



REPUBLIC OF SERBIA

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

Global Medium Term Note Programme

Under the Global Medium Term Note Programme described in this Base Prospectus (the “**Programme**”), the Republic of Serbia (the “**Issuer**” or “**Serbia**”), represented by the Government of the Republic of Serbia acting by and through the Ministry of Finance of the Republic of Serbia, may from time to time issue notes (the “**Notes**”).

This Base Prospectus has been approved by the Financial Conduct Authority (the “**FCA**”) in its capacity as competent authority for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). The FCA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer or the quality of the Notes that are the subject of this Base Prospectus and investors should make their own assessment as to the suitability of investing in the Notes. Application has been made (i) to the FCA, for Notes issued under the Programme for the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the FCA (the “**Official List**”) and (ii) to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s regulated market (the “**Market**”). References in this Base Prospectus to Notes being “**listed**” (and all related references) shall mean that such 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 (“**MiFID II**”). Notice of the aggregate nominal amount of interest (if any) payable in respect of, the issue price of, and any other terms and conditions not contained herein that are applicable to, each Tranche (as defined in “**Overview of the Programme**”) of Notes will be set forth in a final terms document (the “**Final Terms**”) or in a separate prospectus specific to such Tranche (the “**Drawdown Prospectus**”) as described below in “**Final Terms and Drawdown Prospectuses**”, which, with respect to Notes to be admitted to the Official List and to be admitted to trading on the Market, will be delivered to the FCA and to the London Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Notes of each Series (as defined in “**Overview of the Programme**”) will be issued in registered form and may be offered and sold (a) outside the United States in reliance on Regulation S (“**Regulation S**”) under the United States Securities Act of 1933, as amended (the “**Securities Act**”) (the “**Unrestricted Notes**”) and represented by a registered global note certificate (each an “**Unrestricted Global Note**”) without interest coupons which may be deposited on the relevant issue date (i) in the case of a Series intended to be cleared through Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”), with a common depository (the “**Common Depository**”) and registered in the name of a nominee for such Common Depository and (ii) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg, or delivered outside of a clearing system, as agreed between the Issuer and the relevant Dealers, and/or (b) within the United States only to “**qualified institutional buyers**” (“**QIBs**”) (as defined in Rule 144A under the Securities Act (“**Rule 144A**”)) in reliance on Rule 144A (the “**Restricted Notes**”) and will be represented by one or more registered global note certificates (each a “**Restricted Global Note**”) and together with the Unrestricted Global Notes, the “**Global Notes**”), without interest coupons, which, as specified in the Final Terms, may be cleared through Euroclear and/or Clearstream, Luxembourg or through The Depository Trust Company (“**DTC**”) and which may be deposited on the relevant issue date with either a Common Depository (and registered in the name of a nominee for such Common Depository) or a custodian (the “**Custodian**”) for DTC (and registered in the name of Cede & Co. as nominee for DTC). Prospective purchasers are hereby notified that sellers of Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Interests in Restricted Global Notes will be subject to certain restrictions on transfer. See “**Transfer Restrictions**”. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except in the limited circumstances described herein, certificates for Notes will not be issued in exchange for beneficial interests in a Global Note.

The Issuer’s current long term foreign currency debt rating by Standard & Poor’s Global Ratings Europe Limited (“**S&P**”) is BB+ with a stable outlook, by Fitch Ratings Limited (“**Fitch**”) is BB+ with a stable outlook and by Moody’s Investors Service, Inc. (“**Moody’s**”) is Ba3 with a positive outlook. Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. Where a Tranche is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche will be (a) issued by a credit rating agency established in the European Economic Area (the “**EEA**”) and registered under Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 (the “**CRA Regulation**”), or (b) issued by a credit rating which is not established in the EEA but will be endorsed by a credit rating agency which is established in the EEA and registered under the CRA Regulation or (c) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will also be disclosed in the relevant Final Terms. 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 agency. Each of S&P and Fitch is established in the European Union (the “**EU**”), or in the United Kingdom (the “**UK**”), and is included in the list of credit rating agencies registered in accordance with the CRA Regulation. The list of credit rating agencies registered and/or certified under the CRA Regulation is available on the European Securities and Markets Association (“**ESMA**”) website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) (last updated on 14 November 2019). Moody’s is not established in the EU and has not applied for registration under the CRA Regulation. The ratings are endorsed by Moody’s Investors Service Ltd in accordance with the CRA Regulation. Moody’s Investor Service Ltd is established in the UK 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 Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any State or other jurisdiction of the United States, 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. For a summary of certain restrictions on resale, see “**Subscription and Sale**” and “**Transfer Restrictions**”.

This Base Prospectus should be read and construed together with any amendment or supplement hereto. Further, in relation to any Series, this Base Prospectus should be read and construed together with the relevant Final Terms.

This Base Prospectus will be valid as a base prospectus under the Prospectus Regulation for 12 months from 20 November 2020. The obligation to supplement this Base Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply following the expiry of that period.

Investing in the Notes involves certain risks. See “**Risk Factors**”.

Amounts payable under the Notes may be calculated by reference to either LIBOR or EURIBOR, which are provided by ICE Benchmark Administration Limited (“**ICE**”) and the European Money Markets Institute (the “**EMMI**”), respectively. As at the date of this Base Prospectus, both ICE and the EMMI appear on the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the “**Benchmark Regulation**”).

Arranger and Dealer

Deutsche Bank

Dealers

BNP PARIBAS

J.P. Morgan

UniCredit Bank

The date of this Base Prospectus is 20 November 2020.

RESPONSIBILITY STATEMENT

This Base Prospectus constitutes a base prospectus for the purposes 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 Base Prospectus and the Final Terms and declares that, to the best of its knowledge, the information contained in this Base Prospectus and the Final Terms is in accordance with the facts and the Base Prospectus as completed by the Final Terms makes no omission likely to affect the import of such information.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the offering, issue and sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger or any Dealer (each as defined in “*Overview of the Programme*”).

Neither the Arranger nor the Dealers have separately verified the information contained herein. None of the Arranger or the Dealers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any Final Terms are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any Final Terms should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and any Final Terms and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arranger or the Dealers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus and any Final Terms nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arranger or the Dealers.

Generally, investment in emerging markets such as the Republic of Serbia is only suitable for investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors are urged to consult their own legal and financial advisers before making an investment. Emerging markets can also experience more instances of corruption by government officials and misuse of public funds than do more mature markets, which could affect the ability of governments to meet their obligations under issued securities.

Investors should also note that emerging markets such as the Republic of Serbia are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly.

SUPPLEMENTS TO THIS BASE PROSPECTUS

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to Article 23 of the Prospectus Regulation, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as requested by the FCA and Article 23 of the Prospectus Regulation.

The Issuer has undertaken, in connection with the listing of the Notes on the Official List, that in the event of a change in the condition of the Issuer, which is material in the context of the Programme or the issue of Notes, and if there is a significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus which is capable of affecting the assessment of any Notes, which inclusion would be required by investors for the purpose of making an informed assessment of the economic, fiscal and political condition of the Issuer and the rights attaching to the relevant Notes, the Issuer will prepare or procure the preparation of a supplement to this Base Prospectus or, as the case may be, publish a new base prospectus, for use in connection with that or any subsequent issue by the Issuer of Notes listed on the Official List.

IMPORTANT NOTICES

Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, under any circumstances, create any implication that the information contained in this Base Prospectus is accurate subsequent to the date hereof or that there has been no change in the affairs of the Issuer since the date hereof or the date upon which the Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the economic, fiscal and political condition of the Issuer since the date hereof or the date upon which the Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. This Base Prospectus may only be used for the purpose for which it has been published.

The minimum specified denomination of any Notes issued under the Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes). See Condition 3 of the Terms and Conditions of the Notes for further details regarding the minimum specified denominations of Notes issued under the Programme.

The distribution of this Base Prospectus and any Final Terms and the offering, sale or delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer, the Arranger and the Dealers to inform themselves and to observe any such restriction. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus and any Final Terms and the offering material relating to the Notes, see “*Subscription and Sale*”. In particular, the Notes have not been and will not be registered under the Securities Act and will be offered and sold outside the United States in reliance on Regulation S and sold in the United States to QIBs in reliance on Rule 144A. Prospective purchasers of Notes are hereby notified that sellers of Notes may be relying on the exemption from registration requirements of Section 5 of the Securities Act provided by Rule 144A.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arranger or the Dealers to subscribe for, or purchase, any Notes. In particular, this Base Prospectus does not constitute an offer of securities to the public in the United Kingdom. Consequently, within the United Kingdom this document is being distributed only to, and is directed only 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 article 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 within the United Kingdom who is not a relevant person should not act or rely on this document or any of its contents.

Persons into whose possession this Base Prospectus may come are required by the Issuer, the Arranger and the Dealers to inform themselves about and to observe such restrictions.

The Notes may not be suitable as an investment for all investors

Potential investors must determine the suitability of an investment in the Notes in each Series in the light of their own circumstances. In particular, each potential investor should:

- 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 Base Prospectus or any applicable supplement;
- 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 that such Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- 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 such investor's investment and ability to bear the applicable risks.

Legal investment considerations may restrict certain investments

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 (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) 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.

The Issuer is not required to effect equal or rateable payment(s) with respect to the Notes or any other unsecured obligations of the Issuer

Notes issued under the Programme will at all times rank 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. However, the Issuer will have no obligation to effect equal or rateable payment(s) at any time with respect to the Notes or any other unsecured obligations of the Issuer and, in particular, will have no obligation to pay such other unsecured obligations of the Issuer at the same time or as a condition of paying sums due on the Notes and *vice versa*. See Condition 5 (*Status*) of the Terms and Conditions of the Notes. As a result of the provisions of Condition 5 mentioned above, Noteholders should be aware that (i) the Issuer may choose to prioritise payment obligations of other unsecured creditors of the Issuer as payments fall due and (ii) there is no assurance that all unsecured creditors of the Issuer may be paid at the same time and in the same amount.

FORWARD LOOKING STATEMENTS

Certain statements included herein may constitute “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 Base 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. Such forward looking statements are necessarily dependent on assumptions, data 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. The Issuer has based these forward looking statements on its current view with respect to future events and financial results.

Forward looking statements speak only as at the date on which they are made and the Issuer 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. Forward looking statements include, but are not limited to: (i) plans with respect to the implementation of economic policies and the pace of economic and legal reforms; (ii) expectations about the behaviour of the economy if certain economic and fiscal policies are implemented; (iii) the potential impact of the Coronavirus (“**COVID-19**”); (iv) the outlook for gross domestic product, public debt, inflation, exchange rates, interest rates, commodity prices, foreign investment, balance of payments, trade and fiscal balances; and (iv) estimates of external debt repayment and debt service.

The Issuer cautions that a number of important factors could cause actual results to differ materially from those contained in any forward looking statement. In addition to the factors described in this Base Prospectus, including, but not limited to, those discussed in the section entitled “*Risk Factors*”, the

following factors, amongst 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;
- occurrence of any contagious disease (such as Avian Flu, Ebola Virus Disease, SARS, Zika Virus Disease or COVID-19);
- 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 issued under the Programme; 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 privatisation.

The Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Base 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 Base 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 2015 to 2019 and for the period ended 31 October 2020, expressed as Serbian Dinar per U.S. Dollar, as published by the National Bank:

Year	Serbian Dinar to U.S.\$			
	Low	High	Average	Period End
2020 (up to and including 31 October 2020)	98.0600	109.3884	104.0707	100.6144
2019.....	102.4454	107.8600	105.2762	104.9186
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

Source: National Bank.

The following table sets out certain exchange rate data for the years 2015 to 2019 and for the period ended 31 October 2020, expressed as Serbian Dinar per euro, as published by the National Bank:

Year	Serbian Dinar to Euro			
	Low	High	Average	Period End
2020 (up to and including 31 October 2020)	117.4966	117.6739	117.5781	117.5679
2019	117.4333	118.4940	117.8524	117.5928
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

Source: National Bank

The following table sets out certain exchange rate data for the years 2015 to 2019 and for the period ended 31 October 2020, expressed as U.S. Dollar per euro, as published by Bloomberg:

Year	U.S. Dollar to Euro			
	Low	High	Average	Period End
2020 (up to and including 31 October 2020)	1.0688	1.1936	1.1271	1.1647
2019	1.0903	1.1533	1.1197	1.1217
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

Source: Bloomberg

The exchange rates in the above tables may differ from the actual exchange rates used in the preparation of the information appearing in this Base 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.

STABILISATION

In connection with the issue of any Tranche, the Dealer or Dealers (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of the Stabilising Manager(s)) in the relevant Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the 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 relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws, regulations and rules.

NOTICE TO PROSPECTIVE UNITED STATES INVESTORS

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Base Prospectus is being furnished only to a limited number of investors in the United States who are persons reasonably believed to be QIBs and to investors outside the United States. Any reproduction or distribution of this Base Prospectus, in whole or in part, in the United States and any disclosure of its

contents or use of any information herein in the United States for any purpose, other than in considering an investment by the recipient in the Notes, is prohibited. Each potential investor in the Notes, by accepting delivery of this Base Prospectus, agrees to the foregoing and each purchaser or holder of interests in Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain acknowledgements, representations and agreements as set out in “*Subscription and Sale*” and “*Transfer Restrictions*”.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

The Final Terms in respect of any Notes may include a legend titled “MiFID II Product Governance” that will outline the target market assessment in respect of such Notes and which channels for distribution of such Notes (or beneficial interests therein) are appropriate. In those cases, any person or entity subsequently offering, selling or recommending such Notes (or beneficial interests therein) (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II will remain responsible for undertaking its own target market assessment in respect of such Notes (or beneficial interests therein) (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes (or beneficial interests therein) is a manufacturer in respect of such Notes (or beneficial interests therein), but otherwise none of the Arranger, the Dealers or any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS

If the Final Terms in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA and UK Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

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

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as amended or modified from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has, unless otherwise specified in the relevant Final Terms in respect of any Notes and notified to the Dealers before an offer of Notes, determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), the classification of all Notes to be issued under the Programme as “prescribed capital markets products” (as defined in the CMP Regulations 2018) 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).

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression “necessary information” means, in relation to any Tranche, the information necessary to enable investors to make an informed assessment of the prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme, the Issuer has endeavoured to include in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche which is the subject of Final Terms are the Terms and Conditions of the Notes described in the relevant Final Terms as supplemented to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche which is the subject of a Drawdown Prospectus will be the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

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, the Deed of Covenant and the Fiscal Agency Agreement (each as defined below), and any non-contractual obligations arising out of or in connection with any of them, 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 judgment is conditional, amongst others, on reciprocity in judgment recognition and enforcement between the Republic of Serbia and the country of origin of the foreign judgment. 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 (England and Wales) exists on the date of this Base Prospectus. In addition, it may not be possible to enforce a foreign court judgment if it is found by the Serbian court to be contrary to the “foundations of social order as determined in the Constitution” which is the Serbian version of the public policy exception to the recognition and enforcement of foreign judgments. The concept of public policy is defined rather broadly as comprising fundamental legal provisions of the Serbian legal system. There are no settled court practices or consistent legal writings publicly available which define the scope of Serbian public policy, and 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 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, (x) movable or immovable assets that are used by the authorities of the Republic of Serbia for conducting their competencies, (xi) monetary assets and financial instruments determined as financial collateral in accordance with the law regulating financial collateral including monetary assets and financial instruments which are pledged in accordance with such law or (xii) other assets exempt from enforcement by law or international treaties.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

All references in this Base 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 Base Prospectus to “**RSD**”, “**Dinar**”, “**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 Base Prospectus, real GDP or real GVA figures are calculated by reference to 2015 prices. Unless otherwise stated, references in this Base 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 72/2019).

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 an asterisk in respect of Kosovo* in line with 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**” should be construed on this basis, and it is used throughout this Base Prospectus in the context of regional initiatives and programmes carried out under the auspices of the EU. In addition, whilst the city of Priština is the administrative centre of the autonomous province of Kosovo and Metohija, as defined under the Constitution of the Republic of Serbia and UN Resolution 1244, the designation of Priština in the context of this Base Prospectus will hereinafter denote the administrative centre of the so-called Republic of Kosovo (hereinafter referred to as “**so-called Kosovo**”).

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 Base 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 Base 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

* 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.

effort has been made to include in this Base 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 2020 for which, and/or the relevant date in 2020 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. Since the GDP information for the nine-month period ended 30 September 2020 is not yet available, the GDP and GVA data for the six-month period ended 30 June 2020 have been presented in this Base Prospectus (see *"Economy of Serbia"*). For the six months ended 30 June 2020, the GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics using the European System of Accounts 2010 (the **"ESA 2010"**) methodology. In addition, the relevant interim period in 2020 for which, and/or the relevant date in 2020 as at which, data is presented as a percentage of GDP, has been either based on the Ministry of Finance's estimates of nominal GDP for 2020 or the Office of Statistics' estimates of nominal GDP for the six months ended 30 June 2020. Accordingly, such financial and economic information for periods of 2020 set out in this Base Prospectus may be subsequently adjusted or revised when the actual results or annual estimates are published 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 Base 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 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.

Unless otherwise stated, all statistical data appearing in this Base 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, Zvečan, Gračanica, 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, organisations and institutions of local government from the territory of Kosovo and Metohija is around 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.

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OVERVIEW

The following is an overview of certain information contained in this Base Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Base Prospectus. Prospective investors should also carefully consider the information set out in the section entitled “Risk Factors” in this Base Prospectus prior to making an investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as elsewhere in this Base 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 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. Aleksandar 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 market, openness to trade and free flow of FDIs contributed to growth in the country's GDP on average of approximately 3.1 per cent. per annum in real terms between 2015 to 2019.

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., 4.4 per cent. and 4.2 per cent. in 2015, 2016, 2017, 2018 and 2019, respectively, in each case in real terms.

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 Base Prospectus:

	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
Domestic Economy							
Nominal GDP (RSD billions).....	4,315.0	4,528.2	4,760.7	5,072.9	5,417.7	2,540.1 ⁽¹⁾	2,560.1 ⁽¹⁾
Real GDP (growth rate) (%).....	1.8	3.3	2.1	4.5	4.2	2.7 ⁽¹⁾	(0.8) ⁽¹⁾
Consumer Price Index (y-o-y, %).....	1.5	1.6	3.0	2.0	1.9	1.1	1.9
Balance of Payments (EUR millions)							
Exports of Goods (F.O.B.)	11,454.1	12,814.2	14,066.3	15,105.8	16,414.9	12,168.5	11,455.9
Imports of Goods (F.O.B.)	(15,098.7)	(15,933.0)	(18,063.8)	(20,191.2)	(22,038.3)	(15,976.1)	(15,294.7)
Balance of Goods (F.O.B.).....	(3,644.5)	(3,118.9)	(3,997.5)	(5,085.4)	(5,623.4)	(3,807.6)	(3,838.8)
Reserves assets (net) (negative sign indicates increase)	(166)	302	(228)	(1,123)	(1,873)	(1,685.2)	434.1
Public Finance (RSD billions).....							
Public Revenues	1,694.8	1,842.7	1,973.4	2,105.3	2,278.6	1,646.4	1,599.6
Public Expenditure	1,844.0	1,896.7	1,921.1	2,073.0	2,289.7	1,611.3	1,960.4
Consolidated Balance	(149.1)	(54.0)	52.3	32.2	(11.1)	35.1	(360.8)
Consolidated Balance (% of nominal GDP)	(3.5)	(1.2)	1.1	0.6	(0.2)	0.7 ⁽²⁾	(12.1) ⁽²⁾
Public Debt (RSD billions).....							
Internal Public Debt	1,174.7	1,129.7	1,101.6	1,130.9	1,175.1	1,161.5	1,318.8
External Public Debt	1,843.9	1,934.9	1,649.5	1,589.3	1,640.6	1,653.0	1,809.4
Gross Public Debt (% of nominal GDP)	70.0	67.7	57.8	53.6	52.0	52.0	56.7 ⁽³⁾

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

Note:

- (1) Since the GDP information for the first nine months of 2020 is not yet available, this data is presented for the six month period from January to June.
- (2) Since the GDP information for the first nine months of 2020 is not yet available, this data is presented for the first six months in 2020 and comparable period in 2019 and shown as a percentage of GDP based on the Office of Statistics' estimates of nominal GDP for the six months ended 30 June 2020 and 2019.
- (3) This data is presented as a percentage of GDP based on the Ministry of Finance's projected annual nominal GDP for 2020.

