" and "*Fiscal Developments in 2018*" for additional information.

The following table shows the actual revenues and expenditures of the consolidated general government budget for the years 2014 to 2018, and the preliminary execution figures for the seven months ended 31 July 2019 compared with the actual revenues and expenditures for the first seven months ended 31 July 2018:

	Year ended 31 December					Seven months ended 31 July	
	2014	2015	2016	2017	2018	2018	2019
			(*RSD millions*)				
PUBLIC REVENUES (including Grants)	**1,620,752.1**	**1,694,831.1**	**1,842,651.8**	**1,973,402.7**	**2,105,266.9**	**1,188,905.0**	**1,283,664.6**
Current revenues	1,611,811.8	1,687,613.7	1,833,248.6	1,964,870.6	2,090,598.2	1,185,118.5	1,278,401.9
Tax revenues	1,439,037.2	1,463,590.1	1,585,766.9	1,717,897.3	1,822,236.5	1,034,135.2	1,138,585.1
Personal income tax	146,484.4	146,775.3	155,065.4	167,881.6	179,422.9	97,282.3	112,601.7
Corporate income tax	72,743.7	62,668.1	80,414.5	111,777.8	112,487.9	77,112.3	88,366.1
Value added tax	409,564.2	416,056.2	453,502.6	479,266.5	499,828.4	281,796.4	312,822.5
Excises	212,473.5	235,780.7	265,605.9	279,934.3	290,039.3	164,832.9	175,398.0
Customs	31,025.8	33,320.9	36,426.7	39,707.9	43,649.6	23,875.3	26,350.0
Other tax revenues	57,313.2	63,294.3	67,262.5	71,903.5	77,142.4	41,361.5	46,141.7
Social contributions	509,432.5	505,694.6	527,489.3	567,425.6	619,666.0	347,874.5	376,905.2
Non-tax revenues	172,774.7	224,023.6	247,481.7	246,973.3	268,361.7	150,983.3	139,816.7
Grants	8,940.3	7,217.4	9,403.2	8,532.1	14,668.7	3,786.4	5,262.7
PUBLIC EXPENDITURES	**1,878,878.5**	**1,843,965.5**	**1,896,659.3**	**1,921,100.1**	**2,073,041.8**	**1,137,417.3**	**1,245,619.1**
Current expenditures	1,697,194.3	1,696,602.7	1,714,883.9	1,745,250.3	1,847,242.1	1,039,905.9	1,126,833.0
Expenditures for employees	457,714.5	419,155.7	417,675.2	426,334.7	468,822.3	271,899.7	293,578.2
Purchase of goods and services	256,776.3	257,553.6	283,573.8	301,597.2	343,378.3	181,102.0	197,545.4
Interest payment	115,171.2	129,867.7	131,602.5	121,220.3	108,632.5	73,914.6	79,266.1
Subsidies	117,005.6	134,734.4	112,655.5	113,332.1	109,662.1	54,412.9	56,370.2
Social grants and transfers	696,843.4	709,961.3	713,846.2	720,057.5	745,955.3	424,381.0	451,823.7
of which: Pensions	508,060.2	490,214.3	494,212.9	497,845.1	525,245.3	302,280.7	327,178.0
Contributions for unemployed persons	12,598.9	12,537.5	9,813.2	9,137.7	8,912.5	5,337.3	4,900.8
Sick leave	8,768.5	9,728.3	10,263.5	12,413.3	13,627.6	7,759.1	5,138.5
Social assistance	140,629.4	166,047.7	156,851.4	158,606.5	160,918.1	91,028.9	97,031.0
Other transfers to households.	26,786.4	31,433.4	42,705.3	42,055.1	37,251.9	17,975.0	17,575.5
Other current expenditures	53,683.2	45,330.0	55,530.7	62,708.4	70,791.5	34,195.7	48,249.3
Capital expenditures	96,660.3	114,527.3	139,325.9	133,862.4	199,263.1	80,716.2	110,130.1
Activated guarantees[1]	29,650.8	30,107.3	39,116.9	28,809.2	19,727.4	13,052.5	5,862.3
Net lending	55,373.1	2,728.2	3,332.6	13,178.1	6,809.2	3,742.8	2,793.7
CONSOLIDATED BALANCE	**-258,126.4**	**-149,134.3**	**-54,007.5**	**52,302.6**	**32,225.1**	**51,487.6**	**38,045.5**
FINANCING INFLOWS	**647,101.4**	**644,728.6**	**529,234.2**	**494,221.5**	**441,321.0**	**352,406.9**	**552,435.8**
Privatisation proceeds	1,747.5	939.6	5,236.3	3,732.0	3,397.4	1,219.0	44,767.6
Receipts from repayment of loans	2,562.7	2,864.1	2,505.8	3,473.1	19,500.6	3,944.5	18,289.7
Domestic borrowing	489,122.2	556,475.4	425,739.6	365,576.9	300,206.7	280,677.8	295,579.7
Foreign borrowing	153,668.9	84,449.5	95,752.5	121,439.6	118,216.2	66,565.6	193,798.9
FINANCING OUTFLOWS	**401,334.8**	**518,699.0**	**517,717.8**	**530,379.6**	**476,067.7**	**303,128.0**	**432,917.2**
Debt repayment to domestic creditors[2]	337,987.4	445,637.6	443,146.5	355,081.3	264,962.0	202,282.8	250,958.5
Debt repayment to foreign creditors	49,769.3	55,559.9	72,780.7	174,291.6	201,010.9	96,631.9	167,655.9
Acquisition of financial assets	13,578.2	17,501.5	1,790.6	1,006.8	10,094.7	4,213.3	14,302.9

Source: Ministry of Finance

Notes:

(1) The amount does not include activated guarantees for PE "Roads of Serbia", which are included in debt repayment to foreign creditors.

(2) The amount includes the repayment of old foreign currency savings and a loan for economic recovery, as well as RSD 21.1 billion, which was used by PE "Roads of Serbia" in 2009 to repay the debt to suppliers from previous years.

The following two tables show the actual public revenues and expenditures against the central government budget for the years 2014 to 2018 and the actual public revenues and expenditures for the seven months ended 31 July 2019 against the central government budget for the year 2018:

	Year ended 31 December											Seven months ended 31 July
	2014		**2015**		**2016**		**2017**		**2018**		**2019**	**2019**
	Budget	**Executed**	**Budget**	**Executed**	**Budget**	**Executed**	**Budget**	**Executed**	**Budget**	**Executed**	**Budget**	**Executed**
	(*RSD millions*)											
PUBLIC REVENUES	**929,902**	**881,083**	**924,383**	**947,838**	**997,428**	**1,041,921**	**1,092,884**	**1,119,142**	**1,178,448**	**1,179,184**	**1,252,207**	**737,281**
Current revenues................	924,742	874,627	918,460	942,374	986,063	1,033,358	1,079,406	1,112,202	1,164,209	1,166,116	1,237,400	733,043
Tax revenues	802,400	770,958	764,200	797,169	829,500	887,981	916,800	969,103	988,600	1,006,879	1,092,800	642,310
Personal income tax ..	47,800	44,821	43,900	44,825	45,400	47,675	56,000	55,561	56,700	59,204	68,100	38,321
Corporate income tax	58,000	63,791	66,500	56,961	58,300	74,239	74,400	103,319	88,000	102,212	117,800	81,381
Value added tax	430,000	409,564	399,400	416,056	427,000	453,503	466,000	479,266	503,400	499,828	545,200	312,823
Excises....................	227,600	212,473	215,700	235,781	254,200	265,606	271,400	279,934	286,300	290,039	301,200	175,398
Customs..................	29,500	31,026	29,200	33,321	34,800	36,427	38,600	39,708	42,900	43,650	47,200	26,350
Other tax revenues ...	9,500	9,283	9,500	10,226	9,800	10,532	10,400	11,314	11,300	11,947	13,300	8,038
Non-tax revenues..........	122,342	103,669	154,260	145,204	156,563	145,377	162,606	143,100	175,609	159,236	144,600	90,734
Grants................................	5,160	6,457	5,922	5,464	11,365	8,562	13,477	6,940	14,239	13,069	14,807	4,238
PUBLIC EXPENDITURES	**1,178,329**	**1,127,945**	**1,115,732**	**1,062,759**	**1,119,194**	**1,049,868**	**1,161,984**	**1,085,228**	**1,206,848**	**1,147,001**	**1,275,807**	**688,751**
Current expenditures..........	1,044,719	1,012,291	1,033,837	994,657	1,043,086	973,970	1,028,987	954,224	1,052,019	981,441	1,079,962	604,286
Expenditures for employees	271,594	250,298	241,212	229,214	251,552	227,076	253,663	237,095	272,308	256,314	283,552	162,772
Purchase of goods and services	96,834	74,708	91,681	69,331	98,291	76,832	105,873	79,091	119,670	86,078	107,707	51,595
Interest payment	113,884	110,356	131,062	125,763	139,927	128,066	133,966	118,164	117,821	106,495	110,627	78,160
Subsidies......................	80,936	95,536	80,551	110,394	85,967	95,742	84,414	87,893	89,346	91,731	113,943	56,374
Social assistance from the budget.....................	462,205	452,476	468,717	437,387	446,298	415,941	421,970	399,393	416,613	401,664	423,328	225,963
Other current expenditures.................	19,265	28,917	20,613	22,568	21,051	30,314	29,101	32,588	36,261	39,159	40,805	29,422
Capital expenditures...........	50,511	31,239	49,151	35,744	42,222	34,096	94,209	84,975	127,229	141,218	178,942	75,091
Net lending	50,199	54,765	2,058	2,250	1,853	2,685	3,988	28,809	6,650	4,614	5,403	3,511
Activated guarantees(1)........	32,900	29,651	30,685	30,107	32,033	39,117	34,800	17,220	20,950	19,727	11,500	5,862
Fiscal surplus/deficit	**-248,427**	**-246,861**	**-191,349**	**-114,921**	**-121,767**	**-7,947**	**-69,100**	**33,914**	**-28,400**	**32,184**	**-23,600**	**48,531**

Source: Ministry of Finance

Note:
(1) The amount does not include activated guarantees for PE "Roads of Serbia", which are included in foreign creditors' debt repayment.

The following table shows year-on-year nominal changes in certain categories of revenues and expenditures of the general government budget for the years 2017 to 2018 and for the first seven months ended 31 July 2018 and 2019:

	Year ended 31 December		**Seven months ended 31 July**	
	2017	**2018**	**2018**	**2019**
	(*% change*)			
Public Revenues..	7.1	6.7	4.8	8.0
Current revenues	7.2	6.4	4.8	7.9
Tax revenues	8.3	6.1	4.8	10.1
Personal income tax...	8.3	6.9	4.0	15.7
Corporate income tax	39.0	0.6	0.6	14.6
Value added tax...	5.7	4.3	2.0	11.0
Excises	5.4	3.6	3.1	6.4
Customs...	9.0	9.9	7.7	10.4
Other tax revenues...	6.9	7.3	5.0	11.6
Non-tax revenues	(0.2)	8.7	4.8	(7.4)
Grants...	(9.3)	71.9	3.9	39.0
Public Expenditures	1.3	7.9	7.3	9.5
Current expenditures	1.8	5.8	6.1	8.4
Expenditures for employees	2.1	10.0	10.0	8.0
Purchase of goods and services	6.4	13.9	15.9	9.1
Interest payment...	(7.9)	(10.4)	(10.0)	7.2
Subsidies	0.6	(3.2)	6.2	3.6
Capital expenditures..	(3.9)	48.9	44.6	36.4
Activated guarantees1	(26.4)	(31.5)	(14.9)	(55.1)
Net lending..	295.4	(48.3)	(42.7)	(25.4)

Source: Ministry of Finance

Note:
(1) The amount does not include activated guarantees for PE "Roads of Serbia", which are included in foreign creditors' debt repayment.

