Serbia and Montenegro: Quantitative Performance Criteria and Indicative Limits for 2003 Under the 2002-2005 Extended Arrangement 1/

(In millions of dinars, unless otherwise noted; end of period)

	2002	2003										
	Dec. Est.	April			May	June		June			Sep.	Dec.
	End-02	Prog. 14/		Prel.	Prel.	Ori. Prog 14/		Rev. Proj.		Prel.	Rev. Prog.	Rev. Prog.
	Ex. Rates		w/ adjustor				w/ adjustor		w/ adjustor			
A. Quantitative performance criteria												
Floor on the net foreign assets of the NBS 2/ 3/	1,056	872	872	903	878	992	992	850	782	879	970	1,098
Ceiling on net domestic assets of the NBS 2/ 4/	1,951	9,722	9,744	11,088	6,906	4,150	6,650	9,071	10,108	6,219	6,588	1,824
Ceiling on net credit of the banking system to the consolidated general government 2/ 5/ 6/	-14,325	-2,834	-2,438	-11,970	...	-370	...	-10,570	...	...	-13,023	-13,779
Ceiling on contracting or guaranteeing by the public sector of new nonconcessional external debt with original maturity of more than one year 3/ 7/	0	0	0	0	...	0	0	0	0	0	0	0
Ceiling on new external debt contracted or guaranteed by the public sector with an original maturity of up to and including one year 3/ 8/	0	0	0	0	...	0	0	0	0	0	0	0
Ceiling on new guarantees and the assumption of bank or enterprise debt by the public sector 9/	0	0	0	0	...	0	0	0	0	0	0	0
Ceiling on outstanding external debt service arrears 3/ 10/	0	0	0	0.8	...	0	0	0	0	0	0	0
B. Indicative targets												
Ceiling on net credit of the banking system to												
consolidated general government of Serbia 2/ 5/ 11/	-11,774	-744	-499	-10,077	-8,983	2,026	5,913	-8,174	-7,137	-7,258	-10,274	-11,774
consolidated general government of Montenegro 2/ 5/ 11/	-2,551	-2,090	-1,939	-1,893	...	-2,396	...	-2,396	...	...	-2,749	-2,005
Ceiling on net domestic assets of the banking system 2/ 12/	49,970	60,039	60,039	0	67,699	61,810	61,810	71,313	71,313	...	71,343	69,856
Ceiling on Serbian central government dinar deposits in commercial banks	10,498	...	...	15,187	13,147	...	...	12,187	12,187	...	9,187	6,187
Ceiling on change in the arrears of												
the federal government	0	0	0	0	0	0	0	0	0	0	0	0
the consolidated general government in Serbia	0	0	0	2,884 15/	...	0	0	0	0	...	0	0
the consolidated general government in Montenegro	0	0	0	...	...	0	0	0	0	...	0	0
Ceiling on the wage bill of the 7 largest public enterprises, cumulative from beginning of year 13/	22,398	8,030	8,030	8,190	...	12,261	12,261	12,261	12,261	...	18,684	25,399

1/ Quantitative performance criteria and indicative targets are defined in Annex D and evaluated at end-December 2002 exchange rates for program purposes.

2/ These performance criteria will be adjusted by the amount that revised estimates differ from the preliminary estimates of the end-2002 outcome.

3/ In millions of U.S. dollars. The net foreign assets floor will be adjusted downward by the shortfall relative to the programed level of net external budgetary financing with a maximum adjustment of US$100 million.

4/ Monitored on the basis of monthly averages as defined in Annex D. Subject to the same adjustment for excess or shortfall in combined budgetary external financing and privatization proceeds for the consolidated Serbian government as defined in 5/ except that the limit for upward adjustment is dinar 2500 million.