Recent Developments

Coronavirus

The coronavirus known as COVID-19 which was first identified in Wuhan, Hubei Province, China in late 2019 has continued to spread in many countries (including Serbia) around the world, leading the World Health Organisation to declare the outbreak of this communicable disease as a global pandemic on 11 March 2020. In an attempt to contain the spread of the virus, Serbia declared a "state of emergency" and implemented certain restrictions on 15 March 2020. These measures included restricting travel into Serbia from certain countries, suspending non-essential businesses, banning public gatherings, closing down schools and universities and instituting curfews. On 7 May 2020, the Government lifted the "state of emergency" in Serbia, as the preventative measures implemented in response to the COVID-19 pandemic had successfully decreased the intensity of the viral activity. Subsequently, some of the related precautionary and preventative measures implemented in March have since been partially lifted and/or relaxed in Serbia, but other measures continued to remain effective, including using masks, restricting the hospitality sector's trading hours to 9.00 pm and maintaining social distancing to limit the spread of the virus. After the lockdown was eased in May, the epidemic remained contained through the end of June, but the number of infections picked up again in July. This second wave of coronavirus infections in July had a much less pronounced impact on the economic activity of Serbia than in April, as the infection rate had fallen back from around 400 new cases per day to below 100, although a further spike represents a key risk to the economic outlook of Serbia. As in other countries, the number of new infections have accelerated in Serbia

since early October. At present, the extent of the impact posed by the third wave of COVID-19 is unclear, since neither the severity nor the magnitude of the ensuing economic consequences is known.

Fiscal and Economic Response to COVID-19

Since the outbreak of COVID-19, the National Bank has adopted a set of expansive monetary and financial measures to mitigate the effects of the COVID-19 pandemic by easing dinar liquidity pressures and enabling increased financing for households and small and medium enterprises at lower interest rates. On 11 March 2020, as part of its initial policy response, the National Bank reduced its benchmark (key policy) rate by 0.50 percentage points to 1.75 per cent, its deposit facility rate by 0.25 percentage points to 0.75 per cent. and its credit facility rate by 0.75 percentage points to 2.75 per cent. On 9 April 2020, the National Bank reduced all three key monetary policy rates (outlined above) by a further 0.25 percentage points each, which resulted in the benchmark rate being 1.50 per cent. and the deposit and credit facility rates being 0.50 per cent. and 2.50 per cent. respectively.

Separately, on 17 March 2020, the National Bank declared a moratorium on the payment of liabilities for three months by suspending payments of loans and financial leasing. On 23 March 2020, pursuant to a foreign exchange swap auction aimed at ensuring dinar liquidity, the National Bank purchased EUR 127 million at an implicit interest rate of 0.85 per cent. and supplied RSD 14.9 billion to the banks in Serbia. With the same objective, on 24 March 2020, the National Bank conducted two auctions of repo purchases of dinar-denominated government securities totalling RSD 5.7 billion for a period of seven days and RSD 20.5 billion for a period of three months, both at a favourable interest rate of 0.75 per cent. (which was equal to the deposit facility rate as at March 2020, the lowest rate in the National Bank's interest rate band). Through these auctions, banks in Serbia were able to obtain dinar liquidity. Additionally, the National Bank injected an amount of RSD 97.0 billion during April and May through bilateral purchases of government securities from domestic banks to ensure the stability of the domestic government bond market and provide additional dinar liquidity to the banking system. These purchases contributed to the stability of government bond yields in the secondary market despite a heightening of volatility in capital inflows due to general negative investor sentiment towards emerging market currencies on a global level.

To complement these efforts of the National Bank, and as part of its initial policy response to COVID-19, the Government adopted certain measures, including a 10 per cent. increase in salaries for healthcare workers, a one-off financial assistance to pensioners totalling RSD 4,000 per person, deferment of payroll tax payments and temporary bans on exports of certain products (i.e. seeds, oil, yeast, soap, detergents, disinfectants, alcohol and protective equipment). In April 2020, the Government adopted a comprehensive economic response plan, with additional measures in July and August 2020, worth approximately RSD 690 billion (being 12.5 per cent. of GDP) to provide stimulus and support to the Serbian economy through this period of reduced activity and heightened uncertainty. Amongst other stimulus, the Government's economic response plan consisted of financial support for certain companies to partially cover employee remuneration and deferment of certain mandatory tax and social security payments. These measures, as well as a number of other initiatives aimed at supporting employers and providing relief for businesses, were adopted to mitigate the negative effects of the economic contraction resulting from the spread COVID-19. By means of these measures, the Government announced:

- (i) the provisions of net minimum wages for three months in respect of employees of micro businesses, small and medium-sized enterprises ("SMEs") and entrepreneurs that paid flat tax or tax on actual revenues in the private sector. Such payments were made in the months of May, June and July 2020;
- (ii) the provision of 50 per cent. of the net minimum wages for three months to large private companies that satisfied certain criteria in respect of employees who were on involuntary leave but continued to be on the payroll of such companies during the months of March, April and May 2020. Such payments were made in the months of May, June and July 2020;
- (iii) the deferral of:

- the maturity of the advance corporate income tax payments for private sector companies; and
- advance taxes and contributions payable on entrepreneurs' income,

which were due in the months of March, April and May 2020. Such payments are deferred until the beginning of 2021 (for entrepreneurs that are taxed on a lump-sum basis) or until the submission of the final tax return for 2020 (for companies and entrepreneurs that are taxed on their actual income), with an option to defer these payments for an additional 24 months without default interest being applied;

(iv) the deferral of:

- the maturity of personal income tax payments; and
- mandatory social security contribution payments,

in respect of four months' salaries (i.e. either for March, April, May and June 2020 or April, May, June and July 2020) for private sector companies. Such payments are deferred until the beginning of 2021, with an option to defer these payments for an additional 24 months without default interest being applied;

(v) the implementation of loan programmes through the Serbian Fund for Development to provide liquidity and working capital support to entrepreneurs, micro businesses, SMEs, agricultural households and registered cooperatives;

(vi) the provision of guarantee scheme of EUR 2 billion (the “**State Guarantee Scheme**”) to commercial banks for providing loans to entrepreneurs, micro businesses, SMEs and agricultural households in order to maintain resources and liquidity for businesses (the “**State Guarantee Scheme Loans**”). These State Guarantee Scheme Loans are backed by a partial state guarantee capped at EUR 480 million (i.e. 1.02 per cent. of GDP);

(vii) the provision of direct cash assistance in the form of a one-time payment of EUR 100 per adult to all citizens of Serbia in the age group of 18 and above;

(viii) a dividend moratorium until the end of 2020 for companies, excluding public enterprises; and

(ix) additional investments in health preparedness.

See “*Public Finance – Recent Developments*”.

In order to provide additional monetary policy support to mitigate the impact of COVID-19, the National Bank further reduced its benchmark (i.e. key policy) rate by 0.25 percentage points to a new all-time low of 1.25 per cent. in June 2020, and at same time reduced its deposit and credit facility rates to 0.25 per cent. and 2.25 per cent. respectively. This decision, which marked the third revision, resulted in the policy rate being reduced by 100 basis points since March 2020. To help further limit the negative economic impact of COVID-19, the Serbian government adopted a second stimulus package of approximately RSD 66 billion in July 2020, with an estimated fiscal cost of 1.2 per cent. of GDP. Part of the funds within this package were directed towards the payment of 60 per cent. of the net minimum wages to workers of SMEs and entrepreneurs that were affected in August and September, as well as to cover taxes and contributions on wages for a one-month period. On 28 July 2020, the National Bank declared a new moratorium on the payment of liabilities by suspending (i) payments of loans and financial leasing maturing in the period between 1 August 2020 and 30 September 2020 and (ii) payment of liabilities that matured in July 2020 but were not settled. The moratorium was granted for a period of two months to all debtors, including but not limited to, natural persons, farmers, entrepreneurs and companies, with an exception of three months of moratorium for payment of liabilities that matured in July 2020 but were not settled.

Separately, to mitigate the adverse effects of the COVID-19 and to provide additional impetus to economic growth, the National Bank stimulated lending in dinars in order to support dinarisation by

introducing a “preferential” dinar remuneration rate of 0.5 percentage points above the standard remuneration rate of 0.10 per cent. applicable to reserve requirements of the banks allocated in dinars. This “preferential” remuneration rate is applicable to a portion of the banks’ required reserves allocated in dinars in respect of, or against, the amount of loans extended under the State Guarantee Scheme at an interest rate at least 0.5 percentage points lower than the maximum rate (1M BELIBOR+2.5 percentage points) envisaged by the State Guarantee Scheme. By means of this measure, the National Bank will remunerate or compensate banks that grant dinar loans from the State Guarantee Scheme at lower interest rates than the maximum prescribed rate, thus making dinar loans available at more favourable rates. Following the introduction of dinar corporate bonds issued by domestic companies with adequate creditworthiness in its monetary operations in May 2020, the National Bank provided additional dinar liquidity through the purchase of corporate bonds in the amount of RSD 25.2 billion in September 2020. In October 2020, the National Bank decided to maintain its benchmark rate at the new all-time low of 1.25 per cent., considering the moderate economic growth in a low inflationary environment.

In August 2020, the Government announced financial aid for hotels, and offered a one-off direct subsidy of EUR 350 per bed, and an additional EUR 150 per accommodation unit. A total amount of RSD 1.23 billion was paid to hotels that applied for this support as of 26 October 2020. As additional investment towards health preparedness, the Government has initiated the construction of two new COVID hospitals, one in Belgrade and the other in Kruševac. The Government has invested approximately RSD 4.1 billion towards the COVID hospital in Belgrade, while more than RSD 2 billion has been invested in the COVID facility in Kruševac. On 28 October 2020, the President of Serbia announced a one-off aid of RSD 10,000 for 120,000 health workers, as well as a planned significant increase in salaries for health workers in 2021 compared to other categories in the public sector. Provisions in the amount of RSD 1.55 billion have been made for such financial assistance in the Second Supplementary Budget (as defined below). On 12 November 2020, the National Bank reaffirmed its key policy rate at 1.25 per cent. and resolved to organise weekly direct repo auctions and foreign exchange swaps to provide additional liquidity stimulus to banks. Through such regular weekly swap and repo auctions, banks will have the option to obtain the required dinar liquidity for a three-month period under favourable conditions, using FX or dinar securities as collateral. To aid the survival of travel agencies which were particularly impacted by COVID-19, the Government has approved RSD 150 million under its Second Supplementary Budget in order to subsidise payments of mandatory travel insurance premiums held by travel agencies.

Economic Performance

Overview

After a relatively strong performance in the first quarter of 2020, Serbia witnessed a slowdown in growth in the second quarter during which the economic effects of COVID-19 mainly manifested, with the economic activity showing signs of gradual recovery thereafter. According to the preliminary estimates published by the Office of Statistics, Serbia’s real GDP registered a growth of 5.1 per cent. year-on-year in the first three months of 2020, despite the slowdown in March when the negative effects of COVID-19 were first seen in a large number of sectors. This strong growth was followed by a sharp decline of 6.4 per cent. on a year-on-year basis in the second quarter of 2020, as a result of the significant disruption caused by the impact of COVID-19 and the “state of emergency” and other preventive measures which were implemented in the months of March to May 2020. Industrial production and retail trade turnover witnessed double-digit contractions in April, before gradually recovering in May and June 2020 when the decline almost halved compared to contraction in April or its performance registered a year-on-year increase. Other high-frequency indicators of economic activity in the information and communications, construction and financial sectors remained relatively resilient through June 2020 amid the disruption caused by COVID-19, however, this was partially offset as key sectors stagnated and even declined because of the slowdown in economic activities in Serbia as private consumption remained subdued, and more generally due to a sharp contraction in external demand caused by the lock-down of other economies. Following this decline, economic activity within Serbia witnessed signs of gradual recovery in the third quarter when the decline in GDP almost more than halved, primarily due to a somewhat more favourable economic environment, with the rebound of industrial production, recovery of private consumption and strong growth of

agriculture. The services sector recorded modest recovery, however the growth was negative on a year-on-year basis. Despite these favourable trends in the face of the pandemic, Serbia's real GDP decreased by 1.3 per cent., year-on-year during the third quarter of 2020 (*source: preliminary figures published by the Office of Statistics*) as the recovery remained below the level of growth in the corresponding period in 2019.

Monthly/quarterly performance

Serbia started the year growing at a favourable rate in the first two months of 2020, consistent with the spill over effects of the expansionary measures implemented during the second half of 2019. Nevertheless, the economic performance in each of March and April 2020 contracted due to the impact of the preventative public safety measures taken to contain the spread of COVID-19, before showing signs of gradual recovery in the months of May, June, July, August and September 2020. As of the date of this Base Prospectus, April 2020 registered the steepest monthly decline in economic performance during the COVID-19 pandemic, consistent with the economic performance of other countries during that month. As in other countries, certain sectors such as tourism, transportation, hospitality, recreation and entertainment in Serbia, were the first to be particularly affected by the social distancing and other measures enacted in response to the spread of COVID-19. The manufacturing sector with export-orientated activities, which are significant contributors to Serbia's GDP, were also impacted considerably with companies suspending large production capacities or reducing their business activities significantly due to a sharp contraction in external demand. Equally, negative effects manifested in export-oriented sectors with production activities involving significant imported components due to disrupted supply chain as production in China and other parts of the world contracted sharply, making imports of raw and intermediary products and equipment difficult. The preventative measures seen in Serbia and elsewhere, in response to the spread of COVID-19, also exerted significant adverse effects on entrepreneurs, micro businesses and SMEs. Consequently, industrial production as a whole measured a decline of 16.6 per cent. year-on-year in April 2020, as many companies during this period halted or reduced production, whilst a fall of 19.9 per cent. year-on-year in industrial production within the manufacturing industry was recorded. At the same time, retail trade turnover decreased by 18.6 per cent. year-on-year, which was accompanied with a slump in tourist activities by 97.9 per cent. (when measured by the number of tourist arrivals) and a fall in exports and imports of goods by 28.9 per cent. and 28.1 per cent. respectively.

However, the economic performance of Serbia started experiencing improvement since May 2020, mainly due to the gradual reopening of non-essential economic activity, expansive monetary policy measures which were introduced to provide liquidity to the economy, the adoption of certain tax incentives and benefits, and targeted Government spending on social programs. As a result of these monthly dynamics, despite the improvement and more favourable trends in May and June, the steep contraction in April resulted in Serbia recording a sharp decline of 6.4 per cent. year-on-year in the second quarter of 2020. However, structural factors in Serbia, such as modest reliance on tourism, as well as effective fiscal and monetary responses adopted to mitigate the negative effects of the economic contraction resulting from the spread of COVID-19, significantly alleviated the contractionary pressures. In the third quarter of 2020, industrial production gained considerable traction in August and September, expanding at the fastest rate since April as manufacturing output rebounded. Moreover, retail trade turnover witnessed a robust growth after a one-off decline in April, while house-holding spending increased with improved consumer and retail trade confidence in September. See "*Economy of Serbia*" for certain statistical and economic information for the first nine months of 2020, based on the quarterly or monthly provisional data published by Serbia. These monthly and quarterly dynamics almost neutralised the contraction of the second quarter and limited the downward trend in the third quarter of 2020.

According to the most recent information available, Serbia's real GDP is estimated to decline by approximately 1.5 per cent. year-on-year in the fourth quarter of 2020. Such quarterly dynamics are expected to result in a 1 per cent. decline in real GDP in 2020, while nominal GDP is expected to amount to RSD 5,517.3 billion. The total fiscal deficit is expected to reach a projected level of 8.9 per cent. of GDP in 2020, due to the increased spending by the Government in response to the COVID-19 pandemic and decrease in the Government's tax revenues from significant tax deferrals. The

Government expects the General Government Debt (as defined below) to reach 59.0 per cent. of GDP at the end of 2020, with Public Debt (as defined below) at 57.9 per cent.

The above projected levels of deficit, debt and other GDP dynamics are based on the most recently available data and considering the fiscal cost of economic measures designed to address the current COVID-19 situation. Economic consequences of the impact of COVID-19 or its eventual aftermath may require the implementation of new incentive measures in line with future developments, which coupled with deeper and more protracted slowdown in growth, could create an upward pressure on Government expenditure, increase the overall levels of Government borrowings and result in actual results to differ from the above projections. This risk is more likely to be heightened amid the seeming onset of a third wave of coronavirus cases since early October when the number of new infections accelerated in several countries (including Serbia), as this could significantly affect the recently regained economic momentum in Serbia. A further worsening of the outbreak due to a renewed surge in the virus could lead to a more severe contraction in 2020 and a weaker recovery in 2021, increasing fiscal and external financing needs of Serbia. Accordingly, prospective investors should be aware such projected levels and other estimated figures cited in this Base Prospectus are subject to some degree of uncertainty and may be further adjusted, amended or revised, whether as part of regular review or otherwise, based on numerous evolving factors, which are highly uncertain, rapidly changing and cannot be accurately predicted. No assurance can be given that such adjustment, amendment or revision may not be material.

Public Finances

First Supplementary Budget

On 29 April 2020, the Assembly adopted a supplementary budget (the “**First Supplementary Budget**”) to account for the impact of the COVID-19 pandemic and re-stated the macroeconomic targets for the fiscal year 2020 presented in the 2020 Budget Law (as defined below). Some of the key revised projections under the First Supplementary Budget included total revenues and proceeds of RSD 1,244.8 billion (in place of RSD 1,314.5 billion as originally planned) and total expenditures and outflows of RSD 1,625.8 billion (in place of RSD 1,334.7 billion as originally planned) at the central government level. The decrease in revenue estimates was mainly due to the reduction in private entity operations as result of the COVID-19 pandemic and the implementation of several temporary measures by the tax authorities to alleviate taxpayers’ cash flow required, including the postponement and exemption from tax obligations. The First Supplementary Budget contemplated a total fiscal deficit of RSD 394.8 billion, or 7.2 per cent. of GDP (compared to RSD 29.0 billion, or 0.5 per cent. of GDP as originally planned), with a central government budget deficit of RSD 381.0 billion, or 6.9 per cent. of GDP (compared to RSD 20.2 billion or 0.3 per cent. of GDP as originally planned). It also assumed a real GDP decline of 1.8 per cent. (compared to growth of 4.0 per cent. as originally planned) and average inflation of 1.5 per cent. (compared to 2.0 per cent. as originally planned) in 2020.

In the first nine months of 2020, a fiscal deficit of RSD 360.8 billion was realised at the general government level, with a central government budget deficit of RSD 364.2 billion. In the first nine months of 2020, total revenues (including grants) amounted to RSD 1,599.6 billion at the general government level. This is 2.8 per cent. lower compared to the same period in 2019 as a result of the temporary measures implemented by the Government and the shutdown of economic activity in the beginning of March 2020 in response to the COVID-19 pandemic. In the first nine months of 2020, total expenditures amounted to RSD 1,960.4 billion at the general government level. Consumption expenditures increased by 21.6 per cent. on the back of the Government’s response to the pandemic, while capital expenditures increased by 14.6 per cent. and subsidies increased by 201.1 per cent., in each case as compared to the same period in 2019.