The following table shows year-on-year real changes in certain categories of revenues and expenditures of the general government budget for the years 2017 to 2018 and for the first seven months ended 31 July 2018 and 2019:

	Year ended 31 December		Seven months ended 31 July	
	2017	2018	2018	2019
			(% change)	
Public Revenues	4.0	4.6	2.4	5.6
Current revenues	4.1	4.3	2.4	5.5
Tax revenues	5.1	4.8	1.5	13.3
Personal income tax	35.0	(1.3)	(1.7)	12.1
Corporate income tax	2.6	2.2	(0.4)	8.6
Value added tax	2.3	1.6	0.7	4.1
Excises	5.8	7.8	5.1	8.0
Customs	3.8	5.2	2.5	9.2
Other tax revenues	(3.1)	6.5	2.3	(9.4)
Non-tax revenues	(3.1)	6.5	2.5	(9.4)
Grants	(11.9)	68.6	1.5	36.0
Public Expenditures	**(1.7)**	**5.8**	**4.8**	**7.2**
Current expenditures	(1.2)	3.8	3.6	6.0
Expenditures for employees	(0.9)	7.8	7.4	5.6
Purchase of goods and services	3.3	11.6	13.2	6.7
Interest payment	(10.6)	(12.1)	(12.2)	4.9
Subsidies	(2.3)	(5.1)	3.7	1.4
Capital expenditures	(6.7)	45.9	41.1	33.5
Activated guarantees[1]	(28.5)	(32.9)	(17.0)	(56.1)
Net lending	283.9	(49.3)	(44.0)	(27.0)

Source: Ministry of Finance

Note:
(1) The amount does not include activated guarantees for PE "Roads of Serbia", which are included in foreign creditors' debt repayment.

Fiscal Consolidation during the period 2015-2017

In late 2014, Serbia implemented a fiscal and structural adjustment program to rationalise public expenditure and create conditions to facilitate an increase in public revenues, with the aim of achieving gradual reduction in public debt. This programme was integrated with the Precautionary Arrangement concluded with IMF in February 2015. The fiscal and structural adjustment program consisted of measures aimed at permanent reduction of public expenditures, including:

- **Reduction of Salaries of Public Sector Employees** – A linear decrease of 10 per cent. in the net salary of employees in the public sector whose salaries exceeded RSD 25,000.

- **Pensions Reduction** – A progressive decrease of pensions for all pensioners with income above RSD 25,000. Pensions between RSD 25,000 and RSD 40,000 were reduced by 22 per cent for amounts above RSD 25,000., while all other pensions over RSD 40,000 were reduced by 25 per cent for amounts above RSD 40,000;

- **Public Sector Rationalization** – The Law on the Method of Determining the Maximum Number of Employees in the Public Sector was passed to reduce the number of staff in different sectors. The largest portion of the reduction was accomplished through natural attrition, *i.e.* through retirement combined with a limit on new hiring;

- **Subsidies Reduction** – Subsidies for land areas more than 20 hectares were abolished as well as for leased state-owned lands. Subsidies to "Serbian Railways" as well as public services were reduced, based on the reduction of operational costs;

- **Reform of Public Enterprises** – Serbia implemented rationalisation of the operations of public enterprises with the goal of rendering them profitable. The fiscal effects of such restructuring was reflected in, *inter alia*, the payment of profit i.e. dividends into the Budget; and

- **Gas Transmission Charges** – Gas transmission charges amounting to RSD 2/m^3 were introduced, which resulted in additional revenues for PE "Srbijagas" and led to the reduction of liabilities under the guaranteed debt paid from the Budget on behalf of PE "Srbijagas".

At the same time, the Precautionary Arrangement envisaged a three-year structural fiscal adjustment of 4 per cent. of GDP, implying a reduction of the fiscal deficit below 4 per cent. of GDP together with inversion of the public debt to sustainable levels by the end of 2017. A significant portion of the adjustment amounting to 2.6 per cent. of GDP, was accomplished in 2015, and the three-year objective was achieved in 2017. The total structural adjustment accomplished during this period amounted to approximately 6 per cent. of GDP. While the deficit amounted to 6.2 per cent. of GDP in 2014, a surplus of 1.1 per cent. of GDP was achieved at the end of 2017. At the same time, the trend in the increase of public debt was reversed in 2017, and to some extent in 2016, owing to the strong fiscal adjustment under the Precautionary Arrangement which was supported by the favourable foreign exchange market developments, mainly the appreciation of the Dinar against the U.S dollar and the Euro. Such reduction in debt resulted in lower interest costs and led to a primary fiscal surplus of RSD 77.6 billion in 2017, the first surplus since 2005.

Fiscal Developments in 2014

In 2014, the Government adopted a restrictive fiscal policy approach. On the revenue side, the special VAT rate (which applies to certain goods including medical aids, newspapers, firewood and natural gas, and services such as waste management and water treatment) was increased from 8 per cent. to 10 per cent., although due to the low purchasing power and decrease in domestic production, VAT revenues generated in 2014 were lower than the expected level. Moreover, with the change in the consumption structure, on account of demand for domestic products being substituted with imported goods, the collection of VAT from imports increased, while the reduced domestic production resulted in lower collection of gross and net VAT.

On the expenditure side, numerous restrictive measures were implemented, such as reductions in the salaries of public sector employees whose net salaries exceeded RSD 60,000. The resultant amounts from the reduction of salaries were paid to the Budget as non-tax revenues by public enterprises and local self-government units. Strict hiring controls were introduced with the aim of reducing the number of employees by natural attrition. In addition, rationalisation of discretionary spending, in particular on goods and services and subsidies continued. However, due to extraordinary parliamentary elections and protracted floods, expenditures grew significantly and led to a general government deficit of 6.2 per cent. of GDP. The General Government Debt increased by 10 percentage points of GDP and amounted to 67.5 per cent. of GDP at the end of the year. The primary fiscal deficit amounted to 3.5 per cent. of GDP, as a result of high costs of interest payments on the increased debt level. Despite the increase in the general government deficit by 1.1 percentage points of GDP compared to 2013, a primary structural adjustment of 1 per cent. of GDP was achieved in 2014.

Fiscal Developments in 2015

As a result of the continued implementation of the fiscal consolidation measures, the general government deficit reduced from 6.2 per cent. of GDP in 2014 to 3.5 per cent. of GDP in 2015. The fiscal deficit amounted to RSD 149.1 billion, 35.7 per cent. lower than the RSD 232 billion anticipated in the 2015 Budget. Similarly, the fiscal deficit reduced by 2.7 percentage points of GDP compared to 2014, while the structural primary fiscal adjustment implemented during the first year of consolidation amounted to 2.6 per cent. of GDP. Since a large portion (87 per cent.) of this fiscal deficit consisted of costs of interest, the primary deficit amounted to 0.5 per cent. of GDP.

At the same time, the General Government Debt increased to 71.2 per cent. of GDP. However, the growth in the debt level was much lower than the previous year's growth, due to the reduction in the primary deficit in 2015. In the same period, general government revenues increased by RSD 74.1 billion or 4.7 per cent. in nominal terms compared to 2014. Non-tax revenues contributed the most to the increase in public revenues in 2015. On the other hand, general government expenditures decreased by RSD 34.9 billion or 1.9 per cent. compared to 2014, but increased compared to the anticipated expenditure by RSD 13.2 billion or 0.3 per cent. of GDP in the 2015 Budget. This was largely as a result of the increase in subsidies, which increased by RSD 17.7 billion (or 15.2 per cent.) compared to 2014, and exceeded the planned amount by RSD 30.5 billion (or 0.7 per cent. of GDP), due to the payment of RSD 23.4 billion towards the debt of PE "Srbijagas" and non-planned payments of RSD 10.1 billion to farmers. Also, other unplanned one-off expenditures of RSD 43.5 billion (or 1 per cent. of GDP) contributed to the increase in expenditure in 2015.

Fiscal Developments in 2016

The Government continued to implement the fiscal consolidation measures and achieved the targets set under the Precautionary Arrangement in 2016. The fiscal deficit amounted to 1.2 per cent. of GDP against the budgeted deficit of 3.9 per cent. of GDP, and registered a decrease of 63.8 per cent compared to 2015. In 2016, the Government achieved a primary fiscal surplus of 1.7 per cent. of GDP, the first surplus since 2005. In addition, a primary structural adjustment of 1.5 per cent. of GDP was achieved. The reduction of the fiscal deficit as well as the achievement of the primary fiscal surplus resulted in decline of the share of the General Government Debt in GDP. At the end of the year, the General Government Debt amounted to 68.8 per cent. of GDP, reflecting a decrease of 2.4 percentage points compared to 2015.

General government revenues in 2016 exceeded the budgeted amount by RSD 131.2 billion, or 2.9 per cent. of GDP, largely as a result of an increase in both tax and non-tax revenues. The key contribution to the increase in taxes stemmed from VAT, profit tax, contributions for MSIO and excise tax. Real GDP increased by 3.3 per cent. against projected growth of 1.8 per cent. At the same time, general government expenditures exceeded the budgeted amount by RSD 22.4 billion, or 0.5 per cent. of GDP. This was mainly due to a one-off payment of RSD 13 billion towards the debt of HIP Petrohemija a.d., as well as payment of one-off assistance of RSD 8.6 billion to all pensioners.

In the same period, the fiscal consolidation measures implemented in 2016 reduced the level of interest expenditures, and as a result, interest payments were lower than anticipated by 0.3 per cent. of GDP. Similarly, favourable foreign exchange movements and prevailing low interest rates in the financial market contributed to lower interest expenditures. However, capital expenditures as a share of GDP stood at 3.1 per cent, which was higher than anticipated by 0.3 per cent. of GDP. In addition, the early repayment of guaranteed debt ("Galenika" a.d. and PE "Srbijagas") resulted in higher execution of repayments than planned in the 2016 Budget.

Fiscal Developments in 2017

In 2017, the Government achieved a budget surplus of 1.1 per cent of GDP against the budgeted deficit of 1.6 per cent. of GDP. Similarly, the Government achieved a primary structural adjustment of 1.7 per cent. of GDP, which together with the total structural adjustment of 6 per cent. of GDP achieved during the three-year period, exceeded the target of 4 per cent. of GDP set out in the fiscal consolidation programme. In the same period, the primary surplus amounted to 3.6 per cent. of GDP and led to a decrease in General Government Debt as a share of GDP of 10.1 percentage points (more specifically, from 68.8 per cent of GDP in 2016 to 58.7 per cent. of GDP in 2017).

Revenues in 2017 exceeded the budgeted amount by RSD 107.6 billion, or by 2.3 per cent. of GDP, largely as a result of an increase in tax revenues, mainly corporate income tax. At the same time, government expenditures were lower than anticipated by RSD 19.9 billion, or by approximately 0.4 per cent of GDP, mainly due to favourable borrowing conditions and, to some extent, due to foreign exchange developments, which led to lower than anticipated interest cost. The Government continued to implement structural adjustments in 2017 through rationalization of the number of employees in the public sector. In addition, the number of pensioners declined as a result of the parametric reforms, resulting in lower revenues for employees and pensioners compared to the targeted figures. Similarly, expenditures pursuant to guarantees were lower than anticipated by 17.2 per cent, mainly due to the improved liquidity of PE "Srbijagas".

Fiscal Developments in 2018

After the successful completion of the Precautionary Arrangement, supported by the fiscal consolidation programme, the Government entered into the PCI with the IMF, for the implementation of structural reforms in order to maintain the attained macroeconomic and financial stability, create new jobs and accelerate economic growth. As in 2017, at the end of 2018, the Government achieved a fiscal surplus of RSD 32.2 billion or 0.6 per cent. of GDP at the general government level, against the planned fiscal deficit of the same amount. In the same period, the primary fiscal surplus amounted to 2.7 per cent. of GDP and contributed to the decline in General Government Debt. More specifically, General Government Debt reduced by 4.3 percentage points, from 58.7 per cent. of GDP in 2017 to 54.4 per cent. of GDP in 2018.

Revenues in 2018 exceeded the budgeted amount by RSD 90.4 billion, or 1.8 per cent of GDP, primarily due to increases in tax and non-tax revenues and partially owing to stronger than expected employment growth.

However, total government expenditures were higher than anticipated by RSD 26.1 billion, or 0.5 per cent of GDP, due to changes in the expenditure structure compared to the initial plan, with certain expenditure categories being below the planned amount (interests, subsidies and social transfers to citizens), while others exceeded the budgeted amount (capital expenditures and expenditures for goods and services). The resultant additional fiscal space enabled the relaxation of the fiscal policy in the areas of salaries, pensions and capital investments. As a result, on 1 October 2018, the Law on Temporary Regulation of the Method of Pension Payment was abolished, with up to 5 per cent. increase in pensions to certain categories of pensioners. Similarly, salaries of public sector employees were increased at different percentages for different sectors (ranging from 5 per cent. to 10 per cent.). Such amendments to the public sector wages and pensions resulted in changes at the structural adjustment level. However, since the total structural adjustment of 6 per cent. of GDP achieved during the initial three-year plan was in excess of the targeted 4 per cent. of GDP, these measures did not negatively impact the fiscal position of Serbia or impede the continuation of the decrease in the public debt.

