International Monetary Fund

Republic of Serbia
and the IMF

Republic of Serbia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Press Release:
IMF Executive Board
Completes the Eighth
Review of Serbia's
Stand-By
Arrangement
December 20, 2017

December 5, 2017

The following item is a Letter of Intent of the government of the Republic of Serbia, which describes the policies that the Republic of Serbia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of the Republic of Serbia, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Country's Policy
Intentions Documents

Republic of Serbia Letter of Intent

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Belgrade, December 5, 2017

Dear Ms. Lagarde:

Our economic program, supported by the Stand-By Arrangement (SBA) approved by the IMF Executive Board on February 23, 2015, has been instrumental in reducing Serbia's long-standing internal and external economic imbalances. The attached Memorandum of Economic and Financial Policies (MEFP) describes progress made so far and sets out the economic policies that the Government of the Republic of Serbia and the National Bank of Serbia (NBS) intend to implement under the SBA. Our program continues to be fully supported by all coalition partners in the government, indicating strong commitment to and ownership of envisaged policies.

Quantitative program conditionality has been fully met, except for a minor deviation on accumulation of domestic payment arrears, and progress has been made on structural benchmarks. The end-September PCs on NIR, the fiscal deficit, and current primary spending have all been met, by considerable margins. Inflation has remained within the NBS target band and within the inner limit of the program inflation consultation clause. As prior actions for the review, we will (i) adopt the 2018 budget consistent with program objectives, (ii) approve secondary legislation for local government and public services needed to support the implementation of the Law on Public Sector Employees Wage System; (iii) launch the privatization tender for MSK; and (iv) adopt the amendments of the corporate insolvency law.

Structural reforms are critical for achieving program objectives. In this context, the policies through the remainder of our program will continue to focus on consolidating fiscal gains and reducing public debt, strengthening financial sector resilience, and implementing broad-based structural reforms.

Given Serbia's comfortable international reserve position and continued access to external financing, we intend to treat the arrangement as precautionary. Therefore, we would not make the purchases when they become available. The implementation of our program will continue to be monitored through quantitative performance criteria, indicative targets, structural benchmarks, and an inflation consultation clause, as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

We believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our economic program, and we will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. And we will provide all information requested by the Fund to assess implementation of the program.

We wish to make this letter available to the public, along with the attached MEFP and TMU, as well as the IMF staff report on the eighth review of the SBA. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official website of the Serbian government.

Sincerely,

/s/
Ana Brnabić
Prime Minister

/s/	/s/
Jorgovanka Tabaković	Dušan Vujović
Governor of the National Bank of Serbia	Minister of Finance

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

1. **This memorandum sets out our economic program for the remainder of the SBA.** The program aims to maintain a foundation for healthy economic growth by addressing Serbia's short-term and medium-term economic challenges. To this end, the program focuses on policies to ensure macroeconomic stability, most notably by maintaining fiscal sustainability, bolster resilience of the financial sector, and improve competitiveness of the economy.

2. **Significant progress has been made since the economic program started.** Bold fiscal consolidation, which started in late 2014, has taken place, reforms in the financial sector have progressed well, and restructuring of the state-owned enterprises is yielding positive impacts on their efficiency and financial discipline.

3. **The goals of the economic program are compatible with our aspirations to become an EU member, having started the accession process in January 2014.** Implementing this program will allow Serbia to realize the significant potential for convergence towards EU income levels.

Recent Economic Developments and Outlook

4. **Serbia's economic recovery continues**. Notwithstanding some temporary supply shocks, broad economic activity remains robust, supported by continued recovery of private consumption, robust export growth, and strong FDI. The labor market continues to strengthen, with employment rising and unemployment falling. Headline CPI inflation has remained close to the center of the inflation target range (2.8 percent, yoy, in October), while core inflation remains subdued (1.4 percent, yoy, in October). The external current account deficit has temporarily widened but remains fully covered by foreign direct investment. Yields on government securities and bank lending rates have declined markedly since the start of the NBS easing cycle.

5. **We expect the consistent implementation of the policy actions and reforms envisaged under our economic program to maintain the virtuous cycle of boosting confidence, improving private sector dynamism, and fostering economic growth**.

- **Real GDP** is expected to expand at 2 percent in 2017 and 3.5 percent in 2018, and to gradually rise to 4 percent over the medium term, on account of improved market confidence, stronger private sector employment and real wages and credit growth, robust export growth, and the positive effects of structural reforms.

- **Annual headline CPI inflation** is projected to average 3.1 percent in 2017 and to remain at around 3 percent over the medium term.

- **The current account deficit** is expected to temporarily widen to about 4.6 percent of GDP in 2017 due to the effects of the drought and electricity production disruptions in the first half of the year. The deficit is expected to return to about 4 percent in 2018 and over the medium term, as strong exports offset increased consumption and investment. External financing will continue to rely mostly on FDI as well as on bilateral and project loans.

6. **The program scenario faces domestic and external risks.** Serbia remains exposed to external risks, including regional spillovers and renewed episodes of global market volatility. Delays in implementing structural reforms, particularly in the area of SOE restructuring, could compromise sustainability of the fiscal adjustment. This, in turn, could slow down the reduction of public debt and deteriorate growth prospects.

Economic Policies

A. Fiscal Policies

7. **We are committed to preserve the hard-won fiscal gains to keep public debt-to-GDP ratio firmly on a downward path.** The estimated structural fiscal adjustment in 2015–2017 amounts to almost 6 percent of GDP, exceeding the program target of 4 percent of GDP. This sizeable adjustment has been driven by stronger revenues and tight control of current spending.

8. **Strong fiscal performance continued in the first nine months of 2017.** The general government recorded a surplus of RSD 82 billion in the first three quarters, compared to the adjusted program target of a surplus of RSD 13.8 billion. These good results are largely due to strong revenue, temporary under-execution of capital expenditure, and lower interest rate bill. The public debt-to-GDP ratio fell to 65.4 percent at end-September and is expected to be about 67 percent by end-2017, more than 10 percent of GDP below the 2015 peak.

9. **Fiscal results in 2017 have significantly over-performed program targets allowing for one-off expenditures while remaining under the expenditure ceiling.** The general government balance for this year is projected at a surplus of 0.2 percent of GDP, compared to the original budget target of 1.7 percent of GDP deficit. Part of the fiscal space created by strong fiscal overperformance will be used to grant a one-off pension bonus of RSD 5,000 to all pensioners (amounting to about RSD 8.9 billion) and a small and targeted wage bonus (RSD 4.7 billion in gross terms).