Second Supplementary Budget

Keeping in mind the performance of the economy for the first nine months of 2020, the 2020 Budget Law was further revised pursuant to a supplementary budget (the “**Second Supplementary Budget**”) on 12 November 2020. The Second Supplementary Budget seeks to address the effects of COVID-19 on the Serbian economy, with a review of performance of the economy for the period January –

September 2020 based on the provisional data available as at the end of September 2020, which indicates that targets for certain macroeconomic indicators are yet to be realised. Under the Second Supplementary Budget (i) total revenues and proceeds are estimated at RSD 1,291.4 billion at the central government level, reflecting a 3.7 per cent. increase compared to the total revenues and proceeds estimated in the First Supplementary Budget and (ii) total expenditures and outflows are estimated at RSD 1,774.4 billion at the central government level, reflecting a 9.1 per cent. increase compared to total expenditures estimated in the First Supplementary Budget. The Second Supplementary Budget is based on the following macroeconomic assumptions for the fiscal year 2020:

- Projected real GDP contraction of 1 per cent.;
- Projected average inflation of 1.5 per cent.; and
- Overall fiscal deficit of RSD 492.3 billion, or 8.9 per cent. of expected GDP, assuming a central government budget deficit of RSD 483 billion, or 8.8 per cent. of expected GDP.

2021 Draft Budget

As of the date of this Base Prospectus, the Draft Budget for 2021 (the “**Draft Budget**”) is being prepared, which is expected to be adopted by the Government on 20 November 2020 and placed before the parliament of Serbia on 7 December 2020. The Draft Budget envisages RSD 1,336 billion of total revenues and proceeds and RSD 1,515 billion of total expenditures and outflows, which is expected to result in a projected deficit of RSD 179 billion, representing 3 per cent. of the expected GDP. It assumes a real GDP growth of 6 per cent., average inflation of 2 per cent. and debt-to-GDP ratio of 58.7 per cent. at the general government level in 2021. It also contemplates a further increase of 5.0 per cent. and 3.5 per cent. (adjusted to 5.0 per cent. from 1 April 2021 onwards) in public sector wages for healthcare workers and other public sector employees respectively, together with an increase of 5.9 per cent. in pensions from January 2021. Since this Draft Budget is yet to be adopted by the Government and considered by the parliament of Serbia, it may be subject to changes or may be further adjusted. On receiving the formal assent of the parliament, which is expected on 11 December 2020, the Draft Budget will be adopted as the Budget Law. There can be no assurance the Draft Budget will be adopted by the Government or parliament in the current form or that such objectives in fact will be achieved.

The assumptions in Second Supplementary Budget and the Draft Budget are made by the Republic for planning purposes and actual results may be materially different. Similarly, the targets and assumptions in the Draft Budget are based on the most recently available information and may be further adjusted, amended or revised, whether as part of regular review or otherwise, to take into account the prevalent economic and fiscal indicators, which are evolving based on numerous factors that are highly uncertain, rapidly changing and cannot be accurately predicted as a consequence of COVID-19.

Public Debt

Measured as a percentage of GDP, Public Debt increased from 52.0 per cent. of GDP at the end of 2019 to approximately 56.7 per cent. of the projected GDP at the end of September 2020, while General Government Debt increased from 52.9 per cent. to 57.6 per cent. This increase was mainly due to the higher financing needs and lower economic growth driven by COVID-19 and more specifically as a result of the economic measures implemented to mitigate the negative effects of COVID-19 on vulnerable populations and to continue with the orderly execution of the 2020 Budget and First Supplementary Budget. While the Government anticipates a sizeable increase in Serbia’s deficit and debt-to-GDP ratio, Public Debt is projected to remain below the sustainable threshold of 60 per cent. There can be no assurance that such objectives, in fact, will be achieved or that the Public Debt will not exceed these levels.

2020 Parliamentary Elections

In the most recent parliamentary elections, which took place on 21 June 2020, the Serbian Progressive Party received the largest number of votes, winning 188 out of 250 seats in the Assembly, and continued to retain majority in the parliament. Apart from national minority parties winning 19 parliament seats, the Socialist Party of Serbia won 32 seats and the Serbian Patriotic Alliance (“SPAS”) won 11 seats. On 5 October 2020, following the elections, the President of Serbia, i.e. Aleksandar Vučić, nominated Prime Minister Ana Brnabić to remain in office for another term to lead the new Government. On 20 October 2020, the Serbian Progressive Party decided to form a new Government with the Socialist Party of Serbia and SPAS (the “**New Government**”). On 22 October 2020, the President of Serbia in his press interactions stated that the New Government would remain in power for less than two years (instead of four) until the next parliamentary elections. The next parliamentary elections is scheduled to be held in April 2022 at the latest, alongside the presidential elections. On 28 October 2020, the New Government took office with Ana Brnabić as Prime Minister. The New Government is currently comprised of 21 ministries with 23 ministers, including four deputy prime ministers and two ministers without portfolio.

The above overview does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Base Prospectus. The above data is provisional or otherwise based on estimates that the Republic and/or its agencies believe to be based on reasonable assumptions. All such data is provided as at and in respect of the period most recently available. Whilst this information contains an element of estimated economic performance of Serbia, which provides a reasonable basis for estimating key economic indicators, these figures may differ materially from the final GDP data or actual numbers once published as an element of this data is estimated and may change or continually be revised based on future developments. Accordingly, the financial and economic information for periods of 2020 set out in this Base Prospectus may be subsequently adjusted and may differ materially from previously published financial and economic information depending on the most recent information available to the Republic and/or its agencies.

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 economic effects of the outbreak of COVID-19 could adversely affect 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 so-called Kosovo may have a negative effect on political and economic conditions in Serbia
- 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
- Future Investments in the Turkish Stream Pipeline could be subject of sanctions under Section 232 of the Countering America’s Adversaries Through Sanctions Act

- 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
- Any significant changes in levels of Public Debt and/or interest cost could have a material adverse effect on Serbia's economy and its ability to service its debt, including the Notes

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 to 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 judgment 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

- Structure of a Particular Issue of Notes
- The Notes contain collective action clauses under which the terms of any one Series and/or multiple Series may be amended, modified or waived without the consent of all the holders of the Notes of that Series or all the holders of any other Series being aggregated, as the case may be
- The Terms and Conditions restrict the ability of an individual Noteholder to declare an event of default, and permit a majority of Noteholders to rescind a declaration of such a default
- Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if Definitive Note Certificates are subsequently issued

- Holders of Notes held through DTC, Euroclear and Clearstream, Luxembourg must rely on procedures of those clearing systems to effect transfers of Notes, receive payments in respect of Notes and vote at meetings of Noteholders

Risks Related to the Market Generally

- The secondary market generally
- Credit ratings may not reflect all risks
- Benchmark Uncertainty – changes or uncertainty in respect of LIBOR, EURIBOR and other benchmark rates might affect investors in floating rate Notes

OVERVIEW OF THE PROGRAMME

This overview does not purport to be complete and must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus as a whole.

Words and expressions defined in “Terms and Conditions of the Notes” shall have the same meanings in this overview.

Issuer	The Republic of Serbia (represented by the Government of the Republic of Serbia, acting by and through the Ministry of Finance)
Legal Entity Identifier of the Issuer	254900W94OCY91V32O78
Website of the Issuer	http://www.javnidug.gov.rs/eng/default.asp?P=101
Description and Size	Global Medium Term Note Programme The Programme is unlimited in amount.
Arranger	Deutsche Bank AG, London Branch
Dealers.....	BNP Paribas Deutsche Bank AG, London Branch J.P. Morgan Securities plc UniCredit Bank AG The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to “ Permanent Dealers ” are to those persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “ Dealers ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent, FX Agent and Calculation Agent.....	Deutsche Bank AG, London Branch
Principal Paying Agent.....	Deutsche Bank AG, London Branch
European Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.
U.S. Paying Agent, Registrar and Transfer Agent.....	Deutsche Bank Trust Company Americas
Method of Issue	The Notes will be issued in series (each, a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may comprise one or more tranches of notes (each, a “ Tranche ”) issued on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the denominations, issue date, issue price, first payment

of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms or the Drawdown Prospectus (as the case may be) which, for the purposes of that Tranche only, supplements the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche are the Terms and Conditions of the Notes as supplemented, amended or replaced by the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

Further notes having the same terms and conditions as the Notes of a particular Series so as to form a single series with the Notes of the particular Series will be issued with a separate CUSIP and ISIN unless such further notes are fungible with the original Notes for U.S. federal income tax purposes.

Issue Price	Notes may be issued at any price on a fully paid basis, as specified in the Final Terms. The price and amount of the Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Form of Notes	Each Series will be issued in registered form only. Restricted Notes will initially be represented by a Restricted Global Note and Unrestricted Notes will initially be represented by an Unrestricted Global Note. The Global Notes will be exchangeable for Definitive Note Certificates (as defined herein) in the limited circumstances specified in the Global Notes.
Clearing Systems	Euroclear, Clearstream, Luxembourg and DTC, unless otherwise agreed, and such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer(s).
Currencies	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal, regulatory and central bank requirements.
Maturities	Subject to compliance with all relevant laws, regulations, directives and/or central bank requirements, any maturity. <i>Under Serbian law as at the date of this Base Prospectus, no Notes may be issued under the Programme unless the minimum maturity thereof is at least two years as from the relevant date of issue. All references in this Base Prospectus to the possibility of Notes having a maturity date of less than such minimum period shall (in the absence of a change in Serbian law allowing for a shorter maturity) be disregarded accordingly.</i>
Denominations	Notes will be issued in such denominations as may be specified in the relevant Final Terms (the “ Specified Denomination ”), provided that, subject to the below, the Specified Denomination(s) shall not be less than €100,000 or its equivalent in another currency. For so long as the Notes are represented by a Global Note, and the relevant clearing system(s) so permit, subject to the below, the Notes shall be tradeable only in the minimum authorised denomination of €100,000 or its equivalent in another currency and higher integral multiples of any smaller amount specified in the relevant Final

Terms.

Interests in the Restricted Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in other currencies. Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) will have a minimum denomination of £100,000 (or its equivalent in another currency).

Interest Notes may be interest-bearing or non interest-bearing (as set out in the relevant Final Terms). Interest (if any) may accrue at a fixed rate or a floating rate.

Redemption..... The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity or that such Notes will be redeemable at the option of the Issuer upon giving notice to the Noteholders on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whole issue otherwise would constitute a contravention of section 19 of the FSMA will have a minimum redemption amount of £100,000 (or its equivalent in the relevant currency).

Status of the Notes..... The Notes constitute direct, general, unconditional and (subject to Condition 6 (*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 and the Deed of Covenant.

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*.

Negative Pledge The Notes will have the benefit of a negative pledge as described in Condition 6 (*Negative Pledge*).

Credit Ratings Where a Tranche is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche will be (a) issued by a credit rating agency established in the EEA or the UK and registered under the CRA Regulation, or (b) issued by a credit rating which is not established in the EEA or the UK but will be endorsed by a credit rating agency which is established in the EEA

or the UK and registered under the CRA Regulation or (c) issued by a credit rating agency which is not established in the EEA or the UK but which is certified under the CRA Regulation will also be disclosed in the relevant Final Terms. The list of credit rating agencies registered and/or certified under the CRA Regulation is available on the ESMA website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) (last updated on 14 November 2019).

A credit 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.

Taxation All payments of principal and interest in respect of the Notes will 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 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 has been required, subject to certain exceptions set out in Condition 12 (*Taxation*).

Governing Law..... English law.

Selling and Transfer Restrictions The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the countries specified in “*Subscription and Sale*”.

The Notes have not been and will not be registered under the Securities Act or any State securities law. Consequently, the Notes 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 and any applicable state securities laws. See “*Transfer Restrictions*”.

PRIIPs Regulation If the Final Terms in respect of any Notes includes a legend entitled “*Prohibition of Sales to EEA and UK Retail Investors*”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK, and no key information document under the PRIIPs Regulation will be prepared.

MiFID II Product Governance..... The Final Terms in respect of any Notes will include a legend entitled “*MiFID II product governance*” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate.

Listing and Trading Applications have been made for the Notes to be admitted during the 12 months after the date of this Base Prospectus to listing on the Official List and to trading on the Market and references to “listing” shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market.

Notes may also be unlisted or may be listed or admitted to trading, as the case may be, on any market (including any unregulated or

regulated market for the purposes of MiFID II) as may be agreed among the Issuer and the relevant Dealer(s) or (in the case of a direct purchase of Notes by an investor) the relevant Noteholders(s) in relation to each relevant Series.

**Enforcement of Notes in
Global Form**

In the case of Global Notes, individual investors' rights against the Issuer will be governed by a deed of covenant dated on or around 20 November 2020 (the "**Deed of Covenant**"), a copy of which is available for inspection at the specified office of the Fiscal Agent.

Risk Factors.....

Investing in the Notes involves a high degree of risk, which investors should ensure they fully understand. These include: risks associated with emerging markets, risks relating to Serbia and risks relating to the Notes. See "*Risk Factors*".

Use of Proceeds.....

Unless otherwise specified in the applicable Final Terms for a particular issue of Notes, the net proceeds from each issue of Notes will be applied by the Issuer toward funding its budget deficit.

Other use of proceeds that may be specified in connection with a specific issue of Notes include refinancing or repaying outstanding indebtedness, applying the proceeds for financing investment projects and the potential funding of the Issuer's ongoing initiatives aimed at mitigating the economic effects of the COVID-19 pandemic. The exact details of the application of any proceeds that are not used to fund the budget deficit will be set out in the relevant Final Terms. See "*Use of Proceeds*".

RISK FACTORS

Investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Base Prospectus, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Issuer's ability to repay the principal of and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur. 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. In any such case, investors may lose all or part of their investment in the Notes.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

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, which has increased in recent years, continues to remain crucial to secure sustainable growth in the coming periods and fully finance Serbia's current account deficit, and such increasing reliance on FDI inflows is expected to increase 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 of emerging markets or changes in monetary policy in emerging or developed markets, 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.

Moreover, financial unrest or instability experienced in global financial markets and/or one or more countries located in an emerging market, could potentially have a negative impact on Serbia's economy. Since January 2020, the COVID-19 outbreak and fear of the further spread of COVID-19 have caused significant disruptions in international economies and financial markets, the severity and duration of which is dependent on numerous evolving factors, which are highly uncertain, rapidly changing and difficult to predict. These events have affected investment sentiments and resulted in irregular activities in the global markets and continuation of such adverse conditions could lead to a prolonged weakening of economic conditions, potentially causing a global recession, which could have a pronounced impact on emerging markets, including Serbia. Any material changes as a result of such events or developments may materially and adversely affect the availability of 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. See *"– The economic effects of the outbreak of COVID-19 could adversely affect Serbia's economy"*.

The Serbian economy 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

(including as a result of the outbreak of COVID-19) 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. Additionally, risks related to economic development in Europe have had and, despite past periods of moderate stabilisation, may continue to have a negative impact on global economic activity and financial markets. There can be no assurances that a tightening of liquidity conditions as a result of, for example, further deterioration of public finances of certain European countries due to the outbreak of COVID-19, will not lead to new funding uncertainty or result in increased volatility and widening of credit spreads. Additionally, concerns about credit risk (including that of sovereigns) and 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 as a result of the outbreak of COVID-19 or otherwise 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. If these conditions continue to persist, or should there be any further turbulence in these or other markets, this could have a material adverse effect on Serbia's ability to access foreign investment or sustain its GDP growth. Accordingly, 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 are existing or may occur in the future, including, but not limited to, as a result of issues arising from the ongoing COVID-19 pandemic or linked to an economic slowdown in the Eurozone or owing to a prolonged recession or depression in the global 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 Base 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.

Risks Associated with Serbia's Economy

The economic effects of the outbreak of COVID-19 could adversely affect Serbia's economy

COVID-19 which was first identified in Wuhan, Hubei Province, China in late 2019 has continued to spread to most countries around the world, leading the World Health Organisation to declare the outbreak of this communicable disease as a global pandemic on 11 March 2020. Several governments have since implemented various restrictions, including restricting travel, closing borders, instituting curfews, suspending non-essential businesses, restricting public gatherings, quarantining people who may have been exposed to the virus, imposing lockdowns or extended shutdowns and placing limitations on business operations. On 15 March 2020, in order to prevent the spread of COVID-19, Serbia declared a "state of emergency" and implemented restrictions similar to those taken in many other countries. These restrictive measures enacted worldwide, whilst aimed to slow the spread of COVID-19, have had an indeterminable adverse impact on the global economy, which has so far included disruption to global supply chains, significant reduction in global economic activities, temporary closures of many businesses and worsening of unemployment levels. Such measures have also caused stock markets worldwide to lose significant value and have led to significant volatility, uncertainty and disruption in global financial markets, the severity and duration of which will depend on future developments, which are highly uncertain and cannot be accurately predicted.

As the outbreak of COVID-19 slowed in a number of countries that were affected early on in the spread of the disease, some of the related precautionary and preventative measures implemented in March have since been partially lifted and/or relaxed, resulting in a gradual reopening of businesses and workplaces. However, it remains unclear how long and the manner in which any such preventive measures (including any potential re-introduction of restrictive measures or implementation of more

far-reaching restrictions or measures than those already announced) will remain in place and what their ultimate impact will be on global and local economies. Like other countries, the emergence of COVID-19 poses a new risk to the financial health of Serbia. Whilst the “state of emergency” in Serbia was lifted on 7 May 2020, the economic impact of COVID-19 has had a significant effect on the Serbian economy, reducing exports and remittances, straining public finances and forcing small businesses across the country to close at various points. The Government expects the ongoing outbreak of COVID-19 to have an unintended adverse effect on the Republic’s economy and negatively impact Serbia’s GDP in 2020. According to the most recent information available, Serbia’s real GDP is projected to decline by 1 per cent. in 2020.

After a relatively strong performance in the first quarter of 2020, Serbia witnessed a slowdown in growth in the second quarter during which the economic effects of COVID-19 mainly manifested, with the economic activity showing signs of gradual recovery thereafter. According to the preliminary estimates published by the Office of Statistics, Serbia’s real GDP registered a growth of 5.1 per cent. year-on-year in the first three months of 2020, despite the slowdown in March when the negative effects of COVID-19 were first seen in a large number of sectors. This strong growth was followed by a sharp decline of 6.4 per cent. on a year-on-year basis in the second quarter of 2020, as a result of the significant disruption caused by the impact of COVID-19 and the “state of emergency” and other preventive measure which were implemented in the months of March to May 2020. Following this decline, economic activity within Serbia experienced signs of recovery in the third quarter when the decline in GDP almost more than halved, mainly due to the gradual reopening of non-essential economic activity, expansive monetary policy measures which were introduced to provide liquidity to the economy, the adoption of certain tax incentives and benefits, and targeted Government spending on social programs. Based on preliminary estimates published by the Office of Statistics, Serbia’s real GDP decreased by 1.3 per cent., year-on-year during the third quarter of 2020. However, the economic growth of Serbia in the coming periods will depend on a variety of factors, including, among others, external demand for the Republic’s exports and services, the stability and competitiveness of the dinar against foreign currencies, confidence among Serbian consumers and foreign/domestic investors and their rates of investment in the Republic, the willingness and ability of businesses to engage in new capital spending and the rate of inflation.