Separately, interest expenditures were lower than anticipated by 0.2 per cent. of GDP, while capital expenditures exceeded the budgeted amount by RS 27.2 billion (or 0.5 per cent. of GDP) and resulted in a deviation of 15.8 per cent. from the planned amount at the general government level. The efficient withdrawal of the project loans resulted in the execution of capital expenditure being 3.9 per cent. of GDP.

Recent Developments

In the first seven months of 2019, a fiscal surplus in the amount of RSD 48.5 billion and RSD 38 billion was achieved at the level of the Budget and general government, respectively. The 2019 Budget envisaged a Budget deficit of RSD 1.4 billion and general government deficit of RSD 5.1 billion in the first seven months of 2019. The actual fiscal result in the first seven months of 2019 was better than anticipated by RSD 50 billion and RSD 43.2 billion at the level of the Budget and the general government, respectively. At the same time, the primary fiscal surplus amounted to RSD 117.3 billion. On the revenue side, both tax and non-tax revenues exceeded the budgeted amounts. On the other hand, total expenditures exceeded the budgeted amount by RSD 28.7 billion, mostly due to higher capital expenditures (being RSD 12.4 billion higher than anticipated), which increased by 36.4 per cent. compared to the same period in 2018, due to intensification of capital projects. In the same period, the General Government Debt decreased from 54.4 per cent. of GDP at the end of 2018 to 52.6 per cent. of GDP at the end of July 2019.

PUBLIC DEBT

Overview

The general Government public debt of Serbia (the "**General Government Debt**") consists of all direct and contingent liabilities incurred by the Government on the domestic and foreign markets (including guarantees issued for loans granted to local self-governments, public enterprises and other entities) and includes non-guaranteed debt of local self-governments and other legal entities (i.e. PE Roads of Serbia and Development Fund of Serbia). On the other hand, Serbia's central Government public debt (the "**Public Debt**") consists of all direct and contingent liabilities incurred or guaranteed by the Government on the domestic and foreign markets, including guarantees issued for liabilities of local self-governments, public enterprises and other entities. The Government may incur or guarantee debt on the domestic and foreign markets for the purposes of financing the Budget, refinancing outstanding debts, financing capital projects or settling liabilities arising out of guarantee obligations. In managing Public Debt, the Ministry of Finance seeks to, among other things, secure sufficient liquidity for the Government in the medium- and long-term to finance the fiscal deficit and service and refinance maturing debt more effectively; determine appropriate risk parameters for the currency mix, interest rates and maturity profile of Public Debt; support the development of the local Government debt market and "Dinarisation" of the economy; and provide transparency and continuity of the funding process.

The Budget System Law provides that the General Government Debt shall not exceed 45 per cent. of GDP. If the General Government Debt does exceed 45 per cent. of GDP, the Government is obliged to submit a debt reduction programme to the Assembly alongside the Budget for the following year, in order to reduce the General Government Debt to sustainable levels. In addition, the Stability and Growth Pact, a binding agreement between all EU member states, prescribes that the public debt of each member state shall not exceed 60 per cent. of GDP. In line with its fiscal accountability, the Government is undertaking appropriate measures to reduce the existing level of the General Government Debt (i.e. 51.8 per cent. of projected GDP on the central government level and 52.6 per cent. on the general government level as of 31 July 2019) to the targeted value.

Between 2009 and 2016, Serbia's Public Debt increased, as the Government raised borrowings in order to finance the Budget deficits, which arose partly as a result of the global financial and economic crisis. During this period, the Ministry of Finance introduced a series of provisions to the Budgetary System Law setting out general and special fiscal rules in order to provide for a long-term, sustainable fiscal policy. See "*Public Finance – Fiscal Policy and Reform*".

Following the implementation of fiscal consolidation measures in late 2014, the growth of Public Debt slowed in 2015 and 2016. In 2017, the Public Debt decreased from RSD 3,065 billion to RSD 2,751 billion, or 57.9 per cent. of GDP. This was the first time the Public Debt had fallen since 2008 and was primarily due to strong fiscal consolidation measures and fiscal and primary surplus achieved in 2017, as well as due to favourable foreign exchange market developments, mainly the weakening of the US dollar against the Euro. The Public Debt continued to decline to RSD 2,720 billion, or 53.7 per cent. of GDP in 2018. As at 31 July 2019, the Public Debt amounted to RSD 2,808 billion, or 51.8 per cent. of the projected GDP for 2019.

The Public Debt excludes Serbia's restitution commitments, on which Serbia is expected to begin making payments as of 15 December 2021. The Law of Property Restitution and Compensation regulates the terms and conditions, method and procedure of Serbia's restitution commitments to citizens whose property was nationalised after World War II. The property will be returned in kind or by means of compensation in the form of Government bonds ("**restitution bonds**") and cash. On 8 December 2018, the Assembly enacted changes to the Law on Property Restitution and Compensation, extending the timeframe for finalisation of the basic elements of the restitution bonds and the conditions for distribution and collection until June 2020. Serbia's total restitution commitments will amount to approximately EUR 2 billion, calculated at an interest rate of 2 per cent. per annum from 30 June 2020 to the maturity dates determined by the Law on Property Restitution and Compensation. Such restitution bonds shall fall due in 12 years and shall be paid in annual instalments, starting from 15 December 2021. It is intended that advance payment of cash compensation will begin in March 2020, with disbursement of the restitution bonds commencing in December 2021. Serbia may also make advance payment of compensation up to the amount of EUR 10,000 per individual decision.

The following table shows Serbia's outstanding internal and external Public Debt, and such internal and external Public Debt as a percentage of nominal GDP, as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	2015	2016	2017	2018	2019
			(RSD billions)			
Public Debt	**2,753.2**	**3,018.6**	**3,064.6**	**2,751.1**	**2,720.2**	**2,808.1**
Internal Public Debt[(2)]	1,078.0	1,174.7	1,129.7	1,102.0	1,130.9	1,171.4
External Public Debt[(3)]	1,675.2	1,843.9	1,934.9	1,650.0	1,589.3	1,636.7
			(% of nominal GDP)[(1)]			
Public Debt	**66.2**	**70.0**	**67.8**	**57.9**	**53.7**	**51.8**
Internal Public Debt[(2)]	25.9	27.2	25.0	23.2	22.3	21.6
External Public Debt[(3)]	40.3	42.8	42.8	34.7	31.4	30.2

Source: Ministry of Finance.

Notes:

(1) Certain data differ from previously published information as figures have been adjusted according to the revised GDP numbers published on 1 October 2018 and 30 November 2018 and the annual GDP numbers published on 1 October 2019. See "*Presentation of Economic and Other Information" and "Economy of Serbia – Gross Domestic Product*".

(2) Internal Public Debt (as defined below) comprises direct and indirect liabilities originally issued, incurred or guaranteed by the Government on the domestic market, including debt obligations denominated or payable in other currencies.

(3) External Public Debt (as defined below) comprises direct and indirect liabilities incurred or guaranteed by the Government to foreign investors and lenders.

The following table shows Serbia's Public Debt and non-guaranteed debt of local self-governments and other legal entities (i.e. PE Roads of Serbia and Development Fund of Serbia) as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	2015	2016	2017	2018	2019
			(RSD billions)			
General Government Debt	**2,808.2**	**3,072.3**	**3,110.8**	**2,790.5**	**2,757.3**	**2,847.5**
Public Debt	2,753.2	3,018.6	3,064.6	2,751.1	2,720.2	2,808.1
Non-guaranteed Local Government Debt	55.0	53.7	46.2	39.4	37.1	39.3
			(% of nominal GDP)[(1)]			
General Government Debt	**67.5**	**71.2**	**68.8**	**58.7**	**54.4**	**52.6**
Public Debt	66.2	70.0	67.8	57.9	53.7	51.8
Non-guaranteed Local Government Debt	1.3	1.2	1.0	0.8	0.7	0.7

Source: Ministry of Finance.

Note:

(1) Certain data differ from previously published information as figures have been adjusted according to the revised GDP numbers published on 1 October 2018 and 30 November 2018 and the annual GDP numbers published on 1 October 2019. See "*Presentation of Economic and Other Information" and "Economy of Serbia – Gross Domestic Product*".

The following table shows certain key statistics with regard to the Government's outstanding direct and indirect liabilities under Public Debt, and such direct and indirect liabilities as a percentage of nominal GDP, as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
			(RSD billions)			
Public Debt	**2,753.2**	**3,018.6**	**3,064.6**	**2,751.1**	**2,720.2**	**2,808.1**
Direct liabilities, of which	**2,445.4**	**2,727.0**	**2,799.8**	**2,542.3**	**2,540.0**	**2,630.0**
Internal Public Debt	994.9	1,100.8	1,082.6	1,076.8	1,112.6	1,149.4
External Public Debt	1,450.5	1.626.2	1,717.3	1,465.4	1,427.4	1,480.6
Indirect liabilities(3), of which	**307.8**	**291.6**	**264.8**	**208.9**	**180.1**	**178.1**
Internal Public Debt	83.1	73.9	47.1	24.8	18.3	22.0
External Public Debt	224.7	217.7	217.6	184.1	161.9	156.1
			(% of nominal GDP)(1)			
Public Debt	**66.2**	**70.0**	**67.8**	**57.9**	**53.7**	**51.8(2)**
Direct liabilities, of which	**58.8**	**63.2**	**61.9**	**53.5**	**50.1**	**48.6(2)**
Internal Public Debt	23.9	25.5	22.9	22.6	22.0	21.2(2)
External Public Debt	34.9	37.7	38.0	30.8	28.2	27.3(2)
Indirect liabilities(3), of which	**7.4**	**6.8**	**5.9**	**4.4**	**3.6**	**3.3(2)**
Internal Public Debt	2.0	1.7	1.0	0.5	0.4	0.4(2)
External Public Debt	5.4	5.0	4.8	3.9	3.2	2.9(2)

Source: Ministry of Finance.

Notes:

(1) Certain data differ from previously published information as figures have been adjusted according to the revised GDP numbers published on 1 October 2018 and 30 November 2018 and the annual GDP numbers published on 1 October 2019. See "*Presentation of Economic and Other Information" and "Economy of Serbia – Gross Domestic Product*".

(2) Based on Ministry of Finance estimates of nominal GDP for 2019.

(3) Serbia issues guarantees for loans to publicly owned enterprises and local Government. If the publicly owned enterprise or local Government is unable to repay the relevant loan, it becomes a direct obligation of Serbian Government. As at 31 July 2019, these guarantees amounted to EUR 1,512.5 million (RSD 178.1 billion).

Pursuant to the Law on Amendments to the Budget Law for 2019, Serbia expects to borrow up to RSD 693 billion in 2019. Out of this, up to RSD 583 billion is expected to be raised through issuance of Government securities (RSD 290 billion), issuance of other euro-denominated securities in domestic market (RSD 90 billion) and issuance of euro-denominated bonds in international capital markets (RSD 203 billion), which will be used to refinance existing debt and finance the Budget deficit. Whereas the remaining RSD 110 billion is expected to be raised from proceeds of local and foreign borrowings, which will be used for the repayment of the existing debt and the implementation of new projects (including loans from international financial institutions and foreign governments).

In 2017 and 2018, Serbia issued guarantees amounting to approximately EUR 282 million for loans granted to Srbijagas, Electric Power Industry of Serbia, Srbijavoz and Elektromreza Srbije. In the first seven months of 2019, Serbia issued guarantees amounting to EUR 70 million in respect of a loan granted to Srbijagas.

Internal Public Debt

According to the Public Debt Law, internal Public Debt ("**Internal Public Debt**") comprises direct and indirect liabilities originally issued, incurred or guaranteed by the Government on the domestic market, including debt obligations denominated or payable in other currencies.

The following table shows the composition of Serbia's outstanding Internal Public Debt as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	2015	2016	2017	2018	2019
	(RSD billions)					
Internal Public Debt......................	**1078.0**	**1,174.7**	**1,129.7**	**1,101.6**	**1,130.9**	**1,171.4**
Direct liabilities.............................	**994.9**	**1,100.8**	**1,082.6**	**1,076.8**	**1,112.6**	**1,149.4**
Government securities.....................	805.5	932.8	1,000.7	1,012.3	1,057.2	1,096.7
Bonds on account of citizens' foreign currency savings.................	158.0	118.5	51.9	47.0	45.6	44.9
Other[(1)] direct liabilities..................	31.5	49.5	30.0	17.5	9.8	7.9
Indirect liabilities..........................	83.1	73.9	47.1	24.8	18.3	22.0

Source: Ministry of Finance.

The share of government securities issued on domestic financial markets in RSD held by foreign investors was 32.0 per cent. (EUR 2.1 billion or RSD 244.8 billion) as at 31 July 2019.