5/ For program purposes, the ceilings on net credit of the banking system to the consolidated general government will be adjusted downward by the cumulative increase in the stock of government debt held by the nonbank public (other than that related to the frozen currency deposits), starting from January 1, 2003, and upward for any decrease. In addition, in the event of a shortfall in the sum of net foreign budgetary financing and privatization proceeds, the ceilings will be adjusted upward by 75 percent of the shortfall subject to the total adjustment limit of 5 billion dinar for Serbia and €10 million for Montenegro's consolidated government. The ceilings will be adjusted downward for the excess of combined net external budgetary financing and privatization proceeds relative to budgeted levels that are not used (1) to reduce the government external indebtedness by more than envisaged under the program, or (2) to cover investment and restructuring costs in consultation with the Fund in the context of program reviews.

6/ The consolidated general government comprises the Serbian republican and local governments, union level operations, the Montenegrin republican government, the Serbian and Montenegrin social security funds, and the Serbian special extrabudgetary programs.

7/ Excluding loans from the IMF, EBRD, EIB, EU, IBRD, or IFC as well as debt contracted in the context of debt restructuring agreements in the framework of the Paris Club and London Club. The public sector comprises the consolidated general government, the National Bank of Serbia, and the Central Bank of Montenegro.

8/ Excludes normal import-related credits.

9/ Excludes indebtedness arising from the fulfillment of existing government guarantees.

10/ Excludes debts subject to restructuring/negotiations. The nonaccumulation of new external arrears is also a continuous performance criterion.

11/ Consolidated Montenegrin government includes all entities in Montenegro defined under 6/; the rest of entities under 6/ is included in the consolidated Serbian government.

12/ Foreign currency-denominated loans and deposits at program exchange rates. Excludes Montenegro.

13/ JP Elektroprivreda Srbije, JP Nafna Industrija Srbije, JP PTT Srbije, JP Jugoslovenski Aerotransport, JP Zelenicko Transportno Preduzece Srbije, JP Srbija Sume, and JP Srbija Vode. To the extent that monitoring systems are not in place to compile data on a comparable basis, the ceiling will be adjusted downwards to prorate for spin-offs from these companies of activities through the creation of new companies.

14/ Adjusted for reserve requirement changes from 23 percent to 22 percent in April and 22 percent to 20 percent thereafter; also adjusted to revisions to end-2002 NFA and credit to government.

15/ As of end-March 2003.

Serbia and Montenegro: Extended Arrangement, March 2002-March 200
Prior Actions, Structural Performance Criteria, and Structural Benchmarks, January-December 200
(As specified in MEFP of April 1, 2003 (EBS/03/41, 4/02/03))

	Target Date	Implementation Status
I. Structural Performance Criterion		
1. Serbia: Effective July 1, 2003, increase weighted average electricity price for sales to end-users by at least 20 percent in dinar terms from the level prevailing at end-2002.	end-June 2003	Waiver requested on the basis of revised policy understandings (15 percent increase on July 1 and measures to restructure the electricity company, see MEFP ¶15).
II. Structural Benchmarks		
A. Fiscal Sector		
1. Montenegro: Adopt a pension law that shifts the indexation of pensions to a weighted average of changes in wages and prices (with the weight of wages not to exceed 50 percent) and raises the minimum retirement age by 5 years in a phased manne	end-April 2003	Delayed to July 2003. Legislative activity suspended owing to presidential election.
2. Serbia, Montenegro: Reach agreement on timetable for harmonizing at the latest by end-2005 trade, customs, and indirect tax regimes.	end-April 2003	Met in early July. Agreement on harmonization within two years reached in early July 2003 with the main exception that harmonization for 56 agricultur commodities of strategic importance to Montenegro is envisaged within 3 years with a possible extension of two more years.
3. Montenegro: Begin reporting quarterly budgetary arrears data	end-May 2003	Met, but data reported only in flow terms.
4. Serbia: Bring all line ministries and other direct budget users under the treasury single account.	end-June 2003	Met largely. Decision was adopted to close all bank accounts of direct budget users.
5. Serbia: Establish Large Taxpayers Units (LTUs) for Nis, Novi Sad and Kragujev	end-September 200	. . .
6. Serbia: Establish and implement a centralized payroll system under the Central Accounting Divisi of the Treasury	end-December 2003	. . .
B. Financial Sector		
1. Serbia: Adopt new National Bank of Serbia law to provide for a National Bank Supervisory Board.	end-December 2003	. . .
2. Serbia: Offer majority or controlling stakes to strategic investors in at least 3 of the banks affected by the July 2002 laws on Paris and London Club debt and frozen foreign currency depos	end-December 2003	. . .
C. Foreign trade		
1. Montenegro: Eliminate all export quotas	end-April 2003	Not met. Revised policy understanding reached.
D. Enterprise restructuring and privatization		
1. Serbia: Government to approve restructuring strategies for the 7 large state enterprises consistent with a significant improvement in their profitability through streamlining of operations and cost-cutting.	end-April 2003	Done only for 2 companies; the remaining 5 are expected to be adopted by end-July.