10. **For 2018, our primary focus is to preserve hard-won fiscal achievements, while using part of the overperformance for reducing the tax burden on labor and some wage and pension increases**. We aim at an overall fiscal deficit of 0.7 percent of GDP in 2018, significantly below original program projections, and a level consistent with fiscal sustainability and continued public debt reduction. As a **prior action**, we will adopt the 2018 budget consistent with program fiscal parameters.

- We will increase the non-taxable income threshold under the PIT from RSD 11,790 to RSD 15,000 per month.

- We will significantly increase capital spending, including by accelerating planned investments on the highway corridor 11, railway line Belgrade-Budapest, highway Belgrade bypass, reconstruction of Nis-Dimitrovgrad railway line, and improvements in water and drainage systems.
- We are committed to contain the general government wage bill at 8.3 percent of GDP, unchanged from the 2017 level, and reduce the pension bill to 11.1 percent of GDP from 11.3 percent of GDP in 2017. We will keep the wage freeze in public enterprises and SOEs in 2018.
- We have allocated a contingency of RSD 1 billion to support the resolution of SOEs.

11. We will aim to further reduce fiscal risks and will prepare contingency measures as needed. In this regard, we will not rely on short-term external debt financing (quantitative performance criterion) and we will maintain an adequate level of fiscal buffers. We will not accumulate public sector external debt payment arrears (continuous performance criterion). We will also refrain from accumulating domestic payment arrears (indicative target). Our efforts to reduce public spending will continue being monitored through a ceiling on the current primary expenditure, excluding capital spending and interest payments, of the Serbian Republican budget (quantitative performance criterion).

B. Structural Fiscal Policies

12. We are progressing with reforms of the general government employment and wage system.

- As of end-September 2017, public sector permanent employment (including local public utilities) had been reduced by about 28,500 employees compared to the end-2014 level, mostly through attrition. To support these efforts and provide guidance for further rightsizing efforts, in June we adopted the 2017 Decision of the Maximum Number of Employees in the Public Sector under the Law on Ceilings on the Number of Employees setting detailed limits on positions for each institution of the general government (excluding professional soldiers) and local utility companies. We will continue to apply an employment freeze in 2018, with exceptions managed through the Employment Commission, taking into account individual institutions' employment ceilings, budgetary envelopes, and specialist staffing needs. Going forward, rightsizing efforts will be guided by detailed systemization plans and availability of fiscal space at the institutional level.
- In the education sector, we will implement an administrative restructuring for the 2018-19 school year, based on class-size criteria being developed in conjunction with the World Bank. We have also closed intake or merged 166 out of 425 TVET profiles.
- Since January 2016, for the entities subject to the Law on Ceilings, the renewal of the fixed or temporary contracts will be permitted only if entities are complying with the

ceilings stated by the Law and if the share of temporary employees is below 10 percent of the number of permanent employees or in the exceptional cases defined in the Law.

- To support implementation of the Law on Public Sector Employees Wage System, the government adopted a new job catalog in July and parliament will approve the necessary secondary legislation for local governments and public services (health, education, culture, and social protection) (**prior action**). The decree specifying the coefficients under the new wage system will be adopted by March 2018. Secondary legislation for all other sectors (including police and armed forces) will be adopted in 2018.

13. To safeguard fiscal consolidation, limit risks, and strengthen institutions:

- We will review and clearly define the coverage of general government to be compatible with European System of Accounts (ESA) 2010 and GFSM 2014 by 2018. As in 2016-17, we will submit financial plans of social security funds with estimates for their indirect beneficiaries to the National Assembly, in parallel with Republican budget. We will include all indirect budget beneficiaries of the central government in the Financial Management Information System (FMIS) gradually by end-2019. Throughout 2017, we have continued to work to upgrade the budget execution system to be able to support the integration of new users. We will include prisons and cultural institutions in FMIS starting January 1, 2018. In 2019, social protection institutions will be integrated, having in mind that they are the most numerous and diverse and will continue to upgrade their capacities over the period 2018-2019.

- We have introduced new regulations and guidelines to improve public investment management. In particular, in June we adopted a decree aimed at strengthening the project appraisal process, to establish a unique project pipeline and clearly define its links with multi-annual planning and annual budget procedures. We will continue to seek ways to accelerate implementation of public investment and to strengthen public investment management frameworks.

- We are committed to ensure that a full assessment of all proposed Public-Private Partnerships (PPPs) is reviewed by the Ministry of Finance (MOF), including PPPs' key financing features, cost-benefit analysis, and risk sharing arrangements with the government. In this regard, we set up a special fiscal risks management unit at the MOF and included a fiscal risk statement on all PPPs in the Medium-Term Fiscal Strategy from the 2017 budget. Furthermore, to improve control of fiscal implications and risks, we amended the existing Law on Public-Private Partnership and Concessions mandating that PPPs larger than EUR 50 million are submitted to the government for consideration only after receiving the MOF's consent. By end-March 2018 we will adopt additional amendments to the Law aimed at limiting overall fiscal exposure, ensuring a competitive tender process.

14. To secure savings from the corporate and financial restructuring of public enterprises and SOEs, we are introducing a set of public financial management changes.

- To enhance the payment discipline between public sector entities, we have developed a new system for invoice registration covering the public sector based on a unique invoice code that would be required at the time of invoicing, and plan to start implementation in 2018. To stop accumulation of arrears, we have been publishing monthly reporting of overdue receivables to Srbijagas and EPS of their top 20 debtors on the companies' web pages.

- We have been strictly limiting issuance of state guarantees since January 1, 2015. In this regard, we will not issue any new state guarantees for liquidity support, or state guarantees for any company in the portfolio of the former Privatization Agency (continuous performance criterion). The Government will continue to refrain from issuing any implicit state guarantees.

- The diagnostic analysis of the Development Fund (DF) and the export promotion agency (AOFI) by an independent consultant has been completed. Based on this study, in December, (i) supervisory boards of these institutions adopted Decisions recognizing losses on the credit portfolio, and (ii) the government adopted a conclusion to restrict exposures of these institutions to SOEs, implement measures aimed at enhancing risk management frameworks and preventing further deterioration in asset quality, and establish timeline to resolve impaired assets **(end-October structural benchmark)**. In 2018, we will identify needs and options for development finance activities.