The following table shows the total nominal value of T-bills and T-bonds outstanding as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December										As at 31 July	
	2014		2015		2016		2017		2018		2019	
	(%)	(RSD billions)	(%)	(RSD billions)	(%)	(RSD billions)	(%)	(RSD billions)	(%)	(RSD billions)	(%)	(RSD billions)
Treasury Bills												
3 month maturity...............	0.3	2.5	0.6	5.8	-	-	-	-	-	-	-	-
6 month maturity...............	0.8	6.4	0.9	8.6	0.1	0.7	-	-	-	-	-	-
53-week maturity (RSD)...	10.9	88.2	8.3	77.4	4.8	47.6	0.2	1.8	-	-	-	-
53-week maturity (EUR)...	4.6	37.3	3.7	34.2	4.0	40.1	2.2	22.3	1.1	11.7	-	-
Treasury Bonds												
2-years amortizing (RSD) .	8.9	71.8	8.0	74.8	3.7	37.1	1.2	12.2	0.3	2.6	-	-
2-year maturity (RSD)	14.6	117.2	11.9	111.3	8.9	88.6	7.9	79.6	5.2	54.9	1.1	11.6
2-year maturity (EUR)	11.5	92.7	10.6	98.9	9.0	90.2	6.5	65.3	3.1	33.0	2.4	26.4
2-year maturity (USD)	-	-	-	-	-	-	0.6	6.1	0.6	6.4	0.4	4.7
3-year maturity (RSD)	23.5	189.4	22.5	209.8	25.4	254.5	27.4	277.3	18.8	198.7	17.9	196.4
3-year maturity (CPI)........	0.2	2.0	-	-	-	-	-	-	-	-	-	-
3-year maturity (EUR)	5.3	42.5	6.9	64.3	9.5	95.3	9.7	98.5	8.7	92.3	6.2	67.8
5-year maturity (RSD)	4.5	36.0	5.4	50.0	5.0	50.0	4.1	41.9	12.4	130.8	12.3	134.2
5-year maturity (EUR)	4.2	33.7	5.4	50.0	7.2	72.4	10.7	108.2	10.3	108.4	10.4	114.1
7-year maturity (RSD)	5.4	43.6	10.0	93.6	14.5	145.3	20.1	203.6	19.3	203.6	28.5	311.7
7-year maturity (EUR)	-	-	-	-	-	-	-	-	0.7	7.7	0.7	7.7
10-year maturity (RSD).....	1.2	9.3	1.0	9.3	0.9	9.3	0.9	9.4	10.5	111.0	10.1	110.9
10-year maturity (EUR)	1.9	15.1	2.9	27.4	4.3	42.6	5.3	54.1	6.1	64.2	6.5	70.9
15-year maturity (EUR)	2.2	17.5	1.9	17.6	2.7	27.1	3.2	32.2	3.0	32.1	3.5	37.9
Total................................	**100.0**	**805.5**	**100.0**	**932.8**	**100.0**	**1,000.7**	**100.0**	**1,012.3**	**100.0**	**1,057.2**	**100.0**	**1,094.3**

Source: Ministry of Finance.

As at 31 July 2019, the outstanding amount of debt represented by T-bills and T-bonds increased to RSD 1,094.3 billion, compared to RSD 1,057.2 billion as at 31 December 2018 and RSD 1,012.3 billion as at 31 December 2017.

In 2014, the Government issued ten-year bonds for the first time, therefore finalising the development of maturity in the yield curve for both dinar- and euro-denominated Government securities. In addition, in February 2015, a benchmark issue was issued for the first time in the local financial market, with seven-year maturity in the amount of RSD 50 billion, followed by two three-year bonds issued later that year, at the amount of RSD 50 billion each. The Government has continued its successful benchmark issuances, issuing amounts of RSD 110 billion, RSD 110 billion and RSD 100 billion in 2016, 2017 and 2018, respectively, with maturities ranging from three to ten years. In January 2019, the Government issued three and seven year benchmark securities amounting to RSD 100 billion and RSD 150 billion, respectively.

In recent years, the Government has significantly improved the local securities market by increasing debt maturity and dinar-denominated share of debt. In the same way, owing to fiscal consolidation measures, the average coupon rate of RSD denominated securities reduced from 10.68 per cent at the end of 2014 to 5.56 per cent at the end of July 2019. On the other hand, the average coupon rate of EUR denominated securities reduced from 4.10 per cent at the end of 2014 to 2.67 per cent at the end of July 2019.

The following table shows the weighted-average rate in RSD primary auctions as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	2015	2016	2017	2018	2019
			(%)			
3 month T-Bills	7.35	4.96	2.78	-	-	-
6 month T-Bills	7.54	4.42	3.13	2.64	-	-
53-week T-Bills	8.49	5.94	3.93	3.48	-	-
2-year T-Bonds	9.21	7.06	4.78	4.56	-	-
3-year T-Bonds	10.16	8.62	5.38	4.83	3.83	3.69
5-year T-Bonds	10.93	6.50	5.68	5.12	4.17	4.00
7-year T-Bonds	11.99	11.99	5.83	5.40	5.00	4.31
10-year T-Bonds	12.99	-	-	-	5.18	-

Source: Ministry of Finance.

The following table shows the weighted-average rate in EUR primary auctions as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	2015	2016	2017	2018	2019
			(%)			
53-week T-Bills	3.04	1.83	0.94	0.63	0.46	-
2-year T-Bonds	3.91	2.67	1.36	1.04	0.88	0.92
3-year T-Bonds	4.71	4.00	2.98	1.86	1.25	1.21
5-year T-Bonds	4.99	4.49	3.14	2.62	1.89	1.65
10-year T-Bonds	5.50	4.48	4.20	4.00	3.50	3.25
15-year T-Bonds	-	-	4.20	4.20	-	3.60

Source: Ministry of Finance.

Serbia disbursed EUR 81.3 million under its Internal Public Debt guarantees in 2018, as compared to EUR 20.0 million, EUR 0.0 million, EUR 91.8 million and EUR 114.9 million in 2017, 2016, 2015 and 2014, respectively. In the seven months ended 31 July 2019, Serbia disbursed EUR 70.2 million under its Internal Public Debt related guarantees.

External Public Debt

According to the Public Debt Law, external Public Debt ("**External Public Debt**") comprises direct and indirect liabilities incurred or guaranteed by the Government to foreign investors and lenders.

The following table shows Serbia's External Public Debt structure as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December					As at 31 July
	2014	2015	2016	2017	2018	2019
			(RSD billon)			
Multilateral creditors	**769.6**	**834.0**	**850.9**	**815.5**	**788.7**	**792.3**
IBRD	185.6	223.4	227.7	251.4	255.9	269.8
EIB	196.4	209.3	222.8	215.8	220.1	217.3
Paris Club	164.8	166.3	162.9	139.5	129.2	124.2
EBRD	44.4	53.3	76.7	67.3	62.1	59.4
IMF	56.0	59.9	61.0	54.7	55.8	56.4
IDA	59.5	57.4	51.0	39.1	33.0	29.9
KfW	16.9	18.6	17.5	19.3	20.0	20.3
CEB	9.3	8.8	8.4	11.4	12.6	15.0
London Club	36.7	37.0	22.9	17.0	–	–
Bilateral creditors	**294.2**	**344.3**	**398.8**	**365.7**	**427.3**	**460.1**
China	47.8	75.5	88.4	88.4	105.8	113.5
UAE	99.5	111.3	117.1	99.1	103.4	105.5
Russia	46.1	53.2	67.5	58.9	63.7	71.2
EU	28.0	21.9	15.5	9.7	4.6	0.3
Other [(1)]	72.8	82.4	110.3	109.6	149.8	169.6
Eurobond	522.2	584.1	615.0	446.0	361.9	**371.0**
Other creditors[(2)]	89.3	81.6	70.4	22.4	11.4	**13.3**
Total external public debt	**1,675.2**	**1,843.9**	**1,934.9**	**1,649.5**	**1,589.3**	**1,636.7**
of which Guaranteed external public debt[(3)]	224.7	217.7	217.6	184.1	161.9	**156.1**

Source: Ministry of Finance.

Notes:

(1) Other bilateral creditors comprise Kuwait, France, Libya, Poland and Algeria. The Abu Dhabi Development Fund is also included as other bilateral creditors.

(2) Other creditors comprise debt from commercial banks. EUROFIMA and Japan International Cooperation Organisation are also included as other creditors.

(3) Serbia issues guarantees for loans to publicly owned enterprises and local Government.

The Government's largest external creditor is IBRD, accounting for 16.5 per cent. of total External Public Debt as at 31 July 2019, followed by the EIB, accounting for 13.3 per cent. of total External Public Debt.

Serbia disbursed EUR 90.1 million, Kuwait dinar ("**KWD**") 1.0 million and JPY 261.8 billion under its External Public Debt related guarantees in 2018, as compared to EUR 66.9 million and JPY 3.5 billion in 2017, EUR 285.1 million in 2016, EUR 177.5 million in 2015 and EUR 118.3 million in 2014. In the seven months ended 31 July 2019, Serbia disbursed EUR 53.6 million, KWD 0.1 million and JPY 1.8 billion under its External Public Debt related guarantees.

Public Debt Currency Structure

The following table shows the Public Debt of the Government, listed by currency as at 31 December for the years 2014 to 2018 and as at 31 July 2019:

	As at 31 December										As at 31 July	
	2014		2015		2016		2017		2018		2019	
	(RSD billions)	*%*	*(RSD billions)*	*%*	*(RSD billions)*	*%*	*(RSD billions)*	*%*	*(RSD billions)*	*%*	*(RSD billions)*	*%*
EUR	1,148.3	41.7	1,202.3	39.8	1,217.8	39.7	1,144.0	41.6	1,089.4	40.0	1,189.0	42.3
U.S.$	867.1	31.5	993.9	32.9	1,038.0	33.9	810.9	29.5	720.0	26.5	619.7	22.1
RSD	588.6	21.4	668.9	22.2	639.8	20.9	632.5	23.0	708.4	26.0	772.1	27.5
Special Drawing Rights	115.4	4.2	117.3	3.9	111.9	3.7	93.7	3.4	88.9	3.3	86.3	3.1
CHF	20.0	0.7	19.5	0.6	16.8	0.5	13.1	0.5	12.7	0.5	12.3	0.4
Other	13.8	0.5	16.6	0.6	40.3	1.3	56.8	2.1	100.9	3.7	128.8	4.6
Total	**2,753.2**	**100.0**	**3,018.6**	**100.0**	**3,064.6**	**100.0**	**2,751.1**	**100.0**	**2,720.2**	**100.0**	**2,808.1**	**100.0**

Source: Ministry of Finance.

As at 31 July 2019, the largest portion of the Public Debt was denominated in euro (42.3 per cent.), followed by RSD (27.5 per cent.) and U.S. dollars (22.1 per cent.). As at 31 July 2019, the share of dinar-denominated debt in the total Public Debt amounted to 27.5 per cent. As dinar volatility is much lower to euro than to U.S. dollars, the Government aims to reduce the U.S. dollar-denominated debt, the share of which decreased from 33.9 per cent. of total Public Debt at the end of 2016 to 22.1 per cent. as at 31 July 2019.

Debt Management

The Government's debt management strategy is governed by the following principles: cautious and prudent debt management, transparent and predictive borrowing, promotion of liquidity and broadening of the government securities investor base and development of an efficient infrastructure in the domestic market. The borrowing requirements and criteria are determined by the Budget Law and the debt management strategy is part of the fiscal strategy of Serbia. According to the debt management strategy, the Government intends, in the medium-term, to increase the percentage of RSD denominated debt in the overall Public Debt currency composition in order to extend the local yield curve.

The Government's debt management strategy consist of eight core principles: i) the share of dinar-denominated debt should be above 25 per cent. of the Public Debt in the mid-term (this was 26.0 per cent as of 31 December 2018); ii) the share of euro-denominated debt should be at least 60 per cent. of foreign currency debt, including future borrowings and transactions (this was 54.1 per cent. as of 31 December 2018); iii) the share of floating interest rate debt should be below 20 per cent. in the mid-term (this was 18.8 per cent. as of 31 December 2018); iv) the average time for re-pricing of Public Debt should remain at least above 4.5 years (this was 5.1 years as of 31 December 2018); v) the weighted average interest rate for Internal Public Debt should not exceed 6.0 per cent. (this was 5.8 per cent. as of 31 December 2018); vi) the share of short-term debt with maturity up to a year should be less than 15 per cent. of Public Debt (this was 14.1 per cent. as of 31 December 2018); vii) the average time to maturity of Internal Public Debt should be at least 4 years in the mid-term (this was 4 years as of 31 December 2018); viii) the average time to maturity of External Public Debt should be at least 6yrs ±0.5 in the mid-term (this was 6.7 years as of 31 December 2018). In line with these principles, the Government's fiscal strategy targets the reduction of Public Debt to 47.2 per cent. of GDP in the near term. However, achieving this target depends on a number of variables both in and outside of the Government's control and there can be no assurances that the Government will reach this target.