Some of these factors are outside the control of the Republic as most of these elements, to a large extent, will depend on the duration and spread of COVID-19, its severity, actions taken to contain the virus or treat its impact, the extent and effectiveness of economic stimulus taken to mitigate its impact or treat its eventual aftermath and how quickly and to what extent normal economic and business activity can resume. Therefore, in spite of the economic activity having gradually recovered following a sharp contraction in the second quarter of 2020, the economic outlook of Serbia remains highly uncertain, reflecting the unpredictable course of the pandemic and the related economic disruptions it may cause in Serbia and its trading partners. With the trajectory of the virus, and therefore its economic impact, still subject to significant uncertainty, there can be no assurance that the recently gained economic momentum of Serbia will not be adversely affected in the coming months. More so, as the COVID-19 pandemic is ongoing, its dynamic nature, and the related uncertainties, makes it difficult to predict or estimate reliably the degree of the risk posed by the virus. However, the risk of weakening of economic conditions is more likely to be heightened amid the seeming onset of a third wave of coronavirus cases since early October when the number of new infections accelerated in several countries (including Serbia). A further worsening of the outbreak due to renewed surge in the virus could lead to a more severe contraction in 2020 and a weaker recovery in 2021, and implicate additional measures (or economic incentive measures). At present, the extent of the impact posed by the third wave of COVID-19 is unclear but it is reasonable to assume that rapid increase in the number of infections will have a negative and possibly prolonged impact on Serbia.

While the Government continues to monitor the situation closely, and although a negative contraction of GDP is expected in 2020, the duration, impact and severity of such decrease or the rapid spread of the outbreak on the Republic’s economy cannot be accurately predicted as the Government is unable to quantify in any meaningful way the likely scale of the impact due to the unpredictable course of the pandemic but such impact could be significant, particularly in the short to medium term, if the sudden

spike in the virus is severe, as it could adversely affect the economies and financial markets of the Republic and of many other countries. As a result, the economic and fiscal projections of many countries, including Serbia, are expected to be continually revised, causing key fiscal and economic indicators to be subject to some degree of uncertainty. As of the date of this Base Prospectus, the trajectory of the COVID-19 outbreak remains highly uncertain but if the spread of the virus is severe in Serbia or elsewhere, there is a risk that more far-reaching restrictions or measures than those already announced, will be taken to contain its spread or mitigate its impact, including instituting lockdowns that have previously resulted in businesses slowing or shuttering operations. Implementation of such measures in Serbia could lead to or be the source of political and social discontent in the country. Such restrictive measures as a result, could have adverse effects on Serbia's economy and financial markets, which could be severe and likely affect its ability to repay principal and make payments of interest on the Notes.

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 is vulnerable to external shocks, and remains potentially exposed to deterioration in global economic conditions, including, but not limited to, as a result of the ongoing outbreak of COVID-19. For instance, any significant decline in the economic growth of Serbia's main trading partners as a result of the ongoing outbreak of COVID-19 or otherwise, 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. The manufacturing sector with export-orientated activities, which are significant contributors to Serbia's GDP, were impacted considerably in April 2020 as a result of COVID-19, with companies suspending large production capacities or reducing their business activities significantly due to a sharp contraction in external demand caused by the lock-down of other economies. Serbia's exports are largely directed towards EU and countries of the region, and are reliant on demands in those countries, which are currently lacking or experiencing slowdown due to reduced overall economic activity. Whilst the direct and indirect economic impact of the COVID-19 outbreak is uncertain, concerns remain as to whether the stimulus and other economic actions taken by a number of countries (including Serbia's key trading partners) to mitigate its impact, will counter the anticipated macro-economic risks. Equally, it is unclear as to when the restrictive measures imposed in many countries in an attempt to contain the virus will be deemed successful and therefore completely lifted. A prolongation of the outbreak could significantly and adversely affect economic growth and impact business operations across the globe generally, including within Serbia and its trading partners. To the extent that countries in the Eurozone, or other major trading partners of Serbia, experience a weakening of their economies, it could cause sharp declines in FDI inflows to, and exports of goods by, Serbia. Net FDI inflows to Serbia have increased year on year since 2015, reaching a record high of EUR 3.6 billion in 2019. In the first nine months of 2020, net FDI inflows amounted to EUR 1,727.8 million, which is EUR 856.6 million (or 35.6 per cent.) lower compared to the same period in 2019. A large part of this decline was a result of the reduced reinvested earnings and, to some extent, due to comparison against record inflows in 2019 but the net FDI inflows more than fully covered and financed the current account deficit in the first nine months of 2020 by 100.8 per cent. However, any further decrease or significant decline in the flow of investments into the Serbian economy could lead to lower growth or result in more severe contraction, which may impair Serbia's ability to sustain or limit the negative impact on its GDP growth or finance its current account deficit, which is fully covered by net FDI inflows. See “— *Investing in securities of emerging markets, including Serbia, involves a higher degree of risk than investing in more developed markets.*”

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 has steadily increased in recent years with a number of major infrastructural projects being undertaken or planned 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. Since 2010, the Government has concluded bilateral loans with the Chinese Export-Import Bank, the Republic of Azerbaijan, the Russian Federation, the Turkish T.C. Ziraat Bankası A.Ş. and the Abu Dhabi Development Fund. The total amount of loans from such countries amounted to EUR 6.68 billion at the end of September 2020, a 2.53 per cent. increase as compared to 2019. This slight increase was a result of the loan from Chinese Export-Import Bank, availed for financing the construction of District Heating Pipeline Project Obrenovac-Novı Beograd. 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, Serbia's economy could be significantly adversely affected by a decline in the economic performance of the countries with which it has bilateral infrastructural relations, in particular China. In the beginning of 2020, the COVID-19 outbreak significantly disrupted China's manufacturing output, which caused global ripple effects. It resulted in weaker aggregate demand, supply chain disruptions and a lack of raw materials and led to increasing uncertainty, all of which caused a slowdown of global economic activity. Business activities in China, including industrial activities, were significantly reduced or completely suspended for most of 2020. China is an important bilateral infrastructure partner of Serbia, which means that any such prolonged significant disruption to economic stability or growth in China, or any rupture in economic or political relations between Serbia and China, would likely have an adverse effect on the economy of Serbia. There can be no assurance that weaknesses in the global economy as a result of COVID-19, or any other 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 have a material adverse effect on the trading price of the Notes or likely affect Serbia's ability to repay principal and make payments of interest on 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 6 October 2020, the European Commission published its 2020 country report (the "**2020 Report**") on Serbia. This was the sixth progress report on Serbia since the country opened accession negotiations with the EU in January 2014. The 2020 Report shows that Serbia is committed to the EU integration process and has implemented necessary reforms that demonstrates its moderate level of preparation, but further progress is needed in a number of areas prior to accession. On 25 March 2020, the European Council reaffirmed its commitment to enlargement by endorsing the communication of the European Commission on "*Enhancing the accession process – A credible EU perspective for the Western Balkans*" of 5 February 2020, aiming to reinvigorate the accession process (including the negotiating framework of Serbia) by making it more predictable, more credible, more dynamic and subject to stronger political steering. On 6 October 2020, the European Commission adopted a comprehensive Economic and Investment Plan (the "**EIP**") for the Western Balkans, in order to spur the long-term economic recovery of the region, support a green and digital transition, foster regional integration and accelerate convergence with the EU. The European Commission reiterated its commitment to enlargement by adopting the EIP, which includes a substantial financial package to strengthen long-term socio-economic recovery of the Western Balkans after the COVID-19 pandemic and to accelerate economic convergence with the EU.

However, 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. Amongst other things, it states that Serbia's accession in 2025 will ultimately depend on strong political will, the delivery of real and sustained reforms, and definitive solutions to disputes with so-called Kosovo. Despite the EU's commitment to enlargement 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 Base 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 18 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 on Serbia. For further discussion, please see "*Description of Serbia – Foreign Relations – European Union*".

The uncertainties surrounding the relations with so-called 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 Priština on a number of issues have taken place since March 2011. However, a series of setbacks caused the talks between Belgrade and Priština to come to a standstill in October 2018. In particular, relations suffered after the PISG (as defined below) raised customs duties on imports from Serbia and Bosnia and Herzegovina to 100 per cent. Consequently, goods dispatched to Kosovo and Metohija in 2019 decreased by 79.4 per cent. compared to 2018. Equally, when the assembly of so-called Kosovo unilaterally approved the transformation of the "Kosovo Security Force" into a "Kosovo Army" and established a "Defence Ministry", in violation of both UN Resolution 1244 and the First Agreement (as defined below), this damaged relations and increased the threat to regional stability.

However, earlier this year, successful talks between Belgrade and Priština, under the mediation of the United States, resulted in the signing of a commercial letter of intent for establishing a direct Belgrade- Priština special air route (to be operated by the German carrier Lufthansa), with the aim of extending opportunities for business and cooperation. Equally, in February 2020, US-sponsored efforts resulted in the signing of the Statement of Intent to establish a Belgrade-Priština Rail Corridor and the Statement of Intent to complete the Belgrade-Priština Highway, with the aim of restoring rail and road connections between Belgrade and Priština. However, on 15 March 2020, the assembly of so-called Kosovo adopted a resolution authorising the Government of so-called Kosovo to hold talks with Belgrade and achieve "mutual recognitions of Kosovo and Serbia, with a full guarantee of the territorial integrity of [so-called] Kosovo". Since this resolution aimed at extracting from Serbia a "full guarantee" of the "territorial integrity" of so-called Kosovo, it essentially precluded the continuation of effective dialogue between Belgrade and Priština, as Serbia fundamentally rejects the territorial claims of so-called Kosovo.

The import duties imposed in 2018 were partially lifted (for raw materials only) on 21 March 2020, after the United States suspended economic assistance to so-called Kosovo. This partial lifting was followed by the PISG's decision on 2 April 2020, pursuant to which it abolished the 100 per cent. import duties and instead introduced "reciprocal" measures to govern the trade with central Serbia and Bosnia and Herzegovina. Amongst other things, Serbia views these measures as requiring it to abolish non-tariff barriers in respect of so-called Kosovo and discontinue campaigns aimed at reversing the recognition of so-called Kosovo as an independent state. As Serbia considers these reciprocal measures as simply representing the continuation of the previous tariff policy by other means, Belgrade's relations with Priština continued to remain strained.

Following the annulment of the reciprocity measures on import of goods from Serbia, and pursuant to the appointment of a new government in Priština, the EU-facilitated dialogue between Belgrade and Priština resumed with high-level and technical (expert) meetings held in July and August 2020, followed by rounds of technical level discussions in September 2020. For further discussion, please see "*Description of Serbia – Historical Background*". Separately, successful talks between Belgrade and Priština under the mediation of the United States in a meeting organised in Washington on 4

September 2020 by US Special Presidential Envoy Richard Allen Grenell, resulted in the two sides signing separate documents expressing their intention to work on economic normalization, primarily towards implementing the Statement of Intent signed on 14 February 2020 for restoring rail and road connections between Belgrade and Priština with the aim of extending opportunities for business and cooperation. Following these US-supported efforts, cooperation between the chambers of commerce in Belgrade and Priština have continued. On 22 September 2020, both chambers adopted a joint statement expressing mutual support for promoting economic and overall relations between the two sides, in accordance with the Washington arrangements of 4 September 2020. However, it remains to be seen whether and/or to which extent Priština will fulfil its commitments. Should the already complex relations between Belgrade and Priština continue to deteriorate or remain severally strained, it could lead to disruption or prevention of normalisation of relations between Belgrade and Priština. As things stand, the Government believes that lasting peace and stability in the region can be ensured through a comprised solution resulting from constructive dialogue between Belgrade and Priština, and with the support of EU-facilitated and US-supported efforts. However, any further deterioration in relations between Belgrade and Priština 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.

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

In the first nine months of 2020, the current account deficit amounted to EUR 1,713.9 million, and represented a decrease of EUR 300.1 million compared to the corresponding period in 2019. This decrease was mainly due to narrowing of the primary income account deficit (by EUR 635.1 million) and increase in surplus from trade in services (by EUR 119.3 million). See “*External Sector – Balance of Payments*”.

As a result of the growing investment in export-oriented sectors, the trade deficit of goods decreased by 11.3 per cent. and 14.4 per cent., in 2015 and 2016, respectively, however, it increased by 28.2 per cent., 27.2 per cent. and 10.6 per cent. in 2017, 2018 and 2019, respectively. In the first nine months of 2020, the trade deficit of goods increased (on a F.O.B basis) by EUR 31.2 million to EUR 3,838.8 million. This increase was primarily due to slightly higher decline in exports of goods (in absolute amount) compared to imports of goods. For the nine-month period ended 30 September 2020, total exports of goods amounted to EUR 11,455.9 million, which represents a EUR 712.6 million decrease compared to the same period in 2019. This decrease was mainly due to a decline in manufacturing exports, which contracted due to reduced external demand and disruption in global value chains caused by COVID-19. For the nine-month period ended 30 September 2020, total imports of goods amounted to EUR 15,294.7 million, which represents a EUR 681.4 million decrease as compared to the same period in 2019. This decrease was largely due to lower domestic demand as a consequence of reduced overall economic activity and decrease in oil imports, which in turn was driven by a decline in global oil prices. The Government expects the recovery of imports to be slower in the short and medium term, due to the combined effect of lower domestic demand and low energy prices. In line with gradual opening of manufacturing factories across Europe, it also expects exports to continue to improve in the remainder of 2020 and to recover completely in 2021 (although these expectations may be altered by the effects of the COVID-19 pandemic). Particularly, given the openness of the Serbian economy, any severe impact of COVID-19 on Serbia’s major trade partners amid the renewed and exacerbated health risks, could cause a further slowdown in Serbia’s overall trade exchange. Though global economic rebound since May has been faster than anticipated, the accelerated spread of COVID-19 from October 2020, particularly in Europe, remains a concern. If economic conditions of countries in the EU, or other major trading partners of Serbia, deteriorate, Serbia may experience a decline in foreign trade given the EU’s position as Serbia’s most important trade partner. Therefore, 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 (as defined below).

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 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 2019, the fiscal deficit amounted to RSD 11.1 billion (representing 0.2 per cent. of GDP) against the budgeted deficit of RSD 28.7 billion (being 0.5 per cent. of GDP). However, various factors could affect the Government's spending and result in widening of the fiscal deficit with resulting negative implications 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.

At present, the most significant fiscal risk affecting Serbia's economy is the sizeable economic downturn or sharp contraction expected from the spread of COVID-19. The Government adopted a large broad-based economic response plan in April 2020, with additional measures in July and August (involving financial stimulus packages), to support the Serbian economy and mitigate the economic impact of COVID-19. These policy responses, which involve fiscal spending on wages and other expenditures, deferral of certain taxes, increased allocation to the health care system and moratorium on loan repayments, together with weakening of economic conditions in the second quarter of 2020, has contributed and is expected to continue to contribute to a substantial worsening of the budgetary position, although it is extremely difficult to evaluate the financial impact of these measures with precision. In the first nine months of 2020, total revenues (including grants) amounted to RSD 1,599.6 billion at the general government level, representing 75.8 per cent. of projected total revenues and grants set forth in the First Supplementary Budget for 2020. This result is 2.8 per cent. lower compared to the same period in 2019 as a result of the temporary measures implemented by the Government and the shutdown of economic activity in the beginning of March 2020 in response to the COVID-19 pandemic. In the first nine months of 2020, total expenditures amounted to RSD 1,960.4 billion at the general government level, representing 78.2 per cent. of projected total expenditures set forth in the First Supplementary Budget for 2020. Consumption expenditures increased by 21.6 per cent. on the back of the Government's response to the pandemic, while capital expenditures increased by 14.6 per cent. and subsidies increased by 201.1 per cent., in each case as compared to the same period in 2019. In the event Serbia is faced with negative economic climate or protracted economic growth as a consequence of increased COVID-19 cases, the Government may need to implement further cost reduction or introduce new measures with additional fiscal incentives in order to mitigate the potential long-lasting impact of such economic crisis. Such measures may lead to further deterioration of Serbia's public finances, adversely impede or constrain Serbia's overall economic growth or limit policy options due to reduced availability of funds to make capital investments needed for economic growth. Further, if necessary, the Government may be required to defer growth capital expenditures to preserve cash flows in response to any near-term uncertainty, which may have a material adverse effect on Serbia's economic growth. Accordingly, if the Government is not able to implement policies and reforms to achieve budgetary targets and limit Serbia's fiscal deficit, it could have an adverse effect on the Serbian economy, in particular its ability to fund capital expenditures which could limit growth in the economy.

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. Due to reduced income from contributions, caused by the moratorium of mandatory social contributions and difficulties encountered by businesses as a consequence of COVID-19, allocations from the Budget to the retirement and disability insurance fund were increased, for the purpose of

securing regular payment of pensions and other entitlements. In the first nine months of 2020, 35.7 per cent., or approximately EUR 1.5 billion (RSD 182.3 billion), of the total expenditure of this fund was financed by allocations from the Budget. In the first nine months of 2020, the Government's expenditure on public wages and pensions from the Budget amounted to RSD 863.4 billion. In the event of Serbia facing protracted economic growth, this could lead to a decrease in income from contributions and cause securing funds for pension payments to become more difficult. The expenditure on public wages and pensions currently represents the largest single category of expenditure in the Budget and this may continue in the future, driven by worsening demographics or increased financial assistance by the Government in an effort to limit or mitigate the economic impact of COVID-19. See *"Economy of Serbia – Social Insurance System – Pensions and Disability"*, *"Public Finance – Consolidated General Government Budget"* and *"Public Finance – Recent Developments"*. 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 or if these entities are adversely affected by the economic impact of COVID-19, they may require funding for their operations from the Budget, which may lead to deterioration of Serbia's public finances. In addition, the Government may provide financial support to strategically important companies, including its national carrier, in order to minimise the effects the COVID-19 pandemic has had on such companies. If the Government were to extend any financial aid, such support will be financed from the Budget in line with the EU rules on state aid. However, the Government's ability to provide such financial support or to make future payments to state-owned enterprises or strategically important companies may be affected by economic cyclical trends, including the risk of stagnation in key economic sectors as a result of COVID-19 or otherwise. In addition, a weaker than expected economic performance or prolonged contraction in economic growth resulting from adverse consequences of COVID-19 would likely have a negative impact on Government revenues and would lead to fiscal deficits with resulting negative implications. Taken as a whole, reduced revenues, together with significant expenses arising from or related to COVID-19, public wages, social benefits (including pensions and healthcare), infrastructure projects and subsidies, would likely 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 1.5 per cent., 1.6 per cent., 3.0 per cent., 2.0 per cent. and 1.9 per cent. in 2015, 2016, 2017, 2018 and 2019, respectively. In the first nine months of 2020, the average year-on-year inflation rate was 1.6 per cent., well within the National Bank's target tolerance band (3 ± 1.5 per cent.), while the monthly movements of inflation were largely driven by fruit and vegetable prices, as well as oil derivatives prices. In the first five months of 2020, inflation levels declined and year-on-year inflation rate stood at 0.6 per cent. in April and 0.7 per cent. in May due to a drop in vegetable prices, as well as a sharp decline in global oil prices in the early days of the pandemic. After falling in April and May 2020, total inflation increased to 1.6 per cent. year-on-year as a result of increases in vegetable prices and returned within the targeted tolerance band in June 2020. Since then, the year-on-year inflation has registered a slight increase, reaching 1.9 per cent. in August, before reducing to 1.8 per cent. in September. Core inflation in September stood at 1.7 per cent. year-on-year. This increase in core inflation relative to the same period in 2019 was mainly driven by a one-off price increase of landline telephone services and travel packages.

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 the first nine months of 2020, inflation was impacted by the decline in global oil prices that translated into a decline in prices of oil derivatives on the domestic market. See *"Monetary System – Inflation and Interest Rates"*. In the final months of 2020, year-on-year inflation is expected to fluctuate around its current level due to the depressed oil prices and lower base effect from vegetable prices. However, the movement of inflation will depend on the pace of recovery of domestic demand and administered consumer prices. High and sustained inflation may lead to market instability, financial crises, additional expenditures on wages and social

transfers, a reduction in consumer purchasing power and an erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Serbia's economy.

As in other countries, the COVID-19 pandemic is more likely to have a deflationary impact in Serbia. The inflationary pressure caused by higher demand for certain items in the short-term (mainly food), and disruption of the global supply chain in the medium-term, is likely to be overshadowed by the deflationary pressure caused by the decline in global aggregate demand. However, the exact impact of the COVID-19 crisis on inflation will depend largely on the length of the pandemic and the pace of normalisation of economic conditions. Any such deflationary pressures, coupled with a prolonged negative economic climate, could also have a material adverse effect on Serbia's economy and its ability to meet its debt obligations, including in respect of Notes.