15. To raise the efficiency of revenue collection, we are committed to improve tax administration. This work continues to be based on recommendations of IMF technical assistance and the Tax Administration Diagnostic Assessment Tool review. Our priorities are to (i) strengthen the Tax Administration's governance, (ii) streamline organizational structures of headquarters and field offices, (iii) reduce non-core activities, (iv) phase in a modern compliance risk management approach, (v) strengthen arrears management, including write-off procedures, (vi) modernize information technology systems and business processes, and (vii) improve coordination and information exchange with other government agencies.

- We have adopted in December a government decision updating our Transformation Program and identified non-core activities to be transferred or separately managed within the STA with deadlines to complete the moves (**end-October structural benchmark**). The aim is that by June 2019 all remaining non-core STA activities will be managed separately, while core STA tasks are consolidated into no more than 36 offices.

- Parliament will adopt by December 15th amendments to the law on financial support to families with children (effective January 1, 2018) to increase parental allowances, while eliminating VAT refunds for baby items, with a view to provide benefits earlier and reduce the tax administration burden.

C. Monetary and Exchange Rate Policies

16. We see the current inflation targeting framework as the most viable option for maintaining stable inflation and protecting the economy against external shocks. In November 2016, we lowered the inflation target from 4±1½ percent to 3±1½ percent for 2017-18, which we consider better aligned with improved macroeconomic fundamentals and our medium-term objectives. We remain committed to the objective of keeping inflation within the inflation tolerance band and inflation developments will continue to be monitored via a consultation clause with consultation bands set around the central projection (Table 1). Since the inception of the program in early 2015, on the back of the reduction of macroeconomic imbalances, we reduced the key policy rate by 400 basis points by mid-2016, to 4 percent, to support returning of headline inflation into the tolerance band. In September and October 2017, we reduced the key policy rate 2 times (by 50 basis points in total) to 3.5 percent, taking into account the inflation outlook and external environment.

17. We will maintain the existing managed float exchange rate regime in line with the inflation targeting framework. We believe that exchange rate flexibility provides a needed buffer against external shocks. In light of this, foreign exchange interventions will continue to be used to smooth excessive short-term exchange rate volatility without targeting a specific level or path for the exchange rate, while considering the implications for financial sector and price stability. The current level of gross international reserves is well above the level that could be considered as necessary for precautionary purposes. We will maintain adequate coverage throughout the program, monitored by a floor on net international reserves (quantitative performance criterion).

18. We will continue to implement our dinarization strategy. This strategy is based on three pillars: (i) maintaining overall macroeconomic stability; (ii) creating favorable conditions for developing the dinar bond market; and (iii) promoting hedging instruments. We will continue to use our monetary policy and prudential framework to support the dinar instruments, and we will further communicate the importance of the dinarization for overall financial stability. Macroeconomic imbalances have been reduced significantly and inflation has remained low and stable on the back of an inflation targeting regime with a relatively stable exchange rate, coupled with fiscal discipline, which should all support dinarization. In the last few years, we have also introduced several measures to increase dinarization, such as higher reserve requirements on and lower remuneration of FX deposits, requirement of partial dinar allocation for reserve requirements on FX deposits, and mandatory down-payment ratios for FX loans. Meanwhile, we have increased the share of public debt in domestic currency, issuing dinar securities at longer maturities. By September 2017, dinarization of deposits has increased to 30 percent, while dinarization has also increased for household lending, exceeding 50 percent. We have started to implement the recommendation of the recent IMF technical assistance mission to improve our communication framework by enriching the quarterly dinarization report and by publishing on the NBS website more detailed information related to our FX swap auctions.

19. To reduce risks to macroeconomic stability, we will continue capital account liberalization in a gradual way. Many of the capital account transactions, such as FDI and long-term flows, have already been liberalized, with the remaining restrictions related mainly to short-term capital and deposit flows. Taking into account the EU accession process, the liberalization of short-term borrowing and portfolio investment will be at first achieved in relation to EU countries. In this regard, amendments to the Law on Foreign Exchange Operations have been prepared and sent for review to the relevant institutions. Full liberalization of short-term capital and deposit flows will be achieved by the date of EU accession.

20. During the period of the SBA we will not, without IMF approval, impose or intensify restrictions on the making of payments and transfers for current international transactions, nor introduce or modify any multiple currency practices or conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement. Moreover, we will not impose or intensify import restrictions for balance of payments reasons.

D. Financial Sector Policies

21. Our policies will support financial sector stability and enhance the financial sector's ability to cope with shocks, while improving financial intermediation. Priority will be given to: (i) further reducing nonperforming loans (NPLs); (ii) assessing asset quality and provisioning practices; (iii) further strengthening the supervisory and regulatory framework in line with EU standards; (iv) operationalizing the new bank resolution framework; and (v) fully implementing the strategy for state-owned banks.

22. The implementation of the NPL resolution strategy is yielding positive results, with NPL ratios falling by 11 percentage points since the 2015 peak. This reflects the progress made in the implementation of the NPL resolution strategy, in addition to various regulatory initiatives since 2016 (including the recent NBS decision on accounting write-off of bank balance sheet assets with low collectability). In addition:

- The Law on Real Estate Appraisers was adopted by the National Assembly in December 2016 and national valuation standards were adopted in July 2017. Further amendments to the regime that regulates the profession of court-sworn experts, to be implemented during 2018, will ensure that the technical standards and rules for professional conduct envisaged under the Real Estate Appraiser Law will also be applied to real estate appraisals prepared in the context of enforcement procedures under the Law on Enforcement and Security.

- In December, parliament will adopt the amendments of the corporate insolvency law (**prior action**).

- To resolve legal ambiguity related to the transfer of the seller's rights to the buyer in the context of distressed assets' sales, in December parliament will adopt an authentic interpretation of article 48 of the Law on Enforcement and Security.

- In December, parliament will amend the personal and corporate income tax laws to clarify tax treatment of loan write-offs.

- The prudential framework for non-deposit taking financial institutions that is currently under consideration could also enable the sale of nonperforming retail receivables to regulated investors outside the banking sector.

23. Banks have continued to improve their reporting framework. The NBS is working with banks and their external auditors to prepare for implementation of IFRS9 starting January 1, 2018, and discussing the implications for banks' financial positions and systems.