Debt Service

The following table shows the historic Public Debt service payments with respect to principal and interest for the years ended 31 December 2014 to 2018:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
			(RSD billions)		
Principal Payments	405.0	514.5	537.2	546.0	474.0
Interest Payments	110.0	125.0	127.4	117.0	106.0
Total	**515.0**	**639.5**	**664.6**	**663.0**	**580.0**

Source: Ministry of Finance.

The following table shows the projected service payments with respect to principal and interest (before taking into account any payment obligations in respect of the issue of the New Notes described in this Prospectus) for the years ended 31 December 2019 to 2023 based on the stock of Public Debt as at 31 July 2019:

	Year ended 31 December*				
	2019	**2020**	**2021**	**2022**	**2023**
			(RSD billions)		
Principal Payments	483.2	361.5	380.4	329.3	349.3
Interest Payments	107.3	92.7	81.8	62.3	44.4
Total	**590.5**	**454.2**	**462.2**	**391.6**	**393.7**

Source: Ministry of Finance.

* This does not include future borrowings.

Bilateral and Multilateral Development Organisations and EU Funding

International Monetary Fund

In February 2015, Serbia commenced a Precautionary Arrangement with the IMF for 935.4 million special drawing rights ("**SDR**") (approximately EUR 1,222 million) to restore fiscal sustainability, bolster growth, and boost financial sector resilience. The IMF completed the eighth and final review of Serbia's economic performance under the Precautionary Arrangement in December 2017, and Serbia successfully completed the programme in February 2018. The IMF concluded that Serbia had made significant progress under the programme by reducing public debt and achieving a robust external position. However, the IMF cautioned that continued prudent policies and implementation of structural reforms, especially deeper institutional reforms, are critical to secure sustainable growth in the coming periods.

Following the conclusion of the Precautionary Arrangement, the IMF approved a new 30-month PCI for Serbia in July 2018, aimed at maintaining macroeconomic and financial stability and advancing structural and institutional reforms to foster rapid and inclusive growth. The PCI does not involve the use of IMF financial resources. The first review under the PCI was completed in December 2018, the second review was completed in July 2019 alongside the consultation under Article IV of the IMF's Articles of Agreement ("**Article IV**"), and the third review was conducted in the first half of October 2019 (with the final report on this review expected to be published in December 2019). In the report published by the IMF on 22 July 2019, pursuant to the consultation under Article IV and the second review under the PCI, the IMF concluded that Serbia's macroeconomic stability has been maintained with robust economic growth, declining public debt, as well as low and stable inflation, although more determined efforts will be needed to ensure faster income convergence with the EU as Serbia continues to address structural challenges, supported by the PCI. Similarly, in the press release of 15 October 2019, which was issued following the third review under the PCI, IMF noted that Serbia's economic performance continues to remain robust, with projected real GDP growth at 3.5 percent in 2019 and 4 percent in 2020. It also noted that unemployment has fallen to record-low levels and structural reforms continue to advance, although with delays in certain areas.

International Bank for Reconstruction and Development ("IBRD")

In June 2015, the World Bank adopted the Country Partnership Framework ("**CPF**") in relation to Serbia for the period 2016-2020. The aim of the CPF is to support Serbia in creating a competitive and inclusive economy and achieve integration into the EU. The CPF envisages the approval of 13 new loans in the total amount of U.S.$1.6 billion (EUR 1.45 billion). The outstanding debt to the IBRD as at 31 July 2019 was EUR 2.3 billion.

European Bank for Reconstruction and Development ("EBRD")

Since 2001, the EBRD has approved over EUR 5.1 billion by way of funding to Serbia. As at 31 July 2019, the total amount of outstanding debt under EBRD loans was EUR 504.7 million, of which EUR 72.8 million comprised direct liabilities. The funds disbursed under EBRD loans are mainly used to finance infrastructure projects managed by Electric Power Industry of Serbia, Electric Networks of Serbia, Roads of Serbia and Railways of Serbia.

European Investment Bank ("EIB")

Since 2000, the EIB has provided over EUR 5.4 billion by way of funding to Serbia. As at 31 July 2019, the total amount of outstanding debt under EIB loans was EUR 1.8 billion, of which EUR 1.2 billion comprised direct liabilities. The funds disbursed are mainly used to finance projects involving the construction and improvement of schools, hospitals, research centres, roads and railways. In addition, small and medium sized entities have been a priority of the Government, with the EIB providing EUR 140 million for small and medium-sized projects to help boost growth and job creation in 2018.

Paris Club

As at 31 July 2019, liabilities to Paris Club creditors amounted to EUR 1.1 billion (RSD 124.2 billion).

London Club

As at 31 July 2019, there were no outstanding liabilities to London Club creditors.

TERMS AND CONDITIONS OF THE NOTES

Other than the text in italics (which is included below for explanatory purposes only), the following is the text of the terms and conditions of the Notes which will be endorsed on each Definitive Note Certificate (if issued).

The €550,000,000 1.500 per cent. Notes due 2029 (the "**New Notes**") to be consolidated and form a single series with the €1,000,000,000 1.500 per cent. Notes due 2029 (the "**Original Notes**" and, together with the New Notes, the "**Notes**", which expression includes any further notes issued pursuant to Condition 17 (*Further Issues*)) of the Republic of Serbia (represented by the Government of the Republic of Serbia, acting by and through its Ministry of Finance) (the "**Issuer**") are (a) constituted by and subject to, and have the benefit of, a deed of covenant dated 26 June 2019 as supplemented by a supplemental deed of covenant dated 12 November 2019 and as may be further amended or supplemented from time to time (the "**Deed of Covenant**") of the Issuer and (b) are issued pursuant to a fiscal agency agreement dated 26 June 2019 as supplemented by a supplemental fiscal agency agreement dated 12 November 2019 and as may be further amended or supplemented from time to time (the "**Fiscal Agency Agreement**") between the Issuer, Deutsche Bank AG, London Branch, as fiscal agent and principal paying agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent and principal paying agent appointed from time to time in connection with the Notes) and Deutsche Bank Luxembourg S.A. as transfer agent, the other paying and transfer agents named therein (together with the Fiscal Agent, the "**Agents**", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and Deutsche Bank Luxembourg S.A., in its capacity as registrar (the "**Registrar**", which expression shall be deemed to include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of the Agents or may be accessed on the website of the Issuer at *http://www.javnidug.gov.rs/eng/default.asp?P=101*. References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1. Form, Denomination and Title

(a) ***Form and Denomination***

The Notes are in registered form, serially numbered and will be issued in minimum denominations of €100,000 or any amount in excess thereof which is an integral multiple of €1,000 (an "**Authorised Holding**").

(b) ***Title***

Title to the Notes will pass by transfer and registration as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

In these Conditions, "**Person**" means any individual, company, corporation, firm, partnership, limited liability company, limited joint venture, association, joint stock company, unincorporated organisation, trust or other judicial entity, including, without limitation, ministry, department, any state or agency or political subdivision thereof or any other entity, whether or not having separate legal personality, "**Noteholder**" or "**holder**" means the Person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "**holders**" shall be construed accordingly. A certificate in definitive form (a "**Definitive Note Certificate**") will be issued to each Noteholder in respect of its registered holding.

Notes sold to qualified institutional buyers ("QIBs") (as defined in Rule 144A under the U.S. Securities Act of 1933 ("Rule 144A")) in the United States in reliance on Rule 144A will be represented by a Rule 144A Global Note. Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by the Regulation S Global Note. Interests in the Regulation S Global Note and the Rule 144A Global Note will be exchangeable for Definitive Note Certificates in the limited circumstances specified in the Regulation S Global Note and the Rule 144A Global Note, respectively. The Regulation S Original Global Note and the Rule 144A Original Global Note have been deposited with and registered, and the New Regulation S Global Note and New Rule 144A Global Note will be deposited with and registered, in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg").

Ownership of beneficial interests in the Global Notes will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book entry form by Euroclear, Clearstream, Luxembourg and their participants, as applicable.

(c) ***Third Party Rights***

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. Registration

The Issuer will cause a register (the "**Register**") to be kept at the Specified Office of each Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3. Transfer of Notes

(a) ***Transfer***

Each Note may, subject to the terms of the Fiscal Agency Agreement and to Conditions 3(b) (*Formalities Free of Charge*), 3(c) (*Closed Periods*) and 3(e) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the relevant Registrar or any Paying and Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named Person or Persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the relevant Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) ***Formalities Free of Charge***

Such transfer will be effected without charge subject to (i) the Person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the Person making the application, and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(c) ***Closed Periods***

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) ***Business Day***

In this Condition 3 (*Transfer of Notes*), "**Business Day**" means a day (other than a Saturday or Sunday) (i) on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET 2) System (the "**TARGET System**") or any successor system is open and (ii) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Specified Office of the relevant Registrar or, as the case may be, the Fiscal Agent is located.

(e) ***Regulations Concerning Transfer and Registration***

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes in Schedule 1 to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the approval of the Registrar.

(f) ***Authorised Holdings***

No Note may be transferred unless each of the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred is an Authorised Holding.

4. Status

The Notes constitute direct, general, unconditional and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal and interest on the Notes and for the performance of all obligations of the Issuer in respect of the Notes. The Notes will at all times rank *pari passu* without preference among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law, *provided*, *however*, *that* the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other unsecured obligations of the Issuer and, in particular, shall have no obligation to pay other unsecured obligations of the Issuer at the same time or as a condition of paying sums due on the Notes and *vice versa*.

5. Negative Pledge

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any of its Public External Indebtedness or any Guarantee of any Public External Indebtedness of any other Person unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or providing such other security or other arrangement for the Notes as may be approved by an Extraordinary Resolution or a Written Resolution or Electronic Consent (as defined in Condition 14 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*)) in each case in accordance with Condition 14 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*).

6. Definitions

For the purposes of these Conditions:

"**External Indebtedness**" means all obligations, and Guarantees in respect of obligations, for money borrowed or raised (whether or not evidenced by bonds, debentures, notes or other similar instruments) denominated or payable, or which at the option of the relevant creditor or holder thereof may be payable, in a currency other than the lawful currency of the Issuer;

"**Guarantee**" means in relation to any indebtedness, any guarantee or indemnity given by the Issuer in respect of such indebtedness or any arrangement having the same or substantially the same effect;

"**Public External Indebtedness**" means External Indebtedness of the Issuer which is in the form of, or represented by, bonds, notes, or other securities and which is, or may be, quoted, listed or ordinarily purchased and sold on any international stock exchange, automated trading system, over-the-counter securities market or other international securities market;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything having an equivalent effect to any of the foregoing under the laws of any jurisdiction.

7. Interest

(a) ***Interest Accrual***

Each Note bears interest from 26 June 2019 (the "**Original Issue Date**") at the rate of 1.500 per cent. per annum (the "**Rate of Interest**") payable annually in arrear on 26 June in each year (each, an "**Interest Payment Date**") commencing on 26 June 2020, subject as provided in Condition 8 (*Payments*). Each period beginning on (and including) the Original Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**".

(b) ***Cessation of Interest***

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 16 (*Notices*).

(c) ***Calculation of Interest for an Interest Period***

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) ***Calculation of Interest for any other period***

Where interest is to be calculated in respect of a period other than an Interest Period, it will be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest for an Interest Period*) and Condition 7(d) (*Calculation of Interest for any other period*) by the Fiscal Agent shall, in the absence of manifest and proven error, be binding on all parties.

8. Payments

(a) ***Principal***

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the Person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the relevant Registrar or of the Paying and Transfer Agents.

(b) ***Interest***

Payments of interest due on an Interest Payment Date will be made to the Persons shown in the Register at close of business on the Record Date.

(c) ***Record Date***

"**Record Date**" means the fifteenth day before the due date for the relevant payment.

(d) ***Payments***

Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and 8(b) (*Interest*) will be made by euro cheque mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the relevant Registrar or any Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a euro account maintained by the payee with a bank in a city where banks have access to the TARGET System.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a euro account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest, on the due date for payment.