Future Investments in the Turkish Stream Pipeline could be subject of sanctions under Section 232 of the Countering America's Adversaries Through Sanctions Act (CAATSA)

Gastrans (a joint venture company, of which 51 per cent. is owned by the Russian company, Gazprom, and 49 per cent. by the Serbian gas company, PE "Srbijagas") has been constructing the 403-km Serbian stretch of the Turkish Stream Pipeline since 2019. The pipeline is nearing completion. On 15 July 2020, the US Department of State issued guidance regarding the implementation of Section 232 of CAATSA. Under CAATSA, certain investments in the Turkish Stream Pipeline may be subject to sanctions, even if undertaken pursuant to an existing contract. Accordingly, any future investment in, or financial assistance to, the Turkish Stream Pipeline could expose the involved companies to the risk of being sanctioned under Section 232 of CAATSA. While the Government has not made any investments since the release of the new guidance in July 2020, no assurances can be given that the Government, Gastrans or PE "Srbijagas" will not be subject to sanctions in the future should the sanctions regime change, or if the Government or PE "Srbijagas" were deemed to have made investments or extended financial assistance in violation of CAATSA.

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, or changes in, supplies of oil, 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 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. As a result, Serbia could increasingly be 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, fragile ecosystems, adverse 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. Separately, as agriculture, forestry and fisheries account for a significant portion of Serbia's total GVA (being 6.9

per cent. of total GVA in the first six months of 2020), 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. In the most recent parliamentary elections, which took place on 21 June 2020, the Serbian Progressive Party received the largest number of votes, winning 188 seats in the Assembly, and continued to retain majority in the parliament. As a result, the newly constituted Serbian parliament is marked by the overwhelming majority of the ruling coalition (i.e. Serbian Progressive Party, Socialist Party of Serbia and Serbian Patriotic Alliance) with the national minority parties only holding 19 out of 250 seats in the Assembly (although some of these parties are not politically independent given their support towards the ruling coalition). The next parliamentary elections in Serbia is scheduled to be held in April 2022 at the latest, alongside the presidential elections. Actual or perceived political instability in Serbia or 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. Whilst growing the tax base is a key priority for the Government, the reduction of potential tax and other revenue as a consequence of the informal sector may have negative effects on the economy and, as a result, in turn have a material adverse effect on Serbia's capacity to service its debt, including in respect of Notes issued under the Programme.

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

Fitch upgraded Serbia's rating from "BB" to "BB+" (with a stable outlook) on 27 September 2019 and reaffirmed this rating on 27 March 2020 and 25 September 2020. Moody's reaffirmed its rating of Serbia as "Ba3" (and changed the outlook from stable to positive) on 6 September 2019. Serbia's credit rating of "Ba3" (with positive outlook) was reaffirmed by Moody's on 20 April 2020 and 2 September 2020. On 13 December 2019, the long-term debt rating of Serbia was upgraded to "BB+" (with a positive outlook) by S&P. On 1 May 2020, S&P reaffirmed its long-term debt rating of Serbia as "BB+" but revised Serbia's outlook from positive to stable, citing the economic impact of COVID-19. More recently, S&P reaffirmed its long-term debt rating of Serbia as "BB+" (with stable outlook) on 6 June 2020. See "*Overview – Recent Developments*". There can be no guarantee that the Government will not experience credit downgrades or further 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 and, in particular, the uncertainties related to COVID-19 indicate that the ratings assigned by the independent rating agencies may be subject to changes based on future developments. Any adverse changes in an applicable credit rating or credit rating outlook could adversely affect the trading price of 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 future projected budget deficits and other considerations. Any adverse change in the credit ratings of Serbia could adversely affect the Government's ability to refinance its existing indebtedness.

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

A number of government ministries including the Ministry of Finance, along with the National Bank and the Office of Statistics, have prepared statistical data, which appear in this Base Prospectus. Certain of these statistics, particularly preliminary or estimated data, 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. 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. The statistical data appearing in this Base 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. However, the development of statistical information relating to Serbia is an on-going process, and revised figures are produced on a continuous basis. More recently, on 1 October 2020, the Office of Statistics released its revised annual rates of GDP for the periods from 2015 and 2017 to reflect results that are compliant with the Supply and Use Tables.

Moreover, certain statistical information contained in this Base Prospectus are provisional or otherwise based on estimates that the Republic of Serbia and/or its agencies believe to be based on reasonable assumptions. However, there may be differences between preliminary or estimated statistical data set forth in the Base Prospectus and actual results. Similarly, certain of these statistics contain projections based on the Issuer's current view with respect to future events and financial results. Whilst these statistics (although provisional or projections) contains an element of estimated economic performance of Serbia, which provides a reasonable basis for estimating key economic indicators, these figures may differ materially from the actual numbers once published as an element of this data is estimated and may change or continually be revised based on future developments. Accordingly, the financial and economic information set out in this Base Prospectus may be subsequently adjusted or revised and may differ materially from previously published financial and economic information depending on the most recent information available to the Republic and/or its agencies. Similarly, the targets and assumptions in the Draft Budget of 2021 are based on the most recently available information and may be further adjusted, amended or revised, whether as part of regular review or otherwise, to take into account the prevalent economic and fiscal indicators, which are evolving based on numerous factors that are highly uncertain, rapidly changing and cannot be accurately predicted as a consequence of COVID-19. No assurance can be given that such adjustment, amendment or revision may not be material. Consequently, prospective investors in the Notes should be aware that figures relating to Serbia's GDP and many other figures cited in this Base 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 this Base Prospectus, data is presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to ascertain or reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF and World Bank. Accordingly, prospective investors should be aware that none of the statistical information in this Base Prospectus has been independently verified. 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 2019 Corruption Perception Index survey of 180 countries, Serbia was ranked 91, down from 87 in 2018, 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. Separately, 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 its progress towards EU membership. Also, while the Government has implemented several reforms with the aim of 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. See *"Economy of Serbia – Organised Crime, Corruption and Money Laundering"*.

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 30 September 2020, 70.6 per cent. of Serbia's Public Debt was denominated in foreign currencies, and the proportion of aggregate Public Debt denominated in Dinar was 29.4 per cent. Whilst Serbia has significantly improved the currency structure of its Public Debt in recent years, Serbia's debt to GDP ratio remains 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. In the first nine months of 2020, the Dinar remained almost unchanged against the Euro and nominally strengthened by 4.7 per cent. against the U.S. dollar despite the rise in global uncertainty. Pressures on the Dinar exchange rate were contained by the National Bank through interventions in the domestic foreign exchange market, through which it provided the needed liquidity to banks in the circumstances of lower FX or Dinar supply. The participation of the National Bank in the domestic foreign exchange market is aimed at preventing sudden destabilising changes in the Dinar exchange rate against Euro (which is the main foreign currency in use in Serbia). Any such intervention, if substantial in nature, could, in turn, exert adverse effects on the National Bank's gross foreign exchange reserves, which act as a financial buffer against potential external shocks to the economy. While National Bank intervened in the domestic foreign exchange market with net selling of EUR 1,635 million from January to September to support the local currency, the National Bank's gross foreign exchange reserves remained relatively stable at EUR 13.03 billion at the end of September 2020 and registered a moderate decrease of EUR 348 million compared to 2019, primarily due to the inflows from the Eurobond issuance in the amount of EUR 1,969 million. However, any future pressure on the Dinar as a result of the ongoing outbreak of COVID-19 or arising from

extensive capital outflows from Serbia or significant sales of Dinar-denominated securities by foreign investors, could lead to substantial interventions by the National Bank in the domestic foreign exchange market with a consequent adverse impact on gross foreign exchange reserves. 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 as an economic consequence of COVID-19 or otherwise, could negatively impact Serbia's economic performance, credit rating and/or its ability to service its debt. See "*Public Debt—Public Debt Currency Structure*".

Any significant changes in levels of Public Debt and/or interest costs could have a material adverse effect on Serbia's economy and its ability to service its debt, including the Notes

Measured as a percentage of GDP, Public Debt increased from 52.0 per cent. of GDP at the end of 2019 to approximately 56.7 per cent. of the projected GDP at the end of September 2020, while General Government Debt (as defined in "*Public Debt*") increased from 52.9 per cent. to 57.6 per cent. This increase was mainly due to the higher financing needs and lower economic growth driven by COVID-19 and, more specifically, due to economic measures implemented by the Government to mitigate the negative effects of COVID-19 on vulnerable populations and to continue with the orderly execution of the 2020 Budget and First Supplementary Budget. Although the Government expects the Public Debt to decline in 2021, any significant increase in future domestic or external borrowings beyond sustainable thresholds to finance the Budget deficit, or provide financial support to the economy as a consequence of COVID-19 or otherwise, including the issuance of further External Public Debt (as defined in "*Public Debt*") in the international capital markets could elevate its debt burden and put significant strain on fiscal and debt sustainability in the coming years. Furthermore, the need to service such potentially elevated levels of Public Debt may impact Serbia's ability to use available funds to make other capital investments needed for economic growth.

Moreover, an increase in the fiscal imbalances as a result of the stagnated growth, weak labour market and high public spending arising from or as a consequence of COVID-19 could potentially contribute to a rapid build-up of Public Debt and result in compounding the future possibility of debt distress. Accordingly, if the Government does not carefully manage its debt strategy in the coming periods, debt levels and interest costs may rise to an unsustainable level, which may negatively impact Serbia's sovereign credit rating and may impair its ability to service its debt, including the Notes. See "*—Reduced revenues, together with higher expenses, may adversely affect Serbia's ability to repay principal and make payments of interest on the Notes*".

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 September 2020, the banking sector of Serbia consisted of 26 banks, of which 19 were majority owned by foreign shareholders, three were owned by domestic private individuals and four were state-owned. As of 30 September 2020, there was a high level of concentration of foreign ownership in the banking sector, with foreign-owned banks (from 13 different countries) holding 76.4 per cent. of the banking sector's total assets, 82.3 per cent. of total loans and 74.8 per cent. of total deposits.

As of 30 September 2020, the banking sector in Serbia also had a high level of loans and deposits denominated in EUR and other foreign currencies, giving rise to risks relating to currency fluctuations. As of 30 September 2020, foreign currency denominated loans constituted approximately 63.4 per cent. of total loans in the banking sector and foreign currency denominated deposits amounted to approximately 60.8 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 worldwide credit market downturns

and economic slowdowns, including, but not limited to, arising from or as a result of the ongoing outbreak of COVID-19. Although the financial stability of the banking sector was maintained in the first nine months of 2020 due to economic and monetary policy measures implemented by the Government and National Bank, a weakening of asset quality in the banking sector is likely, as support measures of the Government or National Bank fall away. This risk is more likely to be heightened amid the seeming onset of a third wave of coronavirus cases since early October, when the number of new infections accelerated in several countries (including Serbia), as this could significantly affect the recently regained economic momentum in Serbia. Accordingly, the economic consequences of the COVID-19 outbreak may have significant effects on the Serbian-banking sector in the event of a prolonged negative climate or more protracted economic growth. Although the strong capitalisation of the banking sector would provide a certain element of protection against the risk of an economic downturn, banks may see an increase in NPLs in 2020 as the economy contracts and household and business income suffers. As a consequence, Serbia's banking sector remains vulnerable and there can be no assurance that a prolonged negative economic climate or protracted slow growth arising from or linked to the ongoing outbreak of COVID-19, or any other 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 to their subsidiaries operating in Serbia

As at 30 September 2020, foreign-owned banks accounted for approximately 76.4 per cent. of total assets, 82.3 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 26.6 per cent. of the total assets of the Serbian banking system as at 30 September 2020). 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, but not limited to, adverse economic developments in Europe and negative factors impacting the sovereign debt markets owing to the ongoing outbreak of COVID-19 or otherwise. 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 levels of funding to their subsidiaries in Serbia. This may exert negative effects on the 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 to 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 the “foundations of social order as determined in the Constitution”, which is the Serbian version of public policy.

It may also not be possible to enforce foreign court judgments against the Republic of Serbia in the courts of Serbia, including English court judgments, 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 would generally not be conducted according to the applicable law.

Recognition and enforcement in the courts of the Republic of Serbia of any foreign court judgment is conditional, among others, on reciprocity in judgment recognition and enforcement between the Republic of Serbia and the country of origin of the foreign judgment. 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 (England and Wales) exists on the date of this Base Prospectus. In addition, it may not be possible to enforce a foreign court judgment if it is found by the Serbian court to be contrary to the “foundations of social order as determined in the Constitution”, which is the Serbian version of the public policy exception to the recognition and enforcement of foreign judgments. The concept of public policy is defined rather broadly as comprising fundamental legal provisions of the Serbian legal system. There are no settled court practices or consistent legal writings publicly available which define the scope of Serbian public policy, and a precise list of criteria for determination of such public policy rules does not exist. While it is accepted that only fundamental mandatory provisions of Serbian law may be interpreted as public policy, the interpretation of which provisions fall under the scope of Serbian public policy is at the discretion of the competent Serbian courts, and is decided on a case-by-case basis.

There is also a risk that the choice of English law as the governing law of the Notes or contractual documents 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 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, (x) movable or immovable assets that are used by the authorities of the Republic of Serbia for conducting their competencies (xi) monetary assets and financial instruments determined as financial collateral in accordance with the law regulating financial collateral, including monetary assets and financial instruments which are pledged in accordance with such law, or (xii) 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.

Factors which are Material for the Purpose of Assessing the Risks Associated with the Notes issued under the Programme

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes:

Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

- **Variable Rate Notes**

The Issuer may issue Variable Rate Notes under the Programme. Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

- **Inverse Floating Rate Notes**

The Issuer may issue Inverse Floating Rate Notes under the Programme. Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate, such as LIBOR. The market values of these Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and

with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate on the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

- Notes Issued at a Substantial Discount or Premium

The Issuer may issue Notes at a Substantial Discount or Premium. The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. The longer the remaining term of the securities, the greater the price volatility may be compared to conventional interest-bearing securities with comparable maturities.

- Fixed Rate Notes

The Issuer may issue Fixed Rate Notes under the Programme. Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Notes contain collective action clauses under which the terms of any one Series and/or multiple Series may be amended, modified or waived without the consent of all the holders of the Notes of that Series or all the holders of any other Series 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. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple Series to be aggregated for voting purposes (provided that each such Series also contains the collective action clauses in its Terms and Conditions).

The Issuer expects that all Series issued under the Programme will include such collective action clauses, thereby giving the Issuer the ability to request modifications or actions in respect of reserved matters across multiple Series. This means that a defined majority of the holders of such Series (when taken in the aggregate) would be able to bind all holders of Notes in all the relevant aggregated Series.

Any modification or actions relating to reserved matters, including in respect of payments and other important terms, may be made to a single Series with the consent of the holders of 75 per cent. of the aggregate principal amount outstanding of such Notes, and to multiple Series with the consent of both (i) the holders of 66^{2/3} per cent. of the aggregate principal amount outstanding of all Series being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each Series being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable Condition in the Terms and Conditions of the Notes, any such modification or

action relating to reserved matters may be made to multiple Series with the consent of 75 per cent. of the aggregate principal amount outstanding of all Series being aggregated only, without requiring a particular percentage of the holders in any individual affected Series to vote in favour of any 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 only and, for the avoidance of doubt, the provisions may be used for different groups of two or more Series 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 a Series may be amended, modified or waived in circumstances whereby the Noteholders voting in favour of an amendment, modification or waiver may be Noteholders of a different Series and as such, less than 75 per cent. of the Noteholders of the relevant Series would 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 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 any Notes may adversely affect their trading price.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the Terms and Conditions of the Notes. If this occurs, then this could mean that any Series issued under the Programme would be capable of aggregation with any such future debt securities. The Terms and Conditions of the Notes also include a provision in respect of the establishment of a Noteholders' Committee, which may represent the holders of a single Series or multiple Series.

The Terms and Conditions restrict the ability of an individual Noteholder to declare an event of default, and permit a majority of Noteholders to rescind a declaration of such a default

The Terms and Conditions contain a provision which, if an Event of Default occurs, permits the holders of at least 25 per cent. in aggregate outstanding principal amount of the outstanding Notes of the relevant Series to declare all the Notes of that Series to be immediately due and payable by providing notice in writing to the Issuer (with a copy to the Fiscal Agent), whereupon the Notes of that Series shall become immediately due and payable, at their nominal amount with accrued interest, without further action or formality.

The Terms and Conditions also contain a provision permitting the holders of at least 50 per cent. in aggregate outstanding principal amount of the outstanding Notes of the relevant Series to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration 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, whereupon the relevant declaration shall be withdrawn and shall have no further effect. Noteholders should therefore be aware that the actions of at least 50 per cent. of the Noteholders will impact whether or not an Event of Default is cured, regardless of whether or not all Noteholders agree to such action.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if Definitive Note Certificates are subsequently issued

The Terms and Conditions do not permit the sale or transfer of Notes in such circumstances as would result in amounts being held by a Noteholder which are lower than the minimum Specified Denomination (as defined in the Terms and Conditions). However, in the event that a Noteholder holds a principal amount of less than the minimum Specified Denomination, such Noteholder would need to purchase an additional amount of Notes such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Notes. Noteholders should be aware that Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Noteholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, such Noteholder may not receive a Definitive Note Certificate in respect of such holding (should Definitive Note Certificates be issued) and would need to purchase a principal amount of Notes such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a Definitive Note Certificate.

If Definitive Note Certificates are issued, Noteholders should be aware that Definitive Note Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Holders of Notes held through DTC, Euroclear and Clearstream, Luxembourg must rely on procedures of those clearing systems to effect transfers of Notes, receive payments in respect of Notes and vote at meetings of Noteholders

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depository for Euroclear and Clearstream, Luxembourg or may be deposited with a custodian for DTC (each as defined under “*Summary of Provisions Relating to Notes in Global Form*”). Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. 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. Illiquidity may have a severely adverse effect on the market 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 structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Further, other ratings (including confidential or unpublished ratings) may be assigned with respect to the Issuer or the Notes (now or in the future) which may differ (and which may be lower) from the ratings set out in this Base Prospectus or any applicable Final Terms.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

Benchmark Uncertainty – Changes or uncertainty in respect of LIBOR, EURIBOR and other benchmark rates might affect investors in floating rate Notes

With respect to any Series that has a floating rate of interest based upon a benchmark, such as LIBOR or EURIBOR, investors should consider that the manner in which these rates are set is undergoing significant change. For example, LIBOR and EURIBOR have been the subject of recent English, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective, including the majority of the provisions of the Benchmark Regulation.

In particular, the sustainability of LIBOR has been questioned by the FCA as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to the calculation of LIBOR. In a speech on 27 July 2017, Andrew Bailey, the Chief Executive of the FCA, announced the expectation of the FCA that LIBOR will cease to be sustained in its current form from the end of 2021 (at the latest). The FCA has statutory powers to require panel banks to contribute to LIBOR where necessary. The FCA has decided not to ask, or to require, that panel banks continue to submit contributions to LIBOR beyond the end of 2021. The FCA has indicated that it expects that the current panel banks will voluntarily sustain LIBOR until the end of 2021, although there can be no assurance that they will not cease to do so sooner. Subsequent speeches by Andrew Bailey and other FCA officials have emphasised that the FCA's intention is that after 2021 it will no longer ask, or require, banks to submit contributions to LIBOR. The FCA's current intentions, as well as the reforms described above, might: (a) cause the LIBOR benchmark to disappear entirely or (as a result of a change in methodology or otherwise) perform differently than in the past, (b) create disincentives for market participants to continue to administer or contribute to the calculation of LIBOR and/or (c) have other consequences that cannot be predicted.