24. We continue to strengthen financial sector supervision. Implementation of Basel III-compliant regulatory standards on capital, liquidity, and risk management, as well as updated standards on disclosure and regulatory reporting, has become effective as of end-June 2017. Minimum capital requirements have been reduced from 12 percent to 8 percent, while additional capital buffers have been introduced—in line with the EU's Capital Requirement Directive. The required reserves for estimated loan losses will remain in force until 2019, but recent amendments allow banks to reduce the required reserve in accordance with improvements of their NPL ratios. Multi-year action plans for strengthening the NBS' prudential oversight over the insurance and banking sectors are being implemented, which include the introduction of a more risk-sensitive supervisory cycle for banks. The review of banks' recovery plans will provide the NBS with further insights in the critical functions and intra-group linkages of banks, as well as banks' preparedness to dealing with sudden shocks.

25. The NBS continues to enhance its macroprudential policy framework. Regulatory amendments for the introduction of new macroprudential instruments have been developed and adopted as part of the implementation of Basel III. The NBS has enhanced its framework for implementation of its macroprudential instruments, in line with recommendations of with IMF technical assistance. Specifically, in June 2017 the NBS has adopted (i) the Decision establishing countercyclical capital buffers (currently set at 0 percent); (ii) the Decision prescribing a systemic risk buffer rate of 3 percent on FX and FX-linked lending to corporates and households in the Republic of Serbia to be applied to banks based on their contributions to risks related to euroization; and (iii) the Decision determining the list of systemically important banks and their required capital buffers of 1 or 2 percent.

26. The NBS continues to strengthen its bank resolution capabilities. Significant progress has been made to develop the methodology to assess critical functions and the criteria to determine the options for bank resolution strategies. We are updating the resolution plans of banks and banking groups with a view to complete the process for domestic systemically important banks by February 2018.

27. Reforms of state-owned financial institutions are progressing. We are strengthening our oversight over financial institutions with state-ownership. In November, external consultants completed and the board of directors adopted the report to support the implementation of the new strategy for Banka Postanska Stedionica, with a particular focus on (i) the bank's commercial reorientation towards retail banking, entrepreneurs, micro-enterprises and small enterprises, (ii) improvements of the bank's internal organization, corporate governance and risk management, (iii) enhancement of its IT infrastructure, and (iv) preparation of a business plan for the period 2018-20. By end-December, the bank will make the needed preparations (including budget allocation and contracting new consultants) to start implementing the report's findings and recommendations in the first quarter of 2018. In early August, the government updated the 2014 strategy for state-owned banks, with the aim to identify strategic options for the smaller banks. In December, the government plans to adopt a decision to initiate privatization of Komercijalna Bank, with a view to complete the process by December 2018, subject to market conditions.

28. We will continue to support credit to SMEs. Given the importance of SMEs for Serbia's economy and the limited access to financing by this sector, we have been supporting lending to SMEs through EIB's credit lines ("Apex loans"), and we have established an NBS working group to consider the introduction of the framework for functioning of non-deposit financial institutions.

29. We have established a working group on capital market development. We will prepare a diagnostic report, in consultation with the World Bank, with a view to inform the government's strategy to enhance capital markets.

E. Structural Policies

30. We continue implementing a number of comprehensive structural reforms to attract investment, support growth, and rebalance the economy on its path towards EU integration. We will continue to focus on policies that (i) promote job creation, (ii) reform state and socially-owned enterprises, and (iii) improve the overall business environment and private investment climate.

31. We are improving our social protection programs. We are preparing a new Law of Social Protection which will replace the existing legislation that governs the eligibility and conditions to receive social assistance, with the aim to improve the effectiveness and targeting of the cash welfare allowances.

32. We continue implementing wide-ranging reforms of socially-owned and state-owned enterprises to improve their operational viability and limit fiscal risks. Our priority is to significantly reduce fiscal costs of SOEs through (i) curtailing direct or indirect subsidies, (ii) strictly limiting issuance of new guarantees, and (iii) enhancing accountability, transparency and monitoring of these enterprises. To this end, we are implementing strategies for three broad categories of state-owned companies:

- Large public enterprises, such as electricity, gas, railways, and road companies (see below). These reforms are supported by the World Bank and EBRD.

- 17 strategic companies in the portfolio of the former Privatization Agency. We have fully resolved 10 companies and are forcefully pursuing resolution of the remaining ones through either privatization tender or initiating insolvency (including pre-pack bankruptcy).

- Other (over 500) enterprises in the portfolio of the former Privatization Agency.

33. We are committed to continue restructuring large public utilities and transport companies to enhance efficiency and contain additional fiscal costs. To implement the needed corporate and financial restructuring in each of these companies over the medium term, we have taken several steps and plan to take the following ones:

- **Elektroprivreda Srbije (EPS).** Consistent with the five-year rightsizing target specified in the financial restructuring plan, the EPS supervisory board has adopted, in consultation with the World Bank, a 2016-19 optimization plan. In 2016, about 2,000 employees left the company, of which approximately 1,500 through voluntary separation and the rest through attrition. We have established the criteria for the second round of rightsizing and in line with the labor optimization plan, and a new window to apply for voluntary separation was closed in October, aiming at reducing the number of employees by 1,000 by end-2017. Following a household tariff increase of 4.5 percent in August 2015 and 3.8 percent in October 2016, another increase of 2 percent is effective from October, which will help ensuring adequate resources for needed maintenance investments. We have engaged the World Bank and the EBRD with a view to enhance corporate governance, management, and procurement and planning frameworks of EPS. We will change the legal status of EPS to a joint stock company, in line with the ongoing corporate restructuring process and financial consolidation, aiming to improve the viability of the company and ensure its professional management.

- **Srbijagas.** A new organizational structure consisting of subsidiaries for transmission and distribution became effective in August 2015. In line with the fiscal program, we have divested part of Srbijagas' non-core assets and are pursuing permanent resolution of the companies which were a major source of arrears in the past—Azotara, MSK, and Petrohemija—in such a way that ensures no further budget support or accumulation of arrears. More generally, payment discipline has improved following the adoption of the financial consolidation plan for Srbijagas in March 2017 and the implementation of measures in November 2016 to improve collection rates to prevent future accumulation of arrears. A new investment appraisal methodology, proposed by the World Bank based on an economic and financial cost-benefit framework and including other relevant appraisal criteria, has been adopted in November. The new methodology will be used to assess all future projects. These measures will help improve Srbijagas' financial position and put the company on a sustainable path, thus containing the need for additional state aid.