(e) ***Agents***

The names of the initial Agents and each Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Fiscal Agency Agreement by giving to the relevant Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to vary or terminate the appointment of any Agent or Registrar and to appoint successor or additional Agents or Registrar, *provided that* it will at all times maintain:

(i) a Fiscal Agent; and

(ii) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent or Registrar will be given to Noteholders in accordance with the provisions of the Fiscal Agency Agreement and Condition 16 (*Notices*) as soon as practicable.

(f) ***Payments Subject to Fiscal Laws***

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of

Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) ***Delay in Payment***

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day, (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail, or (iii) if the holder is late in surrendering (where so required) the relevant Definitive Note Certificate.

(h) ***Business Days***

In this Condition 8 (*Payments*), "**business day**" means any day on which the TARGET System is open and, in the case of surrender of a Definitive Note Certificate, any day (other than a Saturday or a Sunday) on which the commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the place of the Specified Office of the relevant Registrar or relevant Agent, to whom the relevant Definitive Note Certificate is surrendered.

9. Redemption and Purchase

(a) ***Scheduled Redemption***

Unless previously purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 26 June 2029, subject as provided in Condition 8 (*Payments*).

(b) ***No other Redemption***

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 9(a) (*Scheduled redemption*).

(c) ***Purchase***

The Issuer may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (*provided that* such resale is outside the United States or, in the case of any Notes resold pursuant to Rule 144A, is only made to persons reasonably believed to be QIBs and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be, in compliance with Condition 9(d) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*).

(d) ***Cancellation of Notes***

All Notes which are submitted for cancellation pursuant to Condition 9(c) (*Purchase*) will be cancelled and may not be reissued or resold.

10. Taxation

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Republic of Serbia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) ***Other Connection***

presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Republic of Serbia other than the mere holding of the Note; or

(b) ***Presentation more than 30 days after the Relevant Date***

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days.

(c) ***Payment by another Agent***

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Agent in a Member State of the European Union.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

11. Prescription

Claims in respect of principal and interest will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) ***Non Payment***

The Issuer fails to pay any amount in respect of the Notes when the same becomes due and payable and such failure continues for a period of 15 days; or

(b) ***Breach of other Obligations***

The Issuer defaults in the performance or observance of any of its other obligations under the Notes and such default is incapable of remedy or, if capable of remedy, remains unremedied for 45 days after notice of such default has been given to the Issuer (with a copy to the Fiscal Agent at its Specified Office) by any holder of Notes; or

(c) ***Cross-Acceleration***

(i) The maturity of any Public External Indebtedness of the Issuer is accelerated (other than by optional or mandatory prepayment or redemption), (ii) the Issuer defaults in the payment of any principal of or interest on any of its Public External Indebtedness when and as the same shall become due and payable and such default continues for more than the grace period, if any, originally applicable thereto or, in the case of interest where such grace period does not exceed 30 days, for more than 30 days or (iii) the Issuer defaults in the payment when due and called upon of any guarantee or indemnity of the Issuer in respect of any Public External Indebtedness of any other Person and such default continues for more than the grace period, if any, originally applicable thereto or, if such grace period does not exceed 30 days, for more than 30 days; *provided that* the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this sub-paragraph (c) have occurred equals or exceeds €50,000,000 or its equivalent; or

(d) ***Moratorium***

The Republic of Serbia shall have declared a general moratorium on the payment of principal of, or interest on, all or any part of its Public External Indebtedness unless such moratorium expressly excludes the Notes; or

(e) ***Validity***

The Republic of Serbia or any of its political sub-divisions (on its behalf) repudiates or contests the validity of the Notes or it becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes or all or any of its obligations set out in the Notes shall be / or become unenforceable or invalid; or

(f) ***IMF***

The Republic of Serbia ceases to be a member, or becomes ineligible to use the resources, of the International Monetary Fund,

then the holders of not less than 25 per cent. in the aggregate principal amount of the Notes may, by written notice to the Issuer (with a copy to the Fiscal Agent at its Specified Office), declare the Notes due and payable immediately. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer. Upon any declaration of acceleration, the principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives written notice of the declaration. No delay or omission of any Noteholder shall impair any such right or remedy or constitute a waiver of any such Event of Default.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the relevant declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

13. Replacement of Notes

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the relevant Registrar or any Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (*provided that* the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. Meetings of Noteholders; Written Resolutions and Electronic Consents

(a) ***Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions***

(i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Fiscal Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(ii) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Fiscal Agency Agreement and described in Condition 14(i) (*Notes Controlled by the Issuer*)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Fiscal Agent or the Issuer, as the case may be) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders (with a copy to the Fiscal Agent or the Issuer, as the case may be) within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Fiscal Agency Agreement. If the Fiscal Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by the Issuer.

(iv) The notice convening any meeting will specify, *inter alia*:

(A) the date, time and location of the meeting;

(B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;

(D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

(F) whether Condition 14(b) (*Modification of this Series of Notes only*), or Condition 14(c) (*Multiple Series Aggregation – Single Limb Voting*), or Condition 14(d) (*Multiple Series Aggregation – Two Limb Voting*) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(G) if the proposed modification or action relates to two or more series of debt securities issued by the Issuer and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(H) such information that is required to be provided by the Issuer in accordance with Condition 14(f) (*Information*);

(I) the identity of the Aggregation Agent and the Calculation Agent (each as defined below), if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 14(g) (*Claims Valuation*); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(v) In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions and Electronic Consents. All information to be provided pursuant to paragraph (a)(iv) above shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.

(vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 14 and Condition 15 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

(b) ***Modification of this Series of Notes only***

(i) Any modification of any provision of, or any action in respect of, these Conditions, the Fiscal Agency Agreement and/or the Deed of Covenant in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Conditions 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), by a majority of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes held by Noteholders present in person or represented by proxy; or

(B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes held by Noteholders present in person or represented by proxy.

(iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

(iv) *Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.*

(v) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) ***Multiple Series Aggregation – Single Limb Voting***

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, *provided that* the Uniformly Applicable condition is satisfied.

(ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

(v) The "**Uniformly Applicable**" condition will be satisfied if:

(A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert or substitute their debt securities, on the same terms, for (1) the same new instrument and/or other consideration or (2) a new instrument, new instruments and/or other consideration from an identical menu of instruments or other consideration; or

(B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).

(vi) It is understood that a proposal under paragraph (c)(i) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected Series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and, the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected Series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected Series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(vii) Any modification or action proposed under paragraph (c)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 14(c) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(d) ***Multiple Series Aggregation – Two Limb Voting***

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 14(a) Conditions 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:

(A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iv) Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(v) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(vi) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 14(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) ***Reserved Matters***

In these Conditions, "**Reserved Matter**" means any proposal:

(i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution, an Electronic Consent or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(iv) to change this definition, or the definition of "**Extraordinary Resolution**", "**Single Series Extraordinary Resolution**", "**Multiple Series Single Limb Extraordinary Resolution**", "**Multiple Series Two Limb Extraordinary Resolution**", "**Written Resolution**", "**Single Series Written Resolution**", "**Multiple Series Single Limb Written Resolution**", "**Electronic Consent**" or "**Multiple Series Two Limb Written Resolution**";

(v) to change the definition of "**debt securities**" or "**Debt Securities Capable of Aggregation**";

(vi) to change the definition of "**Uniformly Applicable**";

(vii) to change the definition of "**outstanding**" as set out in the Fiscal Agency Agreement or to modify the provisions of Condition 14(i) (*Notes Controlled by the Issuer*);

(viii) to change the legal ranking of the Notes;

(ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, as set out in Condition 12 (*Events of Default*);

(x) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity in respect of Proceedings, as set out in Condition 19 (*Governing Law and Jurisdiction*);

(xi) to modify the provisions of this Condition 14(e);

(xii) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; and

(xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

(A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

(B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) ***Information***

Prior to or on the date that the Issuer proposes any Extraordinary Resolution, Written Resolution or Electronic Consent pursuant to Condition 14(b) (*Modification of this Series of Notes only*), or Condition 14(c) (*Multiple Series Aggregation – Single Limb Voting*), or Condition 14(d) (*Multiple Series Aggregation – Two Limb Voting*), the Issuer shall publish in accordance with Condition 15(h) (*Manner of Publication*), and provide the Fiscal Agent with the following information:

(i) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(ii) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(iii) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(iv) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 14(a)(iv)(G).

(g) ***Claims Valuation***

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 14(c) (*Multiple Series Aggregation – Single Limb Voting*) and Condition 14(d) (*Multiple Series Aggregation – Two Limb Voting*), the Issuer may appoint a calculation agent (the "**Calculation Agent**"). The Issuer shall, with the approval of the Aggregation Agent (as defined below) and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) ***Manifest Error, etc.***

The Notes, these Conditions, the Deed of Covenant and the provisions of the Fiscal Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(i) **Notes Controlled by the Issuer**

For the purposes of (i) determining the right to attend and vote at any meeting of Noteholders or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) this Condition 14 and (iii) Condition 12 (*Events of Default*), any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

(i) "**public sector instrumentality**" means the National Bank of Serbia, any department, ministry or agency of the government of the Republic of Serbia or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Serbia or any of the foregoing; and

(ii) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution or Electronic Consent, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 15(e) (*Certificate*) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution or vote in respect of any Electronic Consent. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) ***Publication***

The Issuer shall publish all Extraordinary Resolutions, Written Resolutions and Electronic Consents which have been determined by the Aggregation Agent (as defined below) to have been duly passed in accordance with Condition 15(h) (*Manner of Publication*).

(k) ***Exchange and Conversion***

Any Extraordinary Resolutions, Written Resolutions or Electronic Consents which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

(l) ***Written Resolutions and Electronic Consents***

A Written Resolution may be contained in one document or in several documents in like form, each signed by or on behalf of one or more of the Noteholders.

For so long as any Notes are in the form of a Global Note held on behalf of one or more of Euroclear or Clearstream, Luxembourg or any other clearing system (the "**relevant clearing system(s)**"), then:

(i) Approval of a resolution proposed by the Issuer given by way of electronic consent communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders or (ii) (where such holders have been given at least 21 days' notice of such resolution) by or on behalf of:

(A) in respect of a proposal pursuant to Condition 14(b) (*Modification of this Series of Notes only*), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding Notes in the case of a Reserved Matter or more than 50 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter;

(B) in respect of a proposal pursuant to Condition 14(c) (*Multiple Series Aggregation – Single Limb Voting*), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); or

(C) in respect of a proposal pursuant to Condition 14(d) (*Multiple Series Aggregation – Two Limb Voting*), (x) the persons holding at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and (y) the persons holding more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually),

(ii) (in the case of (A), (B) and (C), each an "**Electronic Consent**") shall, for all purposes (including Reserved Matters) take effect as (i) a Single Series Extraordinary Resolution (in the case of (A) above), (ii) a Multiple Series Single Limb Extraordinary Resolution (in the case of (B) above) or (iii) a Multiple Series Two Limb Extraordinary Resolution (in the case of (C) above), as applicable.

The notice given to Noteholders shall specify, in sufficient detail to enable Noteholders (in the case of a proposal pursuant to Condition 14(b) (*Modification of this Series of Notes only*) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 14(c) (*Multiple Series Aggregation — Single Limb Voting*) or Condition 14(d) (*Multiple Series Aggregation — Two Limb Voting*)) to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the "**Relevant Consent Date**") by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

If, on the Relevant Consent Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the required proportion for approval, the resolution shall, if the party proposing such resolution (the "**Proposer**") so determines, be deemed to be defeated. Alternatively, the Proposer may give a further notice to Noteholders (in the case of a proposal pursuant to Condition 14(b) (*Modification of this Series of Notes only*) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 14(c) (*Multiple Series Aggregation — Single Limb Voting*) or Condition 14(d) (*Multiple Series Aggregation — Two Limb Voting*)) that the resolution will be proposed again on such date and for such period as shall be agreed with the Issuer (unless the Issuer is the Proposer). Such notice must inform Noteholders (in the case of a proposal pursuant to Condition 14(b) (*Modification of this Series of Notes only*) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 14(c) (*Multiple Series Aggregation — Single Limb Voting*) or Condition 14(d) (*Multiple Series Aggregation — Two Limb Voting*)) that insufficient consents were received in relation to the original resolution and the information specified in the previous paragraph. For the purpose of such further notice, references to "**Relevant Consent Date**" shall be construed accordingly.

An Electronic Consent may only be used in relation to a resolution proposed by the Issuer which is not then the subject of a meeting that has been validly convened above, unless that meeting is or shall be cancelled or dissolved.