The Benchmark Regulation was published in the Official Journal of the EU on 29 June 2016, the provisions of which have applied since 1 January 2018. The Benchmark Regulation applies to the provision of benchmarks (including LIBOR and EURIBOR), the contribution of input data to a benchmark and the use of a benchmark within the EU and, among other things: (a) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of "benchmarks" and (b) prevent certain uses by EU-supervised entities of "benchmarks" of administrators that are not authorised/registered (or, if non-EU based, deemed equivalent or recognised or endorsed). The scope of the Benchmark Regulation is wide and, in addition to so-called "critical benchmark" indices such as LIBOR and EURIBOR, applies to many interest rates, foreign exchange rate indices and other indices where used to determine the amount payable under or the value or performance of certain financial instruments traded on a trading venue (i.e., an EU "regulated market," "multilateral trading facility" (MTF) or "organised trading facility" (OTF)) or via a systematic internaliser, certain financial contracts and investment funds. These rules would apply to the Notes, including (if applicable) as a result of their listing on the Market.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark (such as LIBOR and EURIBOR) becomes unavailable, or if any Paying Agent, Calculation Agent, the Issuer or other party is no longer permitted lawfully to calculate interest on any Notes by reference to such benchmark. Such fallback arrangements include the possibility that the Rate of Interest could be set by reference to a Successor Rate or an Alternative Reference Rate (each as defined in the Terms and Conditions of the Notes), and that such Successor Rate or Alternative Reference Rate may be adjusted (if required) in order to reduce or eliminate any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the original Reference Rate (as defined in the Terms and Conditions of the Notes), and may include amendments to the Terms and Conditions of the Notes to ensure the proper operation of the successor or replacement benchmark (all as further described in Condition 8.4 (*Benchmark Replacement*)). In certain circumstances, the ultimate fallback for the purposes of calculation of Rate of Interest for a particular Interest Period (as defined in the Terms and Conditions of the Notes) may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for floating rate Notes based on the rate which was last observed on the Relevant Screen Page (as defined in the Terms and Conditions of the Notes). In addition, due to the uncertainty concerning the availability of Successor Rates and Alternative Reference Rates and the involvement of an Independent Adviser, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Any of the matters noted above in this risk factor or any other significant change to the setting or existence of LIBOR, EURIBOR or any other benchmark rate might have a material adverse effect on the value or liquidity of, and the amount payable under, the applicable Notes. No assurance may be provided that relevant changes will not be made to any such benchmark rate and/or that any such benchmark rate will continue to exist. Investors should consider these matters when making their investment decision with respect to any Notes that have a floating rate of interest based upon a benchmark rate.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and as read in conjunction with the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. References in the terms and conditions to “Notes” are, unless the context requires otherwise, to the Notes of one Series only, not to all Notes that may be issued under the Programme.

1. Introduction

The Republic of Serbia (represented by the Government of the Republic of Serbia, acting by and through its Ministry of Finance) (the “**Issuer**”) has established a Global Medium Term Note Programme (the “**Programme**”) for the issuance of notes (the “**Notes**”). The Notes are constituted by, are subject to and have the benefit of a deed of covenant dated 20 November 2020 (as may be amended or supplemented from time to time, the “**Deed of Covenant**”) executed by the Issuer for the benefit of holders of the Notes (“**Noteholders**” or “**holders**”) and are the subject of a fiscal agency agreement dated 20 November 2020 (as may be amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) and made between the Issuer, Deutsche Bank Luxembourg S.A. as the European registrar (the “**European Registrar**”), Deutsche Bank Trust Company Americas as the United States registrar (the “**U.S. Registrar**” and, together with the European Registrar, the “**Registrars**” and each a “**Registrar**”, which respective expressions include any successor registrar(s) appointed from time to time in connection with the Notes), Deutsche Bank AG, London Branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and as the FX agent (the “**FX Agent**”, which expression includes any successor FX agent appointed from time to time in connection with the Notes) and the transfer agents, paying agents (including Deutsche Bank Trust Company Americas as the United States paying agent) and other agents named therein.

Notes issued under the Programme will be issued in series (each, a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may comprise one or more tranches of Notes (each, a “**Tranche**”) issued on the same or different issue dates. The specific terms of each Tranche (which will, save in respect of the denominations, issue date, issue price, first payment of interest and nominal amount of the Tranche, be identical to the terms of other Tranches of the same Series) will be set forth in the applicable Final Terms (the “**Final Terms**”), which should be read in conjunction with these terms and conditions. The terms and conditions applicable to any particular Tranche are these terms and conditions, as completed by the relevant Final Terms (together, the “**Terms and Conditions**”). In the event of any inconsistency between these terms and conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

All subsequent references in these Terms and Conditions to “**Notes**” are to the Notes of the same Series.

Certain provisions of these Terms and Conditions are summaries of the Fiscal Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement and the Deed of Covenant applicable to them.

Copies of the Fiscal Agency Agreement and the Deed of Covenant, and copies of any Final Terms in respect of Notes which are admitted to trading on a regulated market within the European Economic Area or the United Kingdom, are available for inspection on the website of the Issuer at <http://www.javnidug.gov.rs/eng/default.asp?P=101>. In addition, if and to the extent such documents are not available on the website of the Issuer, they shall be available for inspection by Noteholders

during normal business hours at the Specified Offices of the Fiscal Agent, or by email from the Fiscal Agent.

2. Definitions and Interpretation

2.1 Definitions

Terms defined in the Fiscal Agency Agreement or the Deed of Covenant shall, unless otherwise defined herein or the context requires otherwise, bear the same meanings herein. In these Terms and Conditions, the following expressions have the following meanings:

“**Accrual Yield**” has the meaning given in the relevant Final Terms;

“**Adjustment Spread**” means a spread (which may be positive, negative or zero) or formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (b) (in the case of a Successor Rate for which no such recommendation referred to in (a) above has been made or in the case of an Alternative Reference Rate) the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or
- (c) (if no such customary market usage is recognised or acknowledged as referred to in (b) above) the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as the case may be);

“**Alternative Reference Rate**” means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in a reasonable manner) is most comparable to the relevant Reference Rate;

“**Applicable Law**” has the meaning given to it in the Fiscal Agency Agreement;

“**Benchmark Event**” means, in respect of a Reference Rate:

- (a) such Reference Rate ceasing to be published for a period of at least five London business days or ceasing to exist;
- (b) a public statement by the administrator of such Reference Rate that it has ceased or that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate);
- (c) a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued;

- (d) a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences;
- (e) a public statement or publication of information by the regulatory supervisor of the administrator of the Reference Rate, the central bank for the Specified Currency specified in the relevant Final Terms of the Reference Rate, an insolvency official with jurisdiction over the administrator of the Reference Rate, a resolution authority with jurisdiction over the Reference Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the Reference Rate, which states that the administrator of the Reference Rate has ceased or will cease to publish the Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Reference Rate);
- (f) the making of a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or
- (g) it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using such Reference Rate,

provided that the Benchmark Event shall be deemed to occur (i) in the case of sub-paragraphs (b), (c) and (e) above, on the date of the cessation of publication of such Reference Rate or the discontinuation of such Reference Rate, as the case may be, (ii) in the case of sub-paragraph (d) above, on the date of the prohibition of use of such Reference Rate and (iii) in the case of sub-paragraph (f) above, on the date with effect from which such Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Fiscal Agent, the Calculation Agent and the Paying Agents. For the avoidance of doubt, neither the Fiscal Agent, the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination.

“Broken Amount(s)” has the meaning given in the relevant Final Terms;

“Business Centre(s)” means the city or cities specified as such in the relevant Final Terms;

“Business Day” means:

- (a) in the case of Euros, a TARGET Settlement Day;
- (b) in the case of a Specified Currency other than Euros, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; or
- (c) in the case of a Specified Currency or one or more Business Centre(s) specified in the relevant Final Terms, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres so specified;

“Business Day Convention”, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) **“Following Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day;

- (b) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) **“FRN Convention”, “Floating Rate Convention”** or **“Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
 - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

“Calculation Amount” has the meaning given in the relevant Final Terms;

“Clearstream” means Clearstream Banking S.A.;

“Day Count Fraction” means, in respect of the calculation of an amount for any period of time (the **“Calculation Period”**), such day count fraction as may be specified in these Terms and Conditions or the relevant Final Terms and:

- (a) if **“Actual/Actual (ICMA)”** is so specified, means:
 - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

- (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (b) if “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (d) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (e) if “**30/360**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30”;

- (f) if “**30E/360**” or “Eurobond Basis” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

- (g) if “**30E/360 (ISDA)**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**DTC**” means The Depository Trust Company;

“**Euro Exchange Date**” means the date on which the Issuer gives notice (the “Euro Exchange Notice”) to the Noteholders that replacement Notes denominated in Euros are available for exchange;

“**Euroclear**” means Euroclear Bank SA/NV;

“**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;

“**Extraordinary Resolution**” has the meaning given in Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*);

“**Financial Centre(s)**” means the city or cities specified as such in the relevant Final Terms;

“**Fixed Coupon Amount**” has the meaning given in the relevant Final Terms;

“**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;

“Independent Adviser” means an independent financial institution of international repute or other independent financial adviser of recognised standing and with appropriate expertise, in each case appointed by the Issuer at its own expense;

“Interest Amount” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“Interest Commencement Date” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

“Interest Determination Date” has the meaning given in the relevant Final Terms;

“Interest Payment Date” means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms;

“Issue Date” has the meaning given in the relevant Final Terms;

“London business day” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are generally open for business in London;

“Margin” has the meaning given in the relevant Final Terms;

“Maturity Date” has the meaning given in the relevant Final Terms;

“Participating Member State” means a Member State of the European Union which adopts the Euro as its lawful currency in accordance with the Treaty;

“Payment Business Day” means:

- (a) if the currency of payment is Euros, any day which is:
 - (i) a day on which banks and foreign exchange markets are open for business in the place in which the specified office of the relevant Registrar is located; and
 - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Financial Centre; or
- (b) if the currency of payment is not Euros, any day which is:
 - (i) a day on which banks and foreign exchange markets are open for business in the place in which the specified office of the relevant Registrar is located; and

- (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Financial Centre;

“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;

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (a) in relation to Euros, it means the principal financial centre of such Participating Member State as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (b) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“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;

“Rate of Interest” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in relevant Final Terms or calculated or determined in accordance with the provisions of these Terms and Conditions and the relevant Final Terms;

“Redemption Amount” has the meaning given in the relevant Final Terms;

“Reference Banks” means the four major banks selected by the Issuer or an appointed agent on its behalf in the market that is most closely connected with the Reference Rate;

“Reference Price” has the meaning given in the relevant Final Terms;

“Reference Rate” has the meaning given in the relevant Final Terms;

“Regular Period” means:

- (a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

“Relevant Date” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the

Principal Financial Centre of the currency of payment 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 has been given to the Noteholders;

“Relevant Nominating Body” means, in respect of a reference rate:

- (a) the central bank for the currency to which the reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate; or
- (b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which the reference rate relates, (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate, (iii) a group of the aforementioned central banks or other supervisory authorities, or (iv) the Financial Stability Board or any part thereof;

“Relevant Screen Page” means the page, section or other part of a particular information service specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“Reserved Matter” has the meaning given to it in Condition 17.5 (Reserved Matters);

“Restricted Notes” means Notes offered and sold within the United States in reliance on Rule 144A under the Securities Act to persons who are qualified institutional buyers as defined in Rule 144A under the Securities Act;

“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;

“Specified Currency” has the meaning given in the relevant Final Terms;

“Specified Denomination(s)” has the meaning given in the relevant Final Terms;

“Specified Interest Payment Date” has the meaning given in the relevant Final Terms;

“Specified Office” has the meaning given in the Fiscal Agency Agreement;

“Specified Period” has the meaning given in the relevant Final Terms;

“Successor Rate” means the rate that the Independent Adviser or the Issuer (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body;

“TARGET System” means the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) System 2 or any successor thereto;

“TARGET Settlement Day” means any day on which the TARGET System is open;

“Treaty” means the Treaty establishing the European Communities, as amended; and

“Zero Coupon Note” means a Note specified as such in the relevant Final Terms.

2.2 Interpretation

In these Terms and Conditions:

- (a) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Terms and Conditions;
- (b) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Terms and Conditions;
- (c) references to Notes being “outstanding” shall be construed in accordance with the Fiscal Agency Agreement; and
- (d) if an expression is stated in Condition 2.1 (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes.

3. Form, Denomination and Title

The Notes are issued in registered form in the Specified Denomination(s) shown in the relevant Final Terms, without interest coupons, provided that:

- (a) the Specified Denomination(s) shall not be less than €100,000 or its equivalent in another currency;
- (b) interests in the Restricted Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in other currencies; and
- (c) Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (as amended) will have a minimum denomination of £100,000 (or its equivalent in another currency).

Title to the Notes shall pass by registration in the relevant registers that the Issuer shall procure to be kept by the Registrars outside the United Kingdom in accordance with the provisions of the Fiscal Agency Agreement (each, a “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

4. Transfers of Notes

4.1 Transfer

One or more Notes may be transferred, in whole or in part in the Specified Denominations set out in the applicable Final Terms and subject to the minimum transfer amounts specified therein, upon the surrender (at the specified office of the relevant Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the relevant Registrar or the relevant Transfer Agent (as applicable) may reasonably require, including for the purposes of establishing title to the relevant Note, and the identity of the person making the request. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the relevant Register will be made subject to the detailed regulations concerning transfers of Notes

scheduled to the Fiscal Agency Agreement. A copy of the current regulations will be made available by the relevant Registrar or any Transfer Agent to any Noteholder upon request.

4.2 Delivery

Each new Note to be issued pursuant to Condition 4.1 (*Transfer*) shall be available for delivery within five business days of receipt of the form of transfer and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the relevant Registrar or the relevant Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Registrar or the relevant Transfer Agent the costs of such other method of delivery and such insurance as it may specify. In this Condition 4.2, “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Registrar or the relevant Transfer Agent (as the case may be).

4.3 No Charge

Transfers of Notes shall be effected without charge by or on behalf of the Issuer, the Registrars or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and security as the relevant Registrar or the relevant Transfer Agent may require).

4.4 Restrictions on Transfer

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for redemption of, or payment of any interest amount in respect of, that Note.

5. Status

The Notes constitute direct, general, unconditional and (subject to Condition 6 (*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 and the Deed of Covenant. 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*.

6. Negative Pledge

So long as any Note remains outstanding 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 (i) any of its Public External Indebtedness or (ii) 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 and the Deed of Covenant are secured equally and rateably therewith or that such other security or other arrangement for the Notes is provided as may be approved by an Extraordinary Resolution or a Written Resolution or Electronic Consent (as defined in Condition 17 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*)) in each case in accordance with Condition 17 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*).

7. Fixed Rate Note Provisions

7.1 Application to Fixed Rate Notes

This Condition 7 is applicable to the Notes only if the relevant Final Terms specifies the Fixed Rate Note Provisions as being applicable.

7.2 Rate of Interest for Fixed Rate Notes

The Notes bear interest on the outstanding principal amount from the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on each Interest Payment Date in each year and on the Maturity Date if the Maturity Date does not fall on an Interest Payment Date, subject as provided in Condition 11 (Payments). The amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the relevant Final Terms, amount to the Broken Amount(s) so specified.

7.3 Calculation of Interest Amounts for Fixed Rate Notes

If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. In these Terms and Conditions “**sub-unit**” means, with respect of any currency other than the U.S. dollar, the lowest amount of such currency that is available as legal tender in the country of such currency, and with respect to U.S. dollars means one cent.

8. Floating Rate Note Provisions

8.1 Application to Floating Rate Notes

This Condition 8 is applicable to the Notes only if the relevant Final Terms specifies the Floating Rate Note Provisions.

8.2 Interest Payment Dates

The Notes bear interest on the outstanding principal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (a) the Specified Interest Payment Date(s) (each, an “**Interest Payment Date**”) in each year specified in the relevant Final Terms; or
- (b) if no Specified Interest Payment Date(s) is/are specified in the relevant Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls in the number of months or other period specified as the Specified Period in the relevant Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

8.3 Rate of Interest for Floating Rate Notes

The Rate of Interest payable from time to time in respect of the Notes shall be determined in the manner specified in the relevant Final Terms.

- (a) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will, subject as provided below, be either:

- (i) the offered quotation; or
- (ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) (the “Relevant Time”) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations, provided, however that:

(x) if no Reference Rate appears on the Relevant Screen Page at the 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Reference Rates that each of the Reference Banks is quoting to leading banks in the Principal Financial Centre at the Relevant Time on the relevant Interest Determination Date, as determined by the Calculation Agent; and

(y) if paragraph (x) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Reference Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Reference Rate) in respect of a Calculation Amount of the Specified Currency that at least two out of five leading banks selected by the Issuer or appointed agent on its behalf in the Principal Financial Centre are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the relevant Interest Determination Date relating to the next succeeding Interest Period for a period equivalent to the duration of the relevant Interest Period (I) to leading banks carrying on business in Europe, or (if the Issuer or appointed agent on its behalf determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin or Maximum Rate of Interest or Minimum Rate of Interest applicable to the preceding Interest Period and to the relevant Interest Period).

- (b) Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that

interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
 - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.
- (c) Where Linear Interpolation is specified in the relevant Final Terms as applicable in respect of an Interest Period, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the relevant Final Terms as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the relevant Final Terms as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period, provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Issuer or appointed agent on its behalf shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

8.4 Benchmark Replacement

In addition, notwithstanding the provisions above in Condition 8.3 (*Rate of Interest for Floating Rate Notes*), if the Issuer determines that a Benchmark Event has occurred in relation to the relevant Reference Rate specified in the relevant Final Terms when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate, then the following provisions shall apply:

- (a) the Issuer shall use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in a reasonable manner), and notify the Calculation Agent and the Fiscal Agent no later than ten London business days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the “**IA Determination Cut-off Date**”), a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Reference Rate for the purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Notes;
- (b) if the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;
- (c) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 8.4 (*Benchmark Replacement*)); provided, however, that if sub-

paragraph (b) applies and the Issuer (acting in a reasonable manner) is unable to or does not determine a Successor Rate or an Alternative Reference Rate five Business Days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the Rate of Interest shall be determined using such Reference Rate last displayed on the Relevant Screen Page prior to the relevant Interest Determination Date) (subject, where applicable, to substituting the Margin that applied to such preceding Interest Period for the Margin that is to be applied to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (c) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 8.4 (*Benchmark Replacement*));

- (d) if the Independent Adviser or the Issuer (acting in a reasonable manner) determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (acting in good faith and in a commercially reasonable manner) (as applicable), may also specify changes to these Terms and Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, business days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, if such changes are necessary to ensure the proper operation of such Successor Rate, Alternative Reference Rate and/or Adjustment Spread (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Fiscal Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Fiscal Agency Agreement and these Terms and Conditions as may be required in order to give effect to this Condition 8.4 (*Benchmark Replacement*). Noteholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Fiscal Agent (if required); and
- (e) the Issuer shall no later than five London business days prior to the relevant Interest Determination Date, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Fiscal Agent and Noteholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Terms and Conditions,

provided that the determination of any Successor Rate or Alternative Reference Rate, and any other related changes to the Notes, shall be made in accordance with Applicable Law.

Notwithstanding any other provision of this Condition 8.4, if in the Calculation Agent and the Fiscal Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 8.4, the Calculation Agent and the Fiscal Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent and the Fiscal Agent in writing as to which alternative course of action to adopt. If the Calculation Agent and the Fiscal Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent and the Fiscal Agent shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

Such Benchmark Amendments shall not impose more onerous obligations on the party responsible for determining the Rate of Interest or expose it to any additional duties or liabilities unless such party consent.