- **Railways of Serbia**. We are implementing the financial restructuring plan adopted in October 2015 and developed in consultation with the World Bank, EBRD and EU. An updated labor rightsizing plan has been adopted in November, based on new organizational structure proposals prepared in consultation with the World Bank. Following a reduction of 3,146 positions in late 2016 the plan targets additional 2,344 positions by end-2017. In addition, we have closed 422 km of railway lines in 2016 and additional 669 km in April. Railway companies have also fully assigned responsibilities for electricity payments, and will ensure no reemergence of arrears to EPS.

- **Roads of Serbia.** Following a 10 percent toll increase in toll rates in January 1, 2017 to allow adequate infrastructure maintenance, we will further increase tolls in 2018 by at least inflation. Further increases will be gradually phased in based on an assessment of the adequacy of toll rates prepared with the assistance of the World Bank by end-February 2018. We have adopted a plan to remove rigidities in pricing maintenance contracts, covering 3,000 km in 2017 and signed our first performance-based management contract in November. The corporate and financial restructuring plans for Roads of Serbia will be developed in 2017 and 2018 in close consultation with the World Bank.

34. Regarding the few strategic companies for which resolution is still pending:

- We have re-initiated the privatization tender for PKB, with a view to finalize the process by mid-2018.

- We have launched a call for a privatization advisor for RTB Bor, and discussions with potential investors are ongoing, including on addressing environmental risks. We expect to launch the tender for privatization or strategic partnership by end-March 2018. In 2017, the company has been meeting all liabilities, including on taxes, wages, and electricity, as per the pre-pack agreement.

- We are developing, with the assistance of the World Bank, an action plan for Resavica mines, identifying the closure timetable for at least 4 unviable mines starting in 2018; allowing for reduction of subsidies from the budget; including rightsizing targets and measures to minimize social costs.

- We have restructured Petrohemija to eliminate any fiscal risks and have launched a public call for Letters of Interest for a strategic investor in March. Bankruptcy proceedings in accordance with a pre-pack were completed in September and we expect to launch a public call for privatization in the first half of 2018.

- We have received a number of expressions of interest from potential strategic investors for MSK. In December, we will launch privatization tender for MSK (**prior action**) and have adopted a government conclusion to find a strategic investor for Azotara by end-March, 2018, failing which bankruptcy procedures for the company will be initiated. In the meantime, we will ensure that Srbijagas will not provide any gas to these companies except on the basis of prepayment.

- In November, we accepted an offer for the sale of Galenika, with a view to close the transaction by the end of the year.

35. We continue to resolve the 500 plus enterprises in the portfolio of the former Privatization Agency through either privatization or bankruptcy, in accordance with the revised Privatization Law. By September 2017, more than 275 companies entered bankruptcy, and more than 45 were privatized since end-2014. About 27,554 employees from around 344 companies have received severance payments. Around 150 companies with nearly 52,000 employees remain to be resolved, including the strategic enterprises.

36. We aim to privatize or find strategic partners for a number of SOEs and concession projects. We will use the proceeds primarily for reducing the stock of public debt but possibly also for funding future financially viable and high return investment projects. The size of investment funding will be determined in consultation with IMF staff. We have received letters of interest for long-term concession partnerships for managing the Belgrade Airport, with a deadline to submit binding offers by December 8th, 2017 and to sign a concession agreement by early 2018.

37. We continue to enhance Serbia's competitiveness and business environment to support investment, job creation and private sector development. Supported by the World Bank and EBRD, specific actions will focus on the following areas:

- An all-electronic system for issuing construction permits has been in place since January 2016. To simplify the procedures of registering properties and reduce the costs we are working on a digitalization project of ownership register entry.

- We will initiate public debate on a draft Law on Charges by end-December **(end-November structural benchmark)**, which will replace existing laws and by-laws to regulate charges at all levels of government, to ensure greater predictability and transparency. We aim to adopt the new Law during the first half of 2018, to come into effect with the 2019 budget.

- We have declared 2017-18 as years of the fight against the gray economy, and have updated the national program adopted in late 2015.

- We submitted amendments to the Company Law to the National Assembly with a view to adopt it by end-2017, in order to harmonize with EU legislation, including to provide the legal framework for cross-border mergers of companies operating in the EU.

- We will also advance the data and legal infrastructure by introducing e-government and reducing staff in non-core functions. An action plan to implement the government strategy on e-government has been designed, to support this process.

Program Monitoring

38. Progress in the implementation of the policies under this program will be monitored through quarterly quantitative performance criteria (PCs) and indicative targets (ITs)—including an inflation consultation clause, continuous performance criteria (CPCs) and structural benchmarks (SBs). These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1. Serbia: Quantitative Program Targets 1/