Where Electronic Consent has not been sought, for the purposes of determining whether a Written Resolution has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer (a) by accountholders in the relevant clearing system(s) with entitlements to any Global Note and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, the relevant clearing system(s) and, in the case of (b) above, the relevant clearing system(s) and the accountholder identified by the relevant clearing system(s). Any such certificate or other document (i) shall be conclusive and binding for all purposes and (ii) may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

All information to be provided pursuant to Condition 14(a)(iv) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) shall also be provided, *mutatis mutandis,* in respect of Written Resolutions and Electronic Consents.

A Written Resolution and/or Electronic Consent (i) shall take effect as an Extraordinary Resolution and (ii) will be binding on all Noteholders, whether or not they participated in such Written Resolution and/or Electronic Consent, even if the relevant consent or instruction proves to be defective.

15. Aggregation Agent; Aggregation Procedures

(a) *Appointment*

The Issuer will appoint an aggregation agent (the "**Aggregation Agent**") to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Deed of Covenant or the Fiscal Agency Agreement in respect of the Notes and in respect of the terms and conditions or the documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) *Extraordinary Resolutions*

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) *Written Resolutions*

If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) *Electronic Consents*

If approval of a resolution proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, is proposed to be given by way of Electronic Consent, the Aggregation Agent will, as soon as reasonably practicable after the relevant Electronic Consent has been given, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have consented to the resolution by way of Electronic Consent such that the resolution is approved. If so, the Aggregation Agent will determine that the resolution has been duly approved.

(e) *Certificate*

For the purposes of Condition 15(b) (*Extraordinary Resolutions*), Condition 15(c) (*Written Resolutions*) and Condition 15(d) (Electronic Consents), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 14(b) (*Modification of this Series of Notes only*), or Condition 14(c) (*Multiple Series Aggregation – Single Limb Voting*), or Condition 14(d) (*Multiple Series Aggregation – Two Limb Voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution and, with respect to an Electronic Consent, the date arranged for voting on the Electronic Consent.

The certificate shall:

(i) list the total principal amount of Notes outstanding and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 14(i) (*Notes Controlled by the Issuer*) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(f) ***Notification***

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 15 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(g) ***Binding Nature of Determinations; No Liability***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 15 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(h) ***Manner of Publication***

The Issuer will publish all notices and other matters required to be published pursuant to the Fiscal Agency Agreement including any matters required to be published pursuant to Condition 14 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*), this Condition 15 and Condition 12 (*Events of Default*):

(i) through Euroclear and Clearstream Banking, Luxembourg and/or any other clearing system in which the Notes are held;

(ii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iii) in such other places and in such other manner as may be customary.

16. Notices

Notices to Noteholders will be sent to them by mail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth weekday (excluding Saturday and Sunday) after the date of mailing.

So long as any of the Notes are represented by the Global Notes, notices required to be published in accordance with Condition 16 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders.

17. Further Issues

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Fiscal Agency Agreement, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**").

Noteholders should note that additional securities that are treated as a single series for non tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount, as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.

18. Currency Indemnity

An amount received or recovered in a currency other than euro (the "**Contractual Currency**") (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction) by any Noteholder in respect of any sum expressed to be due to it from the Issuer will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the relevant Noteholder pursuant to these Conditions, the Issuer will indemnify such Noteholder against any loss sustained by it as a result on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the relevant Registrar or any Paying and Transfer Agent with its Specified Office in London. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

19. Governing Law and Jurisdiction

(a) ***Governing Law***

The Notes, including any non-contractual obligations arising out of or in connection with the Notes, are governed by, and shall be construed in accordance with, English law.

(b) ***Jurisdiction***

The Issuer agrees for the benefit of the Noteholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with the Notes ("**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

(c) ***Appropriate Forum***

For the purposes of Condition 19(b) (*Jurisdiction*), the Issuer has irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agreed not to claim that any such court is not a convenient or appropriate forum.

(d) ***Service of Process***

The Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Condition 19(b) (*Jurisdiction*) may be served on it by being delivered to the

Ambassador of the Republic of Serbia to the Court of St. James's at 28 Belgrave Square, London SW1X 8QB. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall appoint a further Person in England to accept service of process on its behalf.

(e) ***Enforcement of Judgments; Waiver of Immunity***

The Issuer agrees that any final judgment in any Proceedings commenced in a court to the jurisdiction of which the Issuer is or may be subject may be enforced in that or any other such court by appropriate proceedings and if and to the extent that the Issuer may in respect of any Proceedings be entitled to claim for itself or its assets immunity from jurisdiction, suit, execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer irrevocably consents to the enforcement of any judgment or award and agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of the jurisdiction, subject to Condition 19(f) (*Exclusions – Waiver of Immunity*). Notwithstanding the foregoing, the Issuer reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it in any court of, or in, the United States of America under any United States federal or state securities law.

(f) ***Exclusions – Waiver of Immunity***

Notwithstanding any of the provisions of Condition 19(e) (*Enforcement of Judgments; Waiver of Immunity*), the Issuer does not waive any immunity in respect of any present or future (i) "**premises of the mission**" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "**consular premises**" as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) assets that cannot be in commerce, (iv) military property or military assets and buildings, weapons and equipment designated for defence, state and public security, (v) receivables the assignment of which is restricted by law, (vi) natural resources, common use items, grids in public ownership, river basin land and water facilities in public ownership, protected natural heritage in public ownership and cultural heritage in public ownership, (vii) real estate in public ownership which is, partly or entirely, used by the authorities of the Republic of Serbia, autonomous provinces or local self-government for the purpose of exercising their rights and duties; (ix) the state's, autonomous province's or local government's stocks and shares in companies and public enterprises, unless the relevant entity consented to the establishment of a pledge over such stocks or shares, (x) movable or immovable assets of health institutions, unless a mortgage was established based on the Government's decision or (xi) other assets exempt from enforcement by law or international treaties.

FORM OF THE NOTES AND TRANSFER RESTRICTIONS

Form of the Notes

The New Notes will be represented on issue by the Global Notes. New Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the New Regulation S Global Note, in registered form, without interest coupons attached, which will be deposited on or about the New Issue Date with a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

New Notes offered and sold in reliance on Rule 144A will be represented by interests in the New Rule 144A Global Note, in registered form, without interest coupons attached, which will be deposited on or about the New Issue Date with the Common Depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Note as set forth under paragraph (iii) below.

The New Regulation S Global Note will have an ISIN number and a Common Code (which are the same as for the Regulation S Original Global Note) and the New Rule 144A Global Note will have a separate ISIN number and Common Code (which are the same as for the Rule 144A Original Global Note).

For the purposes of the Rule 144A Global Note and the Regulation S Global Note, any reference in the Conditions to "**Note Certificate**" or "**Note Certificates**" shall, except where the context otherwise requires, be construed so as to include the relevant Rule 144A Global Note or, as the case may be, the relevant Regulation S Global Note and interests therein.

Transfer Restrictions

A beneficial interest in the Rule 144A Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Regulation S Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Rule 144A Global Note or Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The New Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of New Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such New Notes.

Each purchaser of Rule 144A Notes will be deemed to have represented, agreed and acknowledged that (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) it (a) is a QIB within the meaning of Rule 144A, (b) is acquiring the Rule 144A Notes for its own account or for the account of a QIB, (c) was not formed for the purpose of investing in the Issuer; and (d) is aware, and each beneficial owner of such Notes has been advised, that the sale of the Rule 144A Notes to it is being made in reliance on Rule 144A. If the purchaser is acquiring any Rule 144A Notes for the account of one or more other QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power and authority to make, and does make, the foregoing acknowledgments, representations and agreements on behalf of each such account;

(ii) it understands that the Rule 144A Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Rule 144A Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, delivered or otherwise transferred except in accordance with the legend set out below; and

(iii) it understands that the Rule 144A Global Note and any Rule 144A Note Certificates (as defined below) issued in exchange for an interest in the Rule 144A Global Note will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED, DELIVERED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

(iv) it understands that the Issuer, the Registrar, the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of Regulation S Notes will be deemed to have represented, agreed and acknowledged as that:

(i) it is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and is located outside the United States (within the meaning of Regulation S);

(ii) it understands that the Regulation S Notes have not been and will not be registered under the Securities Act and will not offer, sell, pledge or otherwise transfer Regulation S Notes except in accordance with the Securities Act and any other applicable securities laws of any State of the United States; and

(iii) it understands that the Issuer, the Registrar, the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Exchange of Interests in Global Notes for Note Certificates

The Rule 144A Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates in definitive registered form ("**Rule 144A Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 12 (***Events of Default***) of the Notes) occurs. In such circumstances, such Rule 144A Note Certificates shall be registered in such names as Euroclear and Clearstream, Luxembourg (or the nominee for the Common Depositary) shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Regulation S Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates in definitive registered form ("**Regulation S Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 12 (***Events of Default***) of the Notes) occurs. In such circumstances, such Regulation S Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg (or the nominee for the Common Depositary) shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that the Rule 144A Global Note is to be exchanged for Rule 144A Note Certificates or the Regulation S Global Note is to be exchanged for Regulation S Note Certificates (together "**Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under " – *Transfer Restrictions*". Rule 144A Note Certificates issued as described above will not be exchangeable for beneficial interests in the Regulation S Global Note and Regulation S Note Certificates issued as described above will not be exchangeable for beneficial interests in the Rule 144A Global Note.

In addition to the requirements described under " – *Transfer Restrictions*", the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3 (***Transfer of Notes***) of the Notes.

Upon the transfer, exchange or replacement of a Rule 144A Note Certificate bearing the legend referred to under "**Transfer Restrictions**" above, or upon specific request for removal of the legend on a Rule 144A Note Certificate, the Issuer will deliver only Rule 144A Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

Euroclear and Clearstream, Luxembourg Arrangements

So long as Euroclear, Clearstream, Luxembourg or the nominee of the Common Depositary is the registered holder of a Global Note, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal Agency Agreement, the Deed of Covenant and the Notes. Payments of principal, interest and additional amounts, if any, in respect of Global Notes will be made to Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Fiscal Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from an Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Interest on the Notes in definitive form (other than interest on redemption) will be paid to the holder shown on the Register on the Record Date. Principal and interest with respect to the Rule 144A Note Certificates and the Regulation S Note Certificates on redemption will be paid to the holder shown on the Register on the Record Date upon delivery and surrender of the relevant Note Certificate. All payments in respect of Notes represented by a Global Note will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Record Date. Trading between the Rule 144A Global Note and the Regulation S Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date. As used herein, "**Record Date**" means (i) in respect of Notes in definitive form, the fifteenth day before the due date for such payment and (ii) in respect of Notes represented by a Global Note, the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of the nominee for the Common Depositary to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

Interests in the Regulation S Global Note and the Rule 144A Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book- entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Notes among participants of Clearstream, Luxembourg and Euroclear, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent, any other Agent or any of the Joint Lead Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions of the Notes. The following is a summary of those provisions:

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (***Taxation***) of the Notes).

Meetings

The holder of a Global Note will be treated at any meeting of Noteholders as having one vote in respect of each €1,000 in principal amount of Notes, for which the relevant Global Note may be exchanged.

Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

Payments

Payments of principal and interest in respect of Notes represented by a Global Note shall be made against presentation for endorsement and if no further payment falls to be made in respect of the Notes, surrender of the Global Note to or to the order of the Fiscal Agent.

All payments in respect of Notes represented by a Global Note will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

Notices

So long as the Global Notes are held on behalf of Euroclear or Clearstream, Luxembourg (each, a "**Clearing System**") or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Notes represented by the Global Notes may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

TAXATION

Serbian Taxation

The following is a general summary of the Serbian tax consequences as at the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisers as to the tax consequences to them of holding or transferring Notes.

Tax Implications for Non-Residents of Serbia

Under existing Serbian laws and regulations, payments of principal and interest on the Notes to any individual or legal entity which is not resident or incorporated in Serbia will not be subject to taxation in Serbia and no withholding of any Serbian tax will be required on any such payments. In addition, Noteholders will not be subject to taxation in respect of any capital gains (determined as the difference between the sale price and the acquisition price) realised on the transfer outside the territory of Serbia of any Notes between non-residents.

Tax Implications for Residents of Serbia

Payments of interest under the Notes to any individual (natural person) who is resident in Serbia will not be subject to taxation and any such Noteholder will also not be subject to taxation in respect of any capital gains realised on the transfer of any Notes. Similarly, Noteholders which are legal entities resident in Serbia will not be subject to taxation in respect of any capital gains realised on the transfer of any Notes.

Additional Amounts Payable under the Notes

In the event that a payment of interest in respect of the Notes is subject to withholding or deduction for any taxation pursuant to Condition 10 (***Taxation***) of the Notes, the Issuer has agreed to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject only to certain exceptions set out in the relevant Condition. One such exception is that if a Noteholder is subject to Serbian taxation by reason of his having some connection with Serbia other than the mere holding of the Note, that Noteholder would not be entitled to payment of any additional amounts under the relevant Condition.