8.5 Minimum and Maximum Rate of Interest

If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

8.6 Calculation of Interest Amounts for Floating Rate Notes

The Calculation Agent will, as soon as reasonably practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, determine the Rate of Interest for the relevant Interest Period and calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount outstanding of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

8.7 Calculation Agent

If the relevant Final Terms specify that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as reasonably practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

8.8 Notice

The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, the Fiscal Agent and each listing authority, stock exchange and quotation system (if any) by which the Notes have than been admitted to listing, trading and quotation as soon as reasonably practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders by the Issuer in accordance with Condition 20 (*Notices*). The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

8.9 Notices Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer and the Noteholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

9. Zero Coupon Note Provisions

9.1 Application for Zero Coupon Notes

This Condition 9 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

9.2 Redemption Amount Improperly Refused

If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

- (a) the Reference Price; and
- (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) 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), as determined by the Fiscal Agent, or as the case may be, such other Calculation Agent as specified in the Final Terms.

10. Redemption and Purchase

10.1 Final Redemption

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms, subject as provided in Condition 11 (*Payments*).

10.2 Redemption at the option of the Issuer (Call Option)

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice each as specified in applicable Final Terms to the Noteholders in accordance with Condition 20 (Notices) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) each as specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed (the “**Redeemed Notes**”) will (i) in the case of Redeemed Notes represented by Definitive Note Certificates, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC (as the case may be) (to be reflected in the records of Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be, as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by Definitive Note Certificates, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 20 (Notices) not less than 15 days prior to the date fixed for redemption.

10.3 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. Notes so purchased may be held or resold (*provided that* such resale is outside the United States as defined in Regulation S under the United States Securities Act of 1933, as amended, or, in the case of any Notes resold pursuant to Rule 144A under that Act, is only made in accordance with that Rule and otherwise in compliance with all Applicable Law) or, at the option of the Issuer, surrendered for cancellation in compliance with Condition 10.4 (*Cancellation*). Any Notes so purchased, while held by or on behalf of the Issuer or any Person acting on behalf of the Issuer, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be

outstanding for the purposes of calculating quorums at meetings of Noteholders or for the purposes of Condition 17 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*).

10.4 Cancellation

All Notes which are submitted for cancellation pursuant to Condition 10.3 (*Purchase*) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to listing and/or trading on any stock exchange or securities market and the rules of such exchange or market so require, the Issuer shall promptly inform such exchange or market of the cancellation of any Notes under this Condition 10.4 (*Cancellation*).

11. PAYMENTS

11.1 Payments

Payments of principal shall be made only to the person shown on the relevant Register at the close of business on the Record Date (as defined below) and subject to (provided that payment is made in full) surrender (or in the case of part payment only, endorsement) of Notes at the Specified Office of any Paying Agent by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is Euros, any other account to which Euros may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

11.2 Record Date

Payments of interest shall, subject to Condition 11.4 (*Payment Business Day*), be paid to the person shown on the relevant Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed by uninsured post to the holder (or to the first named of joint holders) of such Note at its address appearing in the relevant Register. The holder of such Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of such Notes as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. Upon application by the holder to the specified office of any Paying Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

11.3 Payments Subject to Applicable 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 12 (Taxation). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

11.4 Payment Business Day

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 Payment Business Day or (ii) if the holder is late in surrendering (where so required) the relevant Definitive Note Certificate.

12. 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) 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 its having some connection with the Republic of Serbia other than the mere holding of such Note; or
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts on surrendering such Note for payment on the last day of such period of 30 days; or
- (c) where (in the case of a payment of principal or interest on redemption) the relevant Note 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 Note to another Agent in a Member State of the European Union or in the United Kingdom.

13. 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 Condition 13(c) shall 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 shall become, unenforceable or invalid; or
- (f) *IMF Membership*: The Republic of Serbia ceases to be a member, or becomes ineligible to use the resources, of the International Monetary Fund (IMF),

then the holders of not less than 25 per cent. in the aggregate outstanding 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 outstanding principal amount of the 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, but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Terms and Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

14. Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

15. Replacement of Notes

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Replacement Agent (as defined in the Fiscal Agency Agreement), subject to all Applicable Law and listing authority, stock exchange or quotation system requirements (if any), 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 and the Replacement Agent may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

16. Agents

16.1 Agents of the Issuer

In acting under the Fiscal Agency Agreement and in connection with the Notes, the Fiscal Agent and the other Agents act solely as agents of the Issuer. The Fiscal Agent does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

16.2 Requirements to Maintain Agents

The initial Fiscal Agent, Paying Agent, Transfer Agent, FX Agent and Registrars and their respective initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent and to appoint a successor Fiscal Agent, Paying Agent, Transfer Agent, European Registrar, U.S. Registrar, FX Agent or Calculation Agent and additional or successor agents; provided, however, that:

- (a) the Issuer shall at all times maintain a Fiscal Agent;
- (b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent;
- (c) if and for so long as the Notes are admitted to listing, trading or quotation, by any listing authority, stock exchange or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange or quotation system;
- (d) (in the case of any Notes the Specified Currency of which is not U.S. dollars and all or some of such Notes are represented by a Global Note which has been deposited with a custodian for

DTC) the Issuer shall at all times for so long as such Notes remain outstanding maintain a FX Agent; and

- (e) the Issuer shall maintain at least one Registrar whose Specified Office shall be outside the United Kingdom.

Notice of any change in any of the Agents or their respective Specified Offices shall promptly be given to the Noteholders.

17. Meetings of Noteholders; Written Resolutions and Electronic Consents

17.1 Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions

- (a) 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.
- (b) The Issuer 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 17.9 (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 Issuer will agree the time and place of the meeting promptly. The Issuer or the Fiscal Agent on behalf of the Issuer, 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.
- (c) 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.
- (d) The notice convening any meeting will specify, inter alia:
 - (i) the date, time and location of the meeting;
 - (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - (iii) the record date for the meeting, which shall be no more than five London business days before the date of the meeting;
 - (iv) 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;
 - (v) 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;
 - (vi) whether Condition 17.2 (*Modification of this Series of Notes only*), or Condition 17.3 (*Multiple Series Aggregation – Single limb voting*), or Condition 17.4 (*Multiple Series*

Aggregation – Two limb voting) shall apply and, if relevant, in relation to which other series of debt securities it applies;

- (vii) 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;
 - (viii) such information that is required to be provided by the Issuer in accordance with Condition 17.6 (*Information*);
 - (ix) the identity of the Aggregation Agent (as defined in Condition 18 below) and the calculation agent, 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 17.7 (*Claims valuation*); and
 - (x) 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.
- (e) In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions and Electronic Consents. All information to be provided pursuant to paragraph (d) of this Condition 17.1 shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.
- (f) 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.
- (g) 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.
- (h) 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.
- (i) 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.
- (j) “**Debt Securities Capable of Aggregation**” means those debt securities which include or incorporate by reference this Condition 17 and Condition 18 (*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.

17.2 Modification of this Series of Notes only

- (a) Any modification of any provision of, or any action in respect of, these Terms and 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.

- (b) 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 Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) by a majority of:
 - (i) 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
 - (ii) 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.
- (c) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
 - (ii) 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.

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.

- (d) 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.

17.3 Multiple Series Aggregation – Single limb voting

- (a) 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.
- (b) 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 17.1 (*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).
- (c) 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.

- (d) 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.
- (e) The “**Uniformly Applicable**” condition will be satisfied if:
 - (i) 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 (A) the same new instrument and/or other consideration or (B) a new instrument, new instruments and/or other consideration from an identical menu of instruments or other consideration; or
 - (ii) 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).
- (f) It is understood that a proposal under paragraph (a) 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).
- (g) Any modification or action proposed under paragraph (a) 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 17.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

17.4 Multiple Series Aggregation – Two limb voting

- (a) 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.
- (b) 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 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:

- (i) at least $66\frac{2}{3}$ 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
 - (ii) 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).
- (c) 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:
- (i) at least $66\frac{2}{3}$ 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
 - (ii) 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).
- 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.
- (d) 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.
- (e) Any modification or action proposed under paragraph (a) 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 17.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

17.5 Reserved Matters

In these Terms and Conditions, “**Reserved Matter**” means any proposal:

- (a) 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 (other than any variation arising from the discontinuation of any interest rate benchmark used to determine the amount of any payment in respect of the Notes) or any other amount payable in respect of the Notes on any date;
- (b) 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;
- (c) 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;

- (d) 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”;
- (e) to change the definition of “debt securities” or “Debt Securities Capable of Aggregation”;
- (f) to change the definition of “Uniformly Applicable”;
- (g) to change the definition of “outstanding” as set out in the Fiscal Agency Agreement or to modify the provisions of Condition 17.9 (*Notes controlled by the Issuer*);
- (h) to change the legal ranking of the Notes;
- (i) 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 13 (*Events of Default*);
- (j) 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 24 (*Governing Law and Jurisdiction*);
- (k) to modify the provisions of this Condition 17.5;
- (l) 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;
- (m) 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
- (n) 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 Terms and 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 Terms and Conditions as so modified being less favourable to the Noteholders which are subject to the Terms and Conditions as so modified than:
 - (i) 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
 - (ii) 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.

17.6 Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution, Written Resolution or Electronic Consent pursuant to Condition 17.2 (*Modification of this Series of Notes only*), Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 18.8 (*Manner of publication*) and provide the Fiscal Agent with the following information:

- (a) 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;

- (b) 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;
- (c) 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
- (d) 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 17.1(d)(vii).

17.7 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 17.3 (*Multiple Series Aggregation – Single limb voting*) and Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer may appoint a calculation agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed calculation agent, promulgate the methodology in accordance with which such 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.

17.8 Manifest error, etc.

The Notes, these Terms and 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.

17.9 Notes controlled by the Issuer

For the purposes of (a) 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, (b) Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) and (c) Condition 13 (*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 18.5 (*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.

17.10 Publication

The Issuer shall publish all Extraordinary Resolutions, Written Resolutions and Electronic Consents which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 18.8 (*Manner of publication*).

17.11 Exchange and Conversion

Any Extraordinary Resolutions or Written Resolutions or Electronic Consents which have been duly passed and which modify any provision of, or action in respect of, the Terms and 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.

17.12 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, Clearstream, Luxembourg, DTC or any other clearing system (the “**relevant clearing system(s)**”), then the 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:

- (a) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders; or
- (b) (where such holders have been given at least 21 days' notice of such resolution) by or on behalf of:
 - (i) in respect of a proposal pursuant to Condition 17.2 (*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;

- (ii) in respect of a proposal pursuant to Condition 17.3 (*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
- (iii) in respect of a proposal pursuant to Condition 17.4 (*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),

(in the case of (i), (ii) and (iii), each an “**Electronic Consent**”) shall, for all purposes (including Reserved Matters) take effect as (A) a Single Series Extraordinary Resolution (in the case of (i) above), (B) a Multiple Series Single Limb Extraordinary Resolution (in the case of (ii) above) or (C) a Multiple Series Two Limb Extraordinary Resolution (in the case of (iii) 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 17.2 (*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 17.3 (*Multiple Series Aggregation—Single Limb Voting*) or Condition 17.4 (*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 17.2 (*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 17.3 (*Multiple Series Aggregation—Single Limb Voting*) or Condition 17.4 (*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 17.2 (*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 17.3 (*Multiple Series Aggregation—Single Limb Voting*) or Condition 17.4 (*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 paragraph (d) of Condition 17.1 (*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.

18. Aggregation Agent; Aggregation Procedures

18.1 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 Terms and Conditions or the Deed of Covenant or the Fiscal Agency Agreement in respect of the Notes and in respect of the terms and conditions and/or equivalent bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

18.2 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 Terms and 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.

18.3 Written Resolutions

If a Written Resolution has been proposed under these Terms and Conditions to modify any provision of, or action in respect of, these Terms and 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.

18.4 Electronic Consents

If approval of a resolution proposed under the terms of these Terms and Conditions to modify any provision of, or action in respect of, these Terms and 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.

18.5 Certificate

For the purposes of Condition 18.2 (*Extraordinary Resolutions*), Condition 18.3 (*Written Resolutions*) and Condition 18.4 (*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 17.2 (*Modification of this Series of Notes only*), Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) or Condition 17.4 (*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:

- (a) 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
- (b) 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 17.9 (*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.

18.6 Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 18 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.

18.7 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 18 by the Aggregation Agent and any calculation agent appointed pursuant to Condition 17.7 (*Claims valuation*) 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 such calculation agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

18.8 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 17 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*), this Condition 18 and Condition 13 (*Events of Default*):

- (a) through Euroclear, Clearstream, Luxembourg and/or DTC (as applicable) and/or any other clearing system in which the Notes are held;
- (b) in such other places and in such other manner as may be required by Applicable Law; and

(c) in such other places and in such other manner as may be customary.

19. Further Issues and Consolidation

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 of a particular Series in all respects (or in all respects except for the issue price, issue date and first payment of interest) so as to form a single series with the Notes of the particular Series, provided that, unless such further notes are fungible with the original Notes for U.S. federal income tax purposes, such further notes will be issued with a separate CUSIP and ISIN. The Fiscal Agency Agreement contains provisions for convening a single meeting of the Noteholders of a particular Series and the holders of Notes of other Series.

20. Notices

Notices required to be given to the Noteholders pursuant to these Terms and Conditions shall be mailed to them at their respective addresses in the relevant Register and shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices required to be given to Noteholders pursuant to these Terms and Conditions shall also be published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading.

21. Currency Indemnity

If any Noteholder receives or recovers any amount in a currency other than that in which the relevant payment is expressed to be due (the “**Contractual Currency**”) (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction) in respect of any sum expressed to be due to it from the Issuer that amount 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 under the Notes, 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 Fiscal Agent or any Paying Agent. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. Rounding

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in these Terms and Conditions), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with 0.000005 per cent, being rounded up to 0.00001 per cent), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up) and (c) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. Redenomination

23.1 Redenomination

This Condition 23 is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

23.2 Redenomination Date

If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders, on giving at least 30 days' prior notice to the Fiscal Agent and the Noteholders, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

23.3 Calculation of Redenominated Notes

Notwithstanding the other provisions of these Terms and Conditions, with effect from the Redenomination Date:

- (a) the Notes shall be deemed to be redenominated into Euros in the denomination of Euros 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into Euros at the rate for conversion of such currency into Euros established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Fiscal Agent that the then market practice in respect of the redenomination into Euros 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each listing authority, stock exchange or quotation system (if any) by which the Notes have then been admitted to listing, trading or quotation and the Fiscal Agent of such deemed amendments;
- (b) if Notes have been issued in definitive form:
 - (i) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 23) shall remain in full force and effect; and
 - (ii) new Notes denominated in Euros will be issued in exchange for Notes denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (c) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub division of the Euros, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euros by cheque drawn on, or by credit or transfer to a Euros account (or any other account to which Euros may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

23.4 Calculation of Interest on redenominated Definitive Note Certificates

Following redenomination of the Notes pursuant to this Condition 23, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount outstanding of the Notes held by the relevant holder.

23.5 Change of Interest Determination Date

If the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

24. Governing Law and Jurisdiction

24.1 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.

24.2 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.

24.3 Appropriate Forum

For the purposes of Condition 24.2 (*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.

24.4 Service of Process

The Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Condition 24.2 (*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.

24.5 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, enforcement, 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 the provisions of Condition 24.6 (*Waiver of Immunity – Exclusions*). 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.

24.6 Waiver of Immunity – Exclusions

Notwithstanding any of the provisions of Condition 24.5 (*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; (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; (x) movable or immovable assets that are used by the authorities of the Republic of Serbia for conducting their competencies; (xi) monetary assets and financial instruments determined as financial collateral in accordance with the law regulating financial collateral including monetary assets and financial instruments which are pledged in accordance with such law; or (xii) other assets exempt from enforcement by law or international treaties.

25. Rights of Third Parties

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

FORM OF FINAL TERMS

[PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”) or in the United Kingdom (the “**UK**”). For these purposes, a “**retail investor**” means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [MiFID II] [Directive 2014/65/EU (as amended, “**MiFID II**”)]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.

[Singapore Securities and Futures Act Product Classification - In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA, the classification of the Notes as [prescribed capital markets products (as defined in the CMP Regulations 2018) 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)]/[].]

Final Terms dated [●]

THE REPUBLIC OF SERBIA

**REPRESENTED BY THE GOVERNMENT OF THE REPUBLIC OF SERBIA, ACTING BY
AND THROUGH THE MINISTRY OF FINANCE**

Legal entity identifier (LEI): 254900W94OCY91V32078

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the Global Medium Term Note Issuance Programme

Part A Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the Base Prospectus dated 20 November 2020 [and the Base Prospectus Supplement dated [●]] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with such Base Prospectus in order to obtain all the

relevant information. The Base Prospectus has been published on the Issuer's website at <http://www.javnidug.gov.rs/eng/default.asp?P=101>.

- 1 Issuer: The Republic of Serbia, represented by the Government of the Republic of Serbia, acting by and through its Ministry of Finance
- 2 [(i)] Series Number: [●]
[(ii)] Tranche Number: [●]
- 3 Specified Currency or Currencies: [●]
- 4 Aggregate Nominal Amount of Notes:
[(i)] Series: [●]
[(ii)] Tranche: [●]
[(iii)] Date on which the Notes become fungible: [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [insert description of the Series] on [insert date].]
- 5 Issue Price: [●] per cent, of the Aggregate Nominal Amount [plus accrued interest from [●] (if applicable)]
- 6 (i) Specified Denomination(s): [●]
(ii) Calculation Amount: [●]
- 7 [(i)] Issue Date: [●]
[(ii)] Interest Commencement Date: [Specify/Issue Date/Not Applicable]
- 8 Maturity Date: [[●]/Interest Payment Date falling on or nearest to [●]]

(Note: under Serbian law as at the date of the Base Prospectus, no Notes may be issued under the Programme unless the minimum maturity thereof is at least two years as from the relevant date of issue)
- 9 Interest Basis: [[●] per cent Fixed Rate]
[●] +/- [●] per cent Floating Rate]
[Zero Coupon]
- 10 Payment Basis: [Redemption at par]
Redemption Amount: [●]
- 11 Date approval for issuance of Notes obtained: [●]

PROVISIONS RELATING TO INTEREST

(IF ANY) PAYABLE

12	Fixed Rate Note Provisions:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [●]/not adjusted]
	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	Broken Amount(s):	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	Day Count Fraction:	[Actual/Actual (ICMA) / Actual/Actual (ISDA) / Actual/365 (Fixed) / Actual/360 / 30/360 / 30E/360 / Eurobond Basis / 30E/360 (ISDA)]
	Interest Determination Date(s):	[●] in each year
13	Floating Rate Note Provisions:	[Applicable/Not Applicable]
	Specified Interest Period(s):	[●]
	Specified Interest Payment Dates:	[●]
	First Interest Payment Date:	[●]
	Business Day Convention:	[FRN Convention/Floating Rate Convention/Eurodollar Convention/Following Business Day Convention/Modified Following Business Day Convention/Modified Business Day Convention/Preceding Business Day Convention/Not Applicable]
	Business Centre(s):	[●]
	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	[●]
	Screen Rate Determination:	
	• Reference Rate:	[[●] month LIBOR/EURIBOR]
	• Interest Determination Date(s):	[●]
	• Relevant Screen Page:	[●]
	• Reference Banks:	[●]

ISDA Determination:

- Floating Rate Option: [●]
- Designated Maturity: [●]
- Reset Date: [●]

Margin(s): [+/-][●] per cent per annum

Minimum Rate of Interest: [●] per cent per annum

Maximum Rate of Interest: [●] per cent per annum

Day Count Fraction: [Actual/365 / Actual/Actual(ISDA) / Actual/365(Fixed) / Actual/360 / 360/360 / Bond Basis / 30E/360 / Eurobond Basis / Actual/Actual(ICMA)]

Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long Interest Period*)]

14 Zero Coupon Note Provisions: [Applicable/Not Applicable]

Accrual Yield: [●] per cent per annum

Reference Price: [●]

PROVISIONS RELATING TO REDEMPTION

15 Call Option: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Optional Redemption Date(s): [●]

(b) Optional Redemption Amount(s) of each Note: [●] per Calculation Amount

(c) If redeemable in part: [Not Applicable]

(i) Minimum Redemption Amount: [●]

(ii) Maximum Redemption Amount: [●]

(d) Notice periods: Minimum period: [●] days²

Maximum period: [●] days

GENERAL PROVISIONS APPLICABLE TO THE NOTES

16 Financial Centre(s): [Not Applicable/[●]]

² A minimum of five business days' notice is required by the Clearing Systems from an operational perspective.