	2016 2/												2017										
	Mar			Jun			Sep			Dec			Mar			Jun			Sep			Dec
	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.
I. Quantitative performance criteria (quarterly)																						
1 Floor on net international reserves of the NBS (in millions of euros)	6,912	...	6,942	6,599	...	6,616	5,932	...	6,944	5,511	...	7,196	5,262	...	6,885	5,044	...	7,076	5,358	...	8,035	5,674
2 Ceiling on the general government fiscal deficit 3/ 4/ (in billions of dinars)	53.9	38.4	15.9	78.3	61.7	18.2	81.3	60.5	4.5	112.0	100.3	54.2	32.0	34.1	-11.8	36.1	35.0	-44.1	-0.2	-13.8	-82.0	48.7
3 Ceiling on current primary expenditure of the Serbian Republican Budget excluding capital expenditure and interest payments (in billions of dinars) 3/	206.1	200.3	197.6	426.6	420.5	416.0	637.0	639.4	622.4	885.0	899.2	887.7	212.2	212.1	198.5	433.5	431.6	413.6	647.4	642.2	616.3	893.9
4 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget for project and corporate restructuring loans (in millions of euros) 3/ 7/	35	...	0	35	...	0	100	...	0	180	380	200	80	...	0	160	...	60	180	...	60	180
5 Ceiling on contracting or guaranteeing of new short-term external debt by the General Government, Development Fund, and AOFI (up to and including one year, in millions of euros)	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0
II. Continuous performance criteria																						
6 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget and the Development Fund for liquidity support (in billions of dinars)	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0
7 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros)	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0
8 Ceiling on gross issuance of new guarantees by the Serbian Republican Budget and the Development Fund to any company in the portfolio of the Former Privatization Agency (in billions of dinars).	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0	...	0	0
III. Indicative targets (quarterly)																						
9 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 5/	0.0	...	0.0	0.0	...	-0.7	0.0	...	0.2	0.0	...	-0.3	0.0	...	-0.2	0.0	...	-0.4	0.0	...	0.2	0.0
10 Ceiling on borrowing by the Development Fund and AOFI (in billions of dinars)	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0
11 Ceiling on new below-the-line lending by the Republican Government (in millions of euros) 3/	128	...	31	160	...	82	262	...	103	364	...	117	91	...	6.4	208	...	18.6	334	...	41	446
IV. Inflation consultation band (quarterly)																						
Outer band (upper limit, 2.5 percent above center point)	4.2	...	...	5.0	...		4.0	...		4.5	...		4.7	...		5.0	...		5.3	...		5.3
Inner band (upper limit, 1.5 percent above center point)	3.2	...	...	4.0	...		3.0	...		3.5	...		3.7	...		4.0	...		4.3	...		4.3
End of period inflation, center point 6/	*1.7*	...	*0.6*	*2.5*	...	*0.9*	*1.5*	...	*0.6*	*2.0*	...	*1.5*	*2.2*	...	*3.5*	*2.5*	...	*3.6*	*2.8*	...	*3.2*	*2.8*
Inner band (lower limit, 1.5 percent below center point)	0.2	...	...	1.0	...		0.0	...		0.5	...		0.7	...		1.0	...		1.3	...		1.3
Outer band (lower limit, 2.5 percent below center point)	-0.8	...	...	0.0	...		-1.0	...		-0.5	...		-0.3	...		0.0	...		0.3	...		0.3

1/ As defined in the Letter of Intent, the Memorandum of Economic and Financial Policies, and the Technical Memorandum of Understanding.
2/ Original program targets as specified in IMF Country Report 15/347.
3/ Cumulative since the beginning of a calendar year.
4/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees.
5/ Through the 3rd review, the authorities reported all outstanding accounts payable (>1 day past due), a more stringent definition than per the TMU.
6/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Serbian Statistics Office.
7/ End-March and end-June 2017 actual outcomes were revised down based on revised reports from the authorities, resulting in larger overperformance against respective program targets than what was reported in IMF Country Report 17/263.

Table 2. Serbia: Prior Actions and Structural Benchmarks

Measures	Target date	Status
Prior Actions		
1 Adoption by the National Assembly of the 2018 budget consistent with program objectives (MEFP ¶10).		
2 Adoption by the National Assembly of the secondary legislation for local governments and public services (health, education, culture, and social protection) needed to support implementation of the Law on Public Sector Employees Wage System (MEFP ¶12, fourth bullet).		
3 Launch of privatization tender for MSK privatization (MEFP ¶34, fifth bullet).		
4 Adoption by the National Assembly of the amendments of the corporate insolvency law (MEFP ¶22, second bullet).		
Structural Benchmarks		
Fiscal		
1 Resolution of Azotara and MSK through privatization or regular bankruptcy procedure (MEFP ¶34, fifth bullet).	March 31, 2017	Not met. Launching tender for MSK is set as PA#3.
2 Adoption by the National Assembly of the secondary legislation for local governments and public services (health, education, culture, and social protection) needed to support implementation of the Law on Public Sector Employees Wage System (MEFP ¶12, fourth bullet).	June 30, 2017	Not met. Reset as PA#2.
3 Adoption by the government of time-bound action plan for administrative restructuring in education sector, based on World Bank functional reviews (MEFP ¶12, second bullet).	September 30, 2017	Not met.
4 Adoption by the government a decision that identifies the non-core activities of the STA to be transferred or separately managed within the STA with deadlines to complete the move (MEFP ¶15, first bullet).	October 31, 2017	Not met. Completed in early December.
5 Initiate public debate on a new Law on Charges aimed at ensuring greater predictability and transparency by regulating fees and charges at all levels of government (MEFP ¶37, second bullet).	November 30, 2017	Not met. Expected to be completed by end-December.
Financial		
6 Based on results of diagnostic analysis of the Development Fund and the export promotion agency (AOFI), supervisory boards of these institutions adopt decisions to (i) fully recognize losses on credit portfolio, (ii) take measures to prevent further deterioration in asset quality, and (iii) identfy solutions to resolve impaired assets (MEFP ¶14, third bullet).	October 31, 2017	Not met. Completed in early December.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program. To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on December 31, 2014, except as noted below.

A. Floor for Net International Reserves of the NBS

	In Millions of Euro
Outstanding stock:	
End-December 2014	7,008
Floor on international reserves:	
End-December 2015 (performance criterion)	6,266
End-March 2016 (performance criterion)	6,912
End-June 2016 (performance criterion)	6,599
End-September 2016 (performance criterion)	5,932
End-December 2016 (performance criterion)	5,511
End-March 2017 (performance criterion)	5,262
End-June 2017 (performance criterion)	5,044
End-September 2017 (performance criterion)	5,358
End-December 2017 (performance criterion)	5,674

2. Net international reserves (NIR) of the NBS are defined as the difference between reserve assets and reserve liabilities, measured at the end of the quarter.

3. For purposes of the program, reserve assets are readily available claims on nonresidents denominated in foreign convertible currencies. They include the NBS holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contracts, guarantees and letters of credit), NBS' claims on resident banks and nonbanks, as well as subsidiaries or branches of Serbian commercial banks located abroad, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than monetary gold, domestically acquired gold without international certificates, assets in nonconvertible currencies, and illiquid assets.

4. For purposes of the program, reserve liabilities are defined as all foreign exchange liabilities to residents and nonresidents with a maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options, including any portion of the NBS gold that is collateralized), and all credit outstanding from the Fund. Excluded from reserve liabilities are government foreign exchange deposits with NBS, and amounts received under any SDR allocations received after August 20, 2009.

5. For purposes of the program, all foreign currency-related assets will be valued in euros at program exchange rates as specified below. The program exchange rates are those that prevailed on September 30, 2014. Monetary gold will be valued at the average London fixing market price that prevailed on September 30, 2014.