U.S. Federal Income Taxation

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the New Notes by a U.S. Holder (as defined below). This summary deals only with purchasers of the New Notes pursuant to this offering that are U.S. Holders and that will hold the New Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of the New Notes by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax or net investment income tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, accrual method taxpayers that file applicable financial statements, persons who are tendering U.S.$1,500,000,000 4.875 per cent. Notes due 2020 in the tender offer, investors that will hold the New Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "**U.S. Holder**" means a beneficial owner of the New Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships should consult their tax advisers concerning the

U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of the New Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NEW NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Qualified reopening

The New Notes should be treated, and the Issuer intends to treat them, as issued in a qualified reopening of the Original Notes for U.S. federal income tax purposes. Accordingly, the New Notes will have the same ''issue price'' and ''issue date'' as the Original Notes. The Original Notes had an issue price of 98.909% and an issue date of 26 June, 2019.

Pre-issuance accrued interest

A portion of the purchase price of the New Notes will be attributable to the amount of interest accrued prior to the date the New Notes are purchased (''pre-issuance accrued interest''). The Issuer intends to take the position that a portion of the first interest payment on the New Notes equal to the pre-issuance accrued interest will be treated as a return of the pre-issuance accrued interest rather than as an amount payable on the New Notes. The portion of the first stated interest payment equal to the pre-issuance accrued interest should be excluded from income and should instead reduce a U.S. Holder's initial tax basis in a New Note (except that a U.S. Holder would generally be required to recognize exchange gain or loss in an amount equal to the difference, if any, between the U.S. dollar value of the pre-issuance accrued interest at the time of purchase and at the time the payment of such pre-issuance accrued interest is received, as determined at the spot rate in effect on each such date). Prospective purchasers of the New Notes are urged to consult their own tax advisors regarding pre-issuance accrued interest.

Payments of Interest

Interest on a New Note (other than pre-issuance accrued interest, as discussed above) will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the New Notes (other than pre-issuance accrued interest) constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Any interest paid in foreign currency will be included in a U.S. Holder's gross income in an amount equal to the U.S. dollar value of such foreign currency regardless of whether the foreign currency is converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. A cash method U.S. Holder generally will not realize foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the foreign currency received. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the U.S. Holder's taxable year). Alternatively, an accrual basis U.S. Holder may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year in the case of a partial accrual period) or the spot rate on the date of receipt, if that date is within five business days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date the payment is received differs from the rate applicable to an accrual of that interest. The amount of foreign currency gain or loss to be recognized by such U.S. Holder will be an amount equal to the difference between the U.S. dollar value of the foreign currency interest payment (determined on the basis of the spot rate on the date the interest income is received) in respect of the accrual period and the U.S. dollar value of the interest income that has accrued during the accrual period (as determined above) regardless of whether the payment is in fact converted to U.S. dollars. This foreign currency gain or loss will be ordinary income or loss and generally will not be treated as an adjustment to interest income or expense. Foreign currency gain or loss generally will be U.S. source income.

Amortizable bond premium

If, immediately after purchasing a New Note, a U.S. Holder's tax basis in the New Note (taking into account any reduction in basis equal to the pre-issuance accrued interest) exceeds the stated principal amount of the New Note, the New Note will be treated as having been acquired with ''bond premium.'' A U.S. Holder may elect to amortize such bond premium on a constant yield method, in which case the amount required to be included in the holder's income each year with respect to interest on the New Note will be reduced by the amount of amortizable bond premium allocable (based on the Note's yield to maturity) to that year. If a U.S. Holder does not make this election, the bond premium will decrease the gain or increase the loss the U.S. Holder would otherwise recognize on a sale, exchange, retirement, redemption or other taxable disposition of a New Note. Any election to amortize bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the holder, and is irrevocable without the consent of the IRS.

Bond premium will be computed in euros. A U.S. Holder making the election to amortize bond premium may recognize exchange gain or loss each period equal to the difference between the U.S. dollar value of bond premium with respect to such period determined on the date the interest attributable to such period is received and the U.S. dollar value of such amortized bond premium determined on the date of the acquisition of the relevant New Notes.

Market Discount

A New Note generally will be treated as having market discount if the stated principal amount of such New Note exceeds the U.S. holder's tax basis in such New Note immediately after its purchase (taking into account any reduction in basis equal to the pre-issuance accrued interest) by an amount equal to or greater than the product of 0.25 per cent. of such New Note's stated principal amount and the number of complete remaining years to such New Note's maturity. If this excess is not sufficient to cause such New Note to have market discount, then the excess constitutes "*de minimis* market discount", in which case the market discount is treated as zero.

Sale and Retirement of the New Notes

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a New Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the New Note. A U.S. Holder's tax basis in a New Note will generally be its U.S. dollar cost reduced by (i) any amounts attributable to pre-issuance accrued interest and (ii) the amount of any amortizable bond premium applied to reduce interest on the New Note as set forth above. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. If a U.S. Holder purchases the New Note with foreign currency, such holder's U.S. dollar cost of the New Note will generally be the U.S. dollar value of the purchase price on the date of purchase calculated at the spot rate of exchange on that date. If a U.S. Holder disposes of the New Note for an amount in foreign currency, the amount realized upon the disposition of a New Note will generally be the U.S. dollar value of the amount received on the date of the disposition calculated at the spot rate of exchange on that date. However, if a U.S. Holder is a cash basis taxpayer, or an accrual basis taxpayer if it so elects, and the New Note is traded on an established securities market, the U.S. dollar cost of the New Note and the amount realized on its disposition will be the U.S. dollar value of the purchase price or disposition proceeds on the settlement date of the purchase or disposition, respectively. The election available to accrual basis U.S. Holders in respect of the purchase and disposition of Notes traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Subject to discussion below of the foreign currency rules and market discount, gain or loss recognised by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Notes.

Gain or loss that a U.S. Holder recognizes on the sale or retirement of a New Note will generally be treated as U.S. source ordinary income or loss to the extent that the gain or loss is attributable to changes in foreign currency exchange rates during the period in which such holder held such Note. Such foreign currency gain or loss will equal the difference between (i) the U.S. dollar value of the U.S. Holder's foreign currency purchase price for the New Note calculated at the spot rate of exchange on the date of the sale or retirement and (ii) the U.S. dollar value of the holder's foreign currency purchase price for the New Note calculated at the spot rate of exchange on the date of purchase of the New Note. The realization of any foreign currency gain or loss will be limited to the amount of overall gain or loss realized on the disposition of the New Note.

Gain or loss recognized on the sale, exchange, retirement, redemption or other taxable disposition of a New Note having market discount generally will be treated as ordinary income to the extent attributable to market discount that has accrued (on a straight line basis or, at the election of the U.S. holder, on a constant yield basis) on such New Note. Alternatively, a U.S. Holder of a New Note having market discount can elect to include accrued market discount in its income currently over the life of such New Note. Any accrued market discount on a New Note that is currently includible in a U.S. Holder's income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder's taxable year).

Exchange of Foreign Currency

If a U.S. Holder receives foreign currency as interest on a New Note or on the sale or disposition of a Note, such holder's tax basis in such currency will equal its U.S. dollar value when the interest is received or at the time of the sale or disposition or on the settlement date, as applicable. If a U.S. Holder purchases foreign currency, such holder generally will have a tax basis equal to the U.S. dollar value of such foreign currency on the date of the purchase. If a U.S. Holder sells or disposes of foreign currency, including if such holder uses it to purchase Notes or exchanges it for U.S. dollars, any gain or loss recognized generally will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

Payments of principal, and interest on, and the proceeds of sale or other disposition of the New Notes, by a U.S. paying agent or other U.S. intermediary will be reported to the Internal Revenue Service and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns.

Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Treasury Regulations require the reporting to the IRS of certain foreign currency transactions giving rise to losses in excess of a certain minimum amount, such as the receipt or accrual of interest on or a sale, exchange, retirement, redemption or other taxable disposition of a foreign currency note or foreign currency received in respect of a foreign currency note. U.S. holders should consult their tax advisors to determine the tax return disclosure obligations, if any, with respect to an investment in the New Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Foreign Financial Asset Reporting

U.S. law imposes reporting requirements (on IRS Form 8938) on the holding of certain foreign financial assets, including debt of foreign entities, if the aggregate value of all of these assets exceeds U.S.$50,000 at the end of the taxable year or U.S.$75,000 at any time during the taxable year. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are in an account at a domestic financial institution. U.S. Holders should consult their tax advisers regarding the application of this legislation.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes.

Prospective purchasers of the Notes should consult their own tax advisers concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed above, as well as the application of state, local, foreign or other tax laws.

SUBSCRIPTION AND SALE

BNP Paribas, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and J.P. Morgan Securities plc (together, the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated 8 November 2019 (the "**Subscription Agreement**"), severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the New Notes at 102.251 per cent. of their principal amount. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

United States

The New Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed, severally and not jointly, to offer the New Notes in the United States only to persons who they reasonably believe to be QIBs in reliance on Rule 144A or outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the New Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom.

Singapore

Each Joint Lead Manager has acknowledged that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any New Notes or caused the New Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any New Notes or cause the New Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the New Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the New Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the New Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

General

No action has been or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would permit a public offering of the New Notes, or possession or distribution of this Prospectus or any other offering or publicity material relating to the New Notes, in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has represented, warranted and agreed that it has, to the best of its knowledge and belief, complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers New Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the New Notes. Persons into whose hands this Prospectus comes are required by the Issuer and each Joint Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver New Notes or possess, distribute or publish this Prospectus or any other offering material relating to the New Notes, in all cases at their own expense.

The Joint Lead Managers and their affiliates have from time to time provided, and expect to provide in the future, investment banking, commercial banking and other financial services to the Issuer, for which they have received and may continue to receive customary fees and commissions. The Joint Lead Managers, or their affiliates, may, from time to time, engage in transactions with and perform services for the Republic of Serbia in the ordinary course of their businesses. As a result of acting in the capacities described above, and as a result of the fact that certain of the Joint Lead Managers or their affiliates may have interests, relationships or engagements with or relating directly or indirectly to the Republic of Serbia, Serbian financial institutions or other entities and persons and bodies related to or affiliated with any of the foregoing, certain of the Joint Lead Managers or their affiliates may have interests that may not be aligned, or could potentially conflict, with investors' and with the Republic of Serbia's interests.

The Joint Lead Managers and certain of their affiliates may also communicate independent investment recommendations, market colour or trading ideas and/or publish express independent research views in respect of securities or instruments (including those of the Republic of Serbia) and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the New Notes prior to the date of this Prospectus. The issue of the New Notes has been duly authorised pursuant to the Decision of the Government of the Republic of Serbia dated 7 November 2019.

Listing and Admission to Trading

It is expected that listing of the New Notes on the Official List and admission of the New Notes to trading on the Market will be granted on or about 12 November 2019, subject only to the issue of the New Regulation S Global Note and the New Rule 144A Global Note. The New Notes are expected to be issued on or about the New Issue Date. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. The listing of the New Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in euros and for delivery on the third working day after the day of the transaction. The expenses related to the admission to trading of the New Notes are expected to be approximately £5,515.

No Significant Change

There has been no significant change in the tax and budgetary systems, gross Public Debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2018.

Clearing Systems

The New Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code and ISIN for the Regulation S Notes and the Common Code and ISIN for the Rule 144A Notes are as follows:

Regulation S Notes

Common Code: 201529646

ISIN: XS2015296465

Rule 144A Notes

Common Code: 201529654

ISIN: XS2015296549

Indication of Yield

The indication of yield in relation to the New Notes is 1.250 per cent. per annum. This yield is calculated at the New Issue Date on the basis of the Issue Price. It is not an indication of future yield.

Litigation

There are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Issuer's financial position.

Documents Available for Inspection

Copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent, as set forth on the back cover of this Prospectus, and may be accessed on the Issuer's website at *http://www.javnidug.gov.rs/eng/default.asp?P=101*, for 12 months from the date of this Prospectus:

- the Budgets of Serbia, including any supplementary Budgets, for the fiscal years 2015, 2016, 2017, 2018 and 2019;

- the Fiscal Agency Agreement and any supplements thereto;
- the Deed of Covenant and any supplements thereto; and
- this Prospectus and any supplements hereto.

Third Party Information

Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

Legal Entity Identifier

The Legal Entity Identifier of the Issuer is 254900W94OCY91V32O78.

THE ISSUER

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