17 Redenomination: [Applicable/Not Applicable]

18 Calculation Agent: [●]

LISTING AND ADMISSION TO TRADING APPLICATION

Application has been made to the London Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market with effect from [●]. These Final Terms comprise the final terms required for issue and admission to trading on the London Stock Exchange of the Notes described herein pursuant to the Global Medium Term Note Programme of the Republic of Serbia.

[THIRD PARTY INFORMATION]

[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

Dated: [●]

By:

Duly authorised

Part B
Other Information

1 LISTING AND ADMISSION TO TRADING

- (i) Listing and admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the Official List of the UK Financial Conduct Authority and admitted to trading on the London Stock Exchange's Regulated Market with effect from [●].

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

- (ii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

Ratings:

[[The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]:

[S & P: [●]]

[Moody's: [●]]

[Fitch: [●]]

[Other: [●]]

[Not Applicable]

[A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. The rating agenc[y/ies] above [has/have] published the following high-level description[s] of such rating[s]:

- A rating of [] by Moody's is described by it as indicating [].
- A rating of [] by S&P is described by it as indicating [].
- A rating of [] by Fitch is described by it as indicating [].]

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial

banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4 REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

Reasons for the offer: [●]
[See “Use of Proceeds” in Base Prospectus/*Give details*]

Estimated net proceeds: [●]

[Fixed Rate Notes only – YIELD]

Indication of yield: [●]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5 OPERATIONAL INFORMATION

ISIN Code (Reg S Notes): [●]
ISIN Code (Rule 144A Notes): [●]
Common Code (Reg S Notes): [●]
Common Code (Rule 144A Notes): [●]
CUSIP (Rule 144A Notes in DTC): [●]
Any clearing system(s) other than [DTC, Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

6. DISTRIBUTION

Method of distribution: [Syndicated/Non-syndicated]
If syndicated, names of Managers: [Not Applicable/*give names*]
Date of Subscription Agreement: [●]
Stabilising Manager(s) (if any): [Not Applicable/*give name*]
If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
US Selling Restrictions: Regulation S Compliance Category 1; [Rule 144A]; TEFRA not applicable
Prohibition of Sales to EEA and UK Retail Investors: [Applicable/Not Applicable]
(If the Notes clearly do not constitute “packaged” products or the Notes do

constitute “packaged” products and a key information document will be prepared, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)

SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

The Global Notes

Each Series will be issued in registered form and evidenced on issue by a Global Note.

Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in an Unrestricted Global Note which will be deposited on issue with a Common Depositary for Euroclear and/or Clearstream, Luxembourg and registered in the name of a nominee for a Common Depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in a Restricted Global Note which will be either (i) registered in the name of Cede & Co. as nominee for, and deposited with the Custodian for DTC, in respect of interests held through DTC or (ii) deposited on issue with a Common Depositary for Euroclear and/or Clearstream, Luxembourg and registered in the name of a nominee for a Common Depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the fiscal agency agreement dated 20 November 2020 relating to the Notes (as may be amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) and, with respect to a Restricted Global Note, as set forth in Rule 144A and the Restricted Notes will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”.

Any beneficial interest in an Unrestricted Global Note that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Note will, upon transfer, cease to be an interest in that Unrestricted Global Note and become an interest in the corresponding Restricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in that Restricted Global Note for as long as it remains such an interest. Any beneficial interest in a Restricted Global Note that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note will, upon transfer, cease to be an interest in that Restricted Global Note and become an interest in that Unrestricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Unrestricted Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes but the relevant Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “**Definitive Note Certificates**”).

The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effects of the Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Each payment 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.

The record date shall be:

- (i) except in the case of Notes cleared through DTC, 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;

- (ii) in the case of Notes cleared through DTC where the Specified Currency is U.S. Dollars, on the DTC business day before the due date for payment thereof, where “**DTC business day**” means any day on which DTC and banking institutions in the city of New York, New York are open for business; and
- (iii) in the case of Notes cleared through DTC where the Specified Currency is a currency other than U.S. Dollars, on the fifteenth DTC business day before the due date for payment thereof.

Where a Restricted Global Certificate is deposited with a Custodian for DTC and payments are due in a Specified Currency other than U.S. dollars, payments of principal and interest in respect of Notes registered in the name of, or in the name of a nominee for, DTC, will be made or procured to be made by the Fiscal Agent in the Specified Currency in accordance with the following provisions:

Holders of interests in the Restricted Global Certificate must, if they wish to receive payments in the relevant Specified Currency, make an election to such effect in accordance with DTC’s procedures then in effect, by no later than the third DTC business day after the record date for the relevant payment, as specified in sub-paragraph (iii) above. Any such holder who makes such an election shall be paid the relevant Specified Currency amounts by wire transfer to a bank account in such Specified Currency which must be designated by such holder for such purpose.

Holders of interests in the Restricted Global Certificate who do not make an election to receive payments in the relevant Specified Currency as provided above shall in lieu of such Specified Currency payments instead receive an amount in U.S. dollars determined in accordance with the following provisions:

- (i) the relevant Specified Currency amount shall be converted by the FX Agent into U.S. dollars in the manner provided in the Fiscal Agency Agreement; and
- (ii) the Fiscal Agent, after the FX Agent has converted amounts in such Specified Currency into U.S. dollars in accordance with the Fiscal Agency Agreement, will cause the U.S. Paying Agent to deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment, all in accordance with DTC’s procedures then in effect.

The FX Agent through its foreign exchange desk may exchange U.S. dollars with the Specified Currency at a base rate adjusted by a spread, each component determined by the foreign exchange desk in its absolute discretion. The rate of exchange will be adjusted by local fees, taxes and forward points (if applicable).

Notices

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices required to be given to the Noteholders pursuant to the Terms and Conditions may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes *provided however, that*, notices required to be given to Noteholders pursuant to the Terms and Conditions shall also be published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading.

Meetings

The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or have the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each 1,000 units of the currency in which the relevant Notes are denominated as comprise the principal amount of Notes for which the relevant Global Note may be exchangeable.

Purchase and Cancellation

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

Exchange for Definitive Note Certificates

Exchange

Notes initially represented by an Unrestricted Global Note are exchangeable for Unrestricted Definitive Note Certificates, and Notes initially represented by a Restricted Global Note are exchangeable for Restricted Definitive Note Certificates, in each case in whole, but not in part, and free of charge to the Holder, in the following circumstances:

- (i) in the case of a Restricted Global Note held by or on behalf of DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC, by the Holder giving notice to the relevant Registrar or a Transfer Agent;
- (ii) if the Unrestricted Global Note, or any Restricted Global Note not held by or on behalf of DTC, is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the Holder giving notice to the relevant Registrar or a Transfer Agent; or
- (iii) an Event of Default occurs.

The Issuer shall notify the Noteholders of the occurrence of any of the events specified above as soon as practicable thereafter.

On or after the Exchange Date (defined below), the holder of the relevant Global Note may surrender such Global Note to or to the order of the relevant Registrar. In exchange for the relevant Global Note, as provided in the Fiscal Agency Agreement, the relevant Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Note Certificates in or substantially in the form set out in the relevant schedule to the Fiscal Agency Agreement.

The relevant Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“**Exchange Date**” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the relevant Registrar or a Transfer Agent is located.

Delivery of Definitive Note Certificates

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Note Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity and/or security as the relevant 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 Definitive Note Certificates to be executed and delivered to the relevant Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the relevant Registrar with a written order containing instructions and such other information as the Issuer and the relevant Registrar may require to complete, execute and deliver such Notes and, in the case of a

Restricted 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. Definitive Note Certificates issued in exchange for a beneficial interest in a Restricted Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

Legends

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the relevant Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Restricted Definitive Note Certificate bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Restricted Definitive Note Certificate, the Issuer will deliver only Restricted Definitive 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 relevant Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer and the relevant Registrar that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

USE OF PROCEEDS

Unless otherwise specified in the applicable Final Terms for a particular issue of Notes, the net proceeds from each issue of Notes will be applied by the Issuer toward funding its budget deficit.

Other use of proceeds that may be specified in connection with a specific issue of Notes include refinancing or repaying outstanding indebtedness, applying the proceeds for financing investment projects of the Issuer and the potential funding of the Issuer's ongoing initiatives aimed at mitigating the economic effects of the COVID-19 pandemic. The exact details of the application of any proceeds that are not used to fund the budget deficit will be set out in the relevant Final Terms.

DESCRIPTION OF SERBIA

Geography and Population



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. 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 and 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 continuity of Serbian statehood originates from the early Middle Ages. After an initial period of prosperity, a period marked by disintegration and crises lasted until late 12th century, when Stefan Nemanja, the founder of the Nemanjic dynasty, rose to power in 1170. During the reign of his son, Stefan Prvovencani, Serbia became an independent kingdom in 1217. His other son, Rastko, later was canonised as St. Sava, the patron saint of the Serbian Orthodox Church, achieved autocephalous status for the Serbian Church in 1219. Medieval Serbia, which enjoyed a high political, economic and cultural reputation in Medieval Europe, reached its peak under the rule of Tzar Stefan Dusan, who established the Serbian Empire in 1346.

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 Ottoman Empire and the Austro-Hungarian Empire. The establishment of modern state had commenced in the year 1804, i.e. period marked by wars and social changes, known as the Serbian revolution. 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 Ottoman Empire, with Milos Obrenovic as its hereditary prince. On 15 February 1835, Serbia adopted a constitution defining it as an independent principality. The Obrenovics ruled until the May Coup in 1903 (except for a period from 1842 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 regained its territory in 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. Yugoslav communists, 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. 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, 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 and Metohija from the FRY as a proclaimed political goal. This led to the armed conflict in Kosovo and Metohija that lasted from 1998 to 1999. As a result, the North Atlantic Treaty Organisation ("**NATO**") intervened in March 1999 (without the approval of the UN Security Council) sponsoring a campaign of bombing (the "**NATO bombing campaign**") across 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 Slobodan Milosević conceded defeat in federal elections, largely due to Serbian protests in support of the opposition alliance, the 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 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 the assembly established in Priština based on the Constitutional Framework for Provisional Self-Government in Kosovo (UNMIK Regulation 2001/9 of 15 May 2001) issued a declaration of independence from Serbia, purporting to establish so-called Kosovo. On the following day, the Republic of Serbia adopted and confirmed the Government’s decision to annul such unilateral proclamation of independence.

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 in respect of so-called 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 (“**PISG**”) (the local administrative bodies in Kosovo and Metohija 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 so-called Kosovo had achieved the status of an independent state. On 9 September 2010, the UN General Assembly acknowledged 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 and Metohija. EU-facilitated and UN-supported dialogue between Belgrade and Priština on a number of issues have taken place since March 2011. However, discussions stalled and tensions heightened in the wake of disputes in the autumn of 2011, and discussions were further delayed following Serbia’s 2012 elections. Belgrade and Priština resumed their dialogue in the autumn of 2012, following which the then Prime Ministers of Serbia and so-called Kosovo signed an agreement on behalf of Belgrade and Priština on 19 April 2013 setting out the principles for governing the normalisation of relations (the “**First Agreement**”). The First Agreement provides for the establishment of the Community of the Serbian Municipalities in the northern municipalities of Kosovo and Metohija (being the areas with a Serbian majority), and calls for local elections in the

northern municipalities in line with international standards. It also establishes the framework for integrating the police forces, security structures and judicial authorities of Belgrade in the northern municipalities with the equivalent structures of the PISG. Similarly, it creates mutual obligations between Belgrade and Priština not to interfere with each other's membership negotiations with the EU. These points were reaffirmed in the Government's report on the 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 First Agreement. This plan was adopted by the Serbian government on 27 May 2013. At the end of 2013, and at the beginning of 2014, agreements on civil protection and justice were signed. Since 2011, a total of 45 agreements have been reached between Belgrade and Priština. Since 2014, Serbia has been fulfilling all of its obligations as stipulated under the First Agreement, evidenced by the signing of the aforementioned agreements with the PISG. However, a series of setbacks caused the talks between Belgrade and Priština to come to a standstill in October 2018. In particular, relations suffered after the PISG raised customs duties on imports from Serbia and Bosnia and Herzegovina to 100 per cent. Equally, when the assembly of so-called Kosovo unilaterally approved the transformation of the "Kosovo Security Force" into a "Kosovo Army" and established a "Defence Ministry", in violation of both UN Resolution 1244 and the First Agreement, this damaged relations and increased the threat to regional stability.

Earlier this year, successful talks between Belgrade and Priština, under the mediation of the United States, resulted in the signing of a commercial letter of intent for establishing a direct Belgrade-Priština special air route (to be operated by the German carrier Lufthansa) with the aim of extending opportunities for business and cooperation. Equally, on 14 February 2020, US-sponsored efforts resulted in the signing of the Statement of Intent to establish a Belgrade-Priština Rail Corridor and the Statement of Intent to complete the Belgrade-Priština Highway, with the aim of restoring rail and road connections between Belgrade and Priština. However, on 15 March 2020, the assembly of so-called Kosovo adopted a resolution authorising the Government of so-called Kosovo to hold talks with Belgrade and achieve "mutual recognitions of Kosovo and Serbia, with a full guarantee of the territorial integrity of [so-called] Kosovo". Since this resolution aimed at extracting from Serbia a "full guarantee" of the "territorial integrity" of so-called Kosovo, it essentially precluded the continuation of effective dialogue between Belgrade and Priština, as Serbia fundamentally rejects the territorial claims of so-called Kosovo.

Import duties imposed in 2018 were partially lifted (for raw materials only) on 21 March 2020, after the United States suspended economic assistance to so-called Kosovo. This partial lifting was followed by the PISG's decision on 2 April 2020, pursuant to which it abolished the 100 per cent. import duties and instead introduced "reciprocal" measures to govern the trade with central Serbia and Bosnia and Herzegovina. Amongst other things, Serbia views these measures as requiring it to abolish non-tariff barriers in respect of so-called Kosovo and discontinue campaigns aimed at reversing the recognition of so-called Kosovo as an independent state. This has resulted in a tightening and extension of the barriers for goods and products from central Serbia. The Serbian Government, as well as the US Special Presidential Envoy for the Serbia – Kosovo Peace Negotiations, have stated that these reciprocity measures simply represent the continuation of the previous tariff policy by other means, and have called for the removal of these barriers to trade. Amongst other things, due to the opposing views within the ruling coalition in Priština on lifting customs duties, and the gradual replacement of those with reciprocity measures, a caretaker government assumed power in Priština, following a motion of no confidence that was endorsed by Priština's Assembly on 25 March 2020. With the caretaker government assuming control in Priština, relations between Belgrade and Priština continued to remain highly uncertain in the months of April to June 2020.

On 20 April 2020, the Europe Network of Energy Transmission System Operators ("ENTSO") approved the agreement between Kosovo Transmission Operator ("KOSTT") and ENTSO-E (representing 43 electricity transmission system operators from 36 countries across Europe, including Serbia) (the "**KOSTT Connection Agreement**"). Following the vote in April by the Regional Group Continental Europe ("RGCE"), the KOSTT Connection Agreement was signed between KOSTT and ENTSO-E on 2 July 2020. In its session of 2 September 2020, the RGCE Plenary adopted a decision to give effect to the KOSTT Connection Agreement and to recognise KOSTT as a separate control

area. However, the representatives of Elektromreža Srbije (the “EMS”, the Serbian national transmission system operator) filed a request for revision, thus postponing the entry into force of the above decision made at this session of the RGCE Plenary, until the final decision of the ENTSO-E. The objection was raised because Priština failed to issue pertinent operation licences to the Serbian company “Elektrosever”, in accordance with the Energy Arrangement from 2013, and the Conclusions of the EU Facilitators from 2015. According to EMS, Priština had failed to undertake necessary steps to ensure implementation of all provisions of the arrangement and conclusions of EU facilitators, primarily those related to the registration, incorporation and licensing of the Serbian energy companies “Electrosever” and “EPS Trade” for the business activities agreed within the EU sponsorship dialogue.

In the area of freedom of movement, Priština took a unilateral move in September 2020, and consequently violated the 2011 Agreement on Freedom of Movement which was agreed in Brussels, by revoking the Administrative Instruction on registering vehicles to status-neutral “KS” car plates adopted in 2018, and instead replacing those with “RKS” license plates.

Following the annulment of the “reciprocal” measures on import of goods from Serbia, and pursuant to the appointment of a new government in Priština, the EU-facilitated dialogue between Belgrade and Priština resumed with high-level and technical (expert) meetings held in July and August, followed by two rounds of the technical level discussions on 5 and 6 September 2020. These discussions were mainly focused on economic cooperation and internally displaced (“IDPs”) and missing persons. Another high-level meeting was held on 7 September 2020 between both the sides, to further discuss their respective positions on the missing persons, IDPs and economic cooperation. At the same meeting, issues pertaining to financial claims, property assets and the Community of Serbian Municipalities (“CSM”) were also raised and discussed. This meeting was followed by a new round of discussions on property assets and financial claims at the technical level on 17 September 2020. However, despite the previously agreed agenda that included the presentation of the Draft Statute of the CSM, Priština refused to engage in any dialogue on this aspect. In the same way, Priština refused to discuss or deal with its failure to comply with the agreement on harmonising the composition of the adjudicating panels sitting at the Special Division of the Court of Appeals in Priština. Although Priština posted an internal recruitment announcement for the appointment of two more Serbian judges for the Special Division of the Court of Appeals in Priština, and the candidates submitted their applications within the set deadline (i.e. 16 July 2020), Priština failed to take any action towards appointing new judges for more than two months, despite the fact that the PISG’s own regulations stipulate very short deadlines for the appointment of judges. As a result, Belgrade filed its objection with EU facilitators specifically requesting Priština to complete the selection and appointment of Serbian judges to the Special Division of the Court of Appeals in Priština in the coming period, to ensure compliance with Point 10 of the First Agreement.

On the other hand, successful talks between Belgrade and Priština under the mediation of the United States in a meeting organised in Washington on 4 September 2020 by US Special Presidential Envoy Richard Allen Grenell, resulted in the two sides signing separate documents expressing their intention to work on economic normalisation, primarily towards implementing the Statement of Intent signed on 14 February 2020 for restoring rail and road connections between Belgrade and Priština. In terms of these agreements, both sides expressed their intention to (i) open and operationalise the CCP Merdare in its full capacity, once the expansion and reconstruction of this common crossing point was completed, equipping the CCP to join the “Mini Schengen” initiative, that had previously been harmonised between Serbia, Albania and North Macedonia in October 2019; (ii) provide mutual recognition to diplomas and professional certificates; and (iii) work on a feasibility study together with the U.S. Department of Energy and other relevant U.S. institutions, for sharing of the water and energy potential of the Lake Gazivode. Separately, the two sides expressed their intention to work with the U.S. International Development Finance Corporation (“DFC”) and Exim Bank on developing a memorandum of understanding for operationalising the following projects: (i) the Peace Highway (Belgrade- Priština); the railway link between Priština and Merdare; (ii) the railway link on the Nis-Priština route and (iii) granting loans to small and medium enterprises etc. It was also agreed that DFC would open a regional office with the head office in Belgrade. It was also agreed that both sides would

ensure (i) protection of religious freedom and religious sites; (ii) enforcement of