Cross Exchange Rates and Gold Price for Program Purposes, September 30, 2014

	Valued in:				
	RSD	Euro	USD	SDR	GBP
Currency:					
RSD	1.0000	0.0084	0.0107	0.0072	0.0066
Euro	118.8509	1.0000	1.2695	0.8563	0.7808
USD	93.6202	0.7877	1.0000	0.6745	0.6150
SDR	138.7994	1.1678	1.4826	1.0000	0.9119
GBP	152.2168	1.2807	1.6259	1.0967	1.0000
Gold	113,888.97	958.25	1,216.50	820.53	748.20

Source: NBS

6. Adjustors. For program purposes, the NIR target will be adjusted upward by the value of long-term assets and foreign-exchange-denominated claims on resident banks and nonbanks as well as Serbian commercial banks abroad, recovered by the NBS since December 31, 2014. The NIR floor will be adjusted upward by the full amount of proceeds from any eurobond issuance and external bilateral budget loans to the General Government since September 30, 2015. External bilateral budget loans, in this context, are loans to the Republican budget provided without any pre-specified purpose other than satisfying funding needs of the public sector. The NIR floor will also be adjusted upward by the value of domestically acquired gold for which certification was obtained after December 31, 2014. The NIR floor will also be adjusted upward by any privatization revenue in foreign exchange received after December 31, 2014. Privatization receipts are defined in this context as the proceeds from sale, lease, or concession of all or portions of entities and properties held by the public sector that are deposited in foreign exchange at the NBS either directly or through the Treasury.

B. Inflation Consultation Mechanism

7. Inflation is defined as the change over 12 months of the end-of-period consumer price index (CPI), as measured and published by the Serbian Statistics Office.

8. Breaching the inflation consultation inner band limits (specified in MEFP, Table 1) at the end of a quarter would trigger discussions with IMF staff on the reasons for the deviation and the proposed policy response. Breaching the outer limits would trigger a consultation with the IMF's Executive Board on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA.

C. Fiscal Conditionality

9. The general government fiscal deficit (previously referred to as the general government augmented fiscal deficit, see IMF Country Report 15/20, p. 70), on a cash basis, is defined as the difference between total general government expenditure (irrespective of the source of financing) including expenditure financed from foreign project loans, payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed, repayments of debt takeover if debt was previously guaranteed, and payment of arrears (irrespective of the way they are recorded in the budget law) and total general government revenue (including grants). For program purposes, the consolidated general government comprises the Serbian Republican government (without indirect budget beneficiaries), local governments, the Pension Fund, the Health Fund, the Military Health Fund, the National Agency for Employment, the Roads of Serbia Company (JP Putevi Srbije) and any of its subsidiaries, and the company Corridors of Serbia. Any new extra budgetary fund or subsidiary established over the duration of the program would be consolidated into the general government. Privatization receipts are classified as a financial transaction and are recorded "below the line" in the General Government fiscal accounts. Privatization receipts are defined in this context as financial transactions.

10. Government primary current expenditure of the Republican budget (without indirect budget beneficiaries) includes wages, subsidies, goods and services, transfers to local governments and social security funds, social benefits from the budget, other current expenditure, net lending, payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed, repayments of debt takeovers if debt was previously guaranteed, and payment of arrears (irrespective of the way they are recorded in the budget law). It does not include capital spending and interest payments.

Adjustors

- **The quarterly ceilings on the general government fiscal deficit will be adjusted downward (upward) to the extent that cumulative non-tax revenues of the General Government from dividends exceed (fall short of) programmed levels.**

- **The quarterly ceilings on the general government fiscal deficit will be adjusted downward to the extent that cumulative non-tax revenues of the General Government from debt recovery receipts, debt issuance premiums, receipts from telecom 4G frequency auctions, and concession and Public Private Partnership (PPP) receipts recorded above-the-line exceed programmed levels**. The IMF Statistics Department will determine the proper statistical treatment of any concession or PPP transaction signed during the IMF program.

- **The quarterly ceilings on the general government fiscal deficit and the primary current expenditure of the Republican budget** will be adjusted upward (downward) to the extent that cumulative severance payments by the general government for the former and the Republican budget level for the latter (including payments from the Transition Fund) exceed (fall short of) the programmed levels up to the yearly budgeted amount. Severance payments by the Health Fund will be considered made at the point the funds have been transferred by the Health Fund to the Health Institution (for both general government and Republican budget adjustors).

- **The quarterly ceilings on the general government fiscal deficit and the primary current expenditure of the Republican Budget** will be adjusted upward by a maximum of (i) by a maximum of RSD 13 billion for 2016 or 2017 to the extent that the Republican Budget assumes the debt of Petrohemija to NIS in the context of the former's resolution in a manner that ensures no further fiscal support, (ii) by a maximum of RSD 25 billion to on-lend or issue a new guarantee to Serbia Gas for the repayment of expensive debt in 2016 or 2017; (iii) by a maximum of RSD 6.75 billion to on-lend or issue a new guarantee to Galenika for the repayment of expensive debt in 2016 or 2017; (iv) by a maximum of RSD 0.6 billion to on-lend or issue a new guarantee to Jat Tehnika for the repayment of

Cumulative Programmed Severance Payments
(In billions of dinars)

	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017	End-Sep. 2017	Er D 20
Programmed cumulative severance payments (of general government)	9.4	11.4	5.0	5.5	1.4	2.75	4.1	5
Programmed cumulative severance payments (of Republican budget)	7.3	9.3	4.5	5.0	1.3	2.6	3.9	5

expensive debt in 2016 or 2017; and (v) by a maximum of RSD2 billion to on-lend or issue a new guarantee to RTB Bor for the repayment of expensive debt in 2017.

Cumulative Programmed Revenues of the General Government from Dividends, Debt Recovery Receipts, and Debt Issuance at a Premium
(In billions of dinars)

	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017	End-Sep. 2017	End-Dec. 2017
Programmed cumulative dividends	9.6	9.6	9.6	9.6	17.1	17.1	17.1	17.1
Programmed cumulative debt recovery receipts	0	0	0	0	0	0	0	0
Programmed cumulative debt issuance at a premium	0	0	0	0	0	0	0	0
Programmed cumulative receipts from telecom 4G frequency auctions	0	0	0	0	0	0	0	0
Programmed concession and PPP receipts recorded above the line					0	0	0	0

- **The quarterly ceilings on the primary current expenditure of the Republican budget will be adjusted upward (downward) to the extent that (i) cumulative earmarked grant receipts exceed (fall short of) the programmed levels and (ii) cumulative proceeds from small-scale disposal of assets (the sale of buildings, land, and equipment) recorded as non-tax revenues exceed the programmed levels up to a cumulative annual amount of 2 billion dinars in each of 2015, 2016, and 2017.** For the purposes of the adjustor, grants are defined as noncompulsory current or capital transfers received by the Government of Serbia, without any expectation of repayment, from either another government or an international organization including the EU.