Serbia and Montenegro: Extended Arrangement, March 2002-March 200
Prior Actions, Structural Performance Criteria, and Structural Benchmarks, January-December 200
(As revised in MEFP of July 11, 2003)

	Target Date	Implementation
I. Structural Performance Criterion		
1. Serbia: Effective July 1, 2003, increase weighted average electricity price for sales to end-users by at least 20 percent in dinar terms from the level prevailing at end-2002.	end-June 2003	Waiver requested on the basis of revised policy understandings (15 percent increase on July 1 and measures to restructure the electricity company, see MEFP ¶15).
II. Structural Benchmarks		
A. Fiscal Sector		
1. Montenegro: Adopt a pension law that shifts the indexation of pensions to a weighted average of changes in wages and prices (with the weight of wages not to exceed 50 percent) and raises the minimum retirement age by 5 years in a phased manner.	end-July 2003	...
2. Serbia, Montenegro: Reach agreement on timetable for harmonizing at the latest by end-2005 trade, customs, and indirect tax regimes.	end-July 2003	Met. Final agreement on harmonization within two years reached in early July 2003 with the main exception that harmonization for 56 agricultural commodities of strategic importance to Montenegro is envisaged within 3 years with a possible extension of two more years
3. Serbia: Reach agreement between the Ministry of Finance and the NBS outlining mutual responsibilities in government debt and cash management and establishing a committee to coordinate NBS' monetary operations and MOF's cash and treasury bill managemen	end-June 2003	Met. Agreement on creating the committee has been signed on June 30, defining its members and key duties.
4. Serbia: Bring all line ministries and other direct budget users under the treasury single account.	end-June 2003	Met largely. Decision was adopted to close all bank accounts of direct budget users.
5. Serbia: Establish Large Taxpayers Units (LTUs) for Nis, Novi Sad and Kragujeva	end-September 2003	...
6. Serbia: Establish and implement a centralized payroll system under the Central Accounting Division of the Treasury	end-December 2003	...
B. Financial Sector		
1. Serbia: Adopt Secured Transactions Law.	end-September 2003	...
2. Serbia: Adopt Resolution plan for the largest bank in consultation with the Fund staff.	end-September 2003	...
3. Serbia: Adopt new National Bank of Serbia law to provide for a National Bank Supervisory Board.	end-December 2003	...
4. Serbia: Offer majority or controlling stakes to strategic investors in at least 3 of the banks affected by the July 2002 laws on Paris and London Club debt and frozen foreign currency deposits.	end-December 2003	...
C. Foreign trade		
1. Montenegro: Eliminate all export quotas	To be implemented in the context of trade harmonization.	All remaining export quotas will be eliminated at the time the harmonized tariff system becomes effective (expected in August 2003).
D. Enterprise restructuring and privatization		
1. Serbia: Government to approve restructuring strategies for the 7 large state enterprises consistent with a significant improvement in their profitability through streamlining of operations and cost-cutting.	end-July 2003	...