Cumulative Receipts from Earmarked Grants and Small-scale Asset Disposal
(In billions of dinars)

	End-Mar. 2016	End-Jun. 2016	End-Sep. 2016	End-Dec. 2016	End-Mar. 2017	End-Jun. 2017	End-Sep. 2017	End-Dec. 2017
Programmed cumulative ear-marked grants receipts	1.8	4.0	6.5	11.4	2.0	4.3	7.1	11.5
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0	0	0	0

11. Ceiling on the gross issuance of debt guarantees by the Republican Budget for project and for liquidity support. Guarantees for liquidity support are defined in this context as explicit or implicit guarantees, including comfort letters, related to loans provided without any pre-specified purpose other than satisfying funding needs of the company that ensure its normal production and business activities. Guarantees for viable project loans are defined in this context as explicit or implicit guarantees, including comfort letters, related to loans with high probability of repayment provided with a pre-specified objective establishing that all funding should be used for well-defined investment or corporate restructuring projects, confirmed by a reliable feasibility study and/or the investment or restructuring plan endorsed by the government.

Adjustor

- **The quarterly 2016 ceilings on gross issuance of new guarantees by the Republican Budget for project and corporate restructuring loans** will be adjusted upward to the extent that the new EUR 200 million guarantee by the Republican Budget on a loan from the EBRD to the EPS originally planned for 2015 takes place in 2016.

- **The quarterly 2017 ceilings on gross issuance of new guarantees by the Republican Budget for project and corporate restructuring loans** will be adjusted upward to the extent that a new EUR 30 million guarantee by the Republican Budget on a loan from the EBRD to "Srbija Voz" ad occurs.

12. Ceiling on below-the-line lending by the Republican Government. Below-the-line lending is defined as the lending by the Republican Government which is used to provide financing to entities outside the General Government coverage. Below-the-line lending by the Republican Government will only be provided in cases where the probability of repayment is assessed to be high. These entities include the Deposit Insurance Agency (DIA), beneficiaries of the APEX lending program, and EPS, among others.

13. Ceiling on borrowing by the Development Fund and the Export Credit and Insurance Agency (AOFI). Borrowing by the Development Fund and AOFI is defined as gross accumulation of financial claims on these entities.

14. Domestic arrears. For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include an indicative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶9 above, except local governments; (ii) the Development Fund, and (iii) AOFI. Arrears to be covered include outstanding payments on wages and pensions; social security contributions; obligations to banks and other private companies and suppliers; as well as arrears to other government bodies.

D. Ceilings on External Debt

15. Definitions. The ceilings on contracting or guaranteeing of short-term external debt (with maturities up to one year) consolidated general government, the AOFI, and the Development Fund applies not only to debt as defined in point 8 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, Decision No. 6230 - (79/140), as amended, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are normal short-term import credits. For program purposes, debt is classified as external when the residency of the creditor is not Serbian. For new debt to budgetary users, the day the debt is contracted will be the relevant date for program purposes. For new debt to non-budgetary users, the day the first guarantee is signed will be the relevant date. Contracting or guaranteeing of new debt will be converted into euros for program purposes at the program cross exchange rates described in this TMU.

E. Ceiling on External Debt Service Arrears

16. Definition. External debt-service arrears are defined as overdue debt service arising in respect of obligations incurred directly or guaranteed by the consolidated general government, the Export Credit and Insurance Agency (AOFI), and the Development Fund, except on debt subject to rescheduling or restructuring.[1] The program requires that no new external arrears be accumulated at any time under the arrangement on public sector or public sector guaranteed

[1] Debt subject to rescheduling or restructuring includes the US$44.7 million in arrears to Libya.

debts. The authorities are committed to continuing negotiations with creditors to settle all remaining official external debt-service arrears.

17. Reporting. The accounting of non-reschedulable external arrears by creditor (if any), with detailed explanations, will be transmitted on a monthly basis, within two weeks of the end of each month. Data on other arrears, which can be rescheduled, will be provided separately.

F. Reporting

18. General government revenue data and the Treasury cash position table will be submitted weekly; updated cash flow projections for the Republican budget for the remainder of the year fourteen calendar days after the end of each month; and the stock of spending arrears as defined in ¶16 45 days after the end of each quarter. General government comprehensive fiscal data (including social security funds) would be submitted by the 25th of each month.

19. Receivables of the top 20 debtors to Srbijagas and EPS will be submitted in the agreed-upon templates within fourteen calendar days after the end of each month as well as published on the company websites.

Data Reporting for Quantitative Performance Criteria		
Reporting Agency	Type of Data	Timing
NBS	Net international reserves of the NBS (including data for calculating adjustors)	Within one week of the end of the month
Statistical Office and NBS	CPI inflation	Within four weeks of the end of the month
Ministry of Finance	Fiscal deficit of the consolidated general government	Within 25 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 25 days of the end of the month
Ministry of Finance	Gross issuance of new guarantees by the Republican Government for (i) project and corporate restructuring loans and (ii) gross issuance of new guarantees by the Serbian Republican Government for liquidity support	Within three weeks of the end of the month
Ministry of Finance	New short-term external debt contracted or guaranteed by the general government, the Development Fund and AOFI	Within four weeks of the end of the quarter
Ministry of Finance	External debt payment arrears by general government, Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Gross accumulation of domestic payment arrears by the general government (without local government, the Development Fund, and AOFI)	Within 45 days of the end of the quarter
Ministry of Finance	Borrowing by the Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Cumulative below-the-line lending by the Republican Government	Within 25 days of the end of the month
Ministry of Finance	Severance payments by general government, with a breakdown by government level.	Within four weeks of the end of the quarter
Ministry of Finance	Earmarked grants and receipts from small-scale disposal of assets	Within four weeks of the end of the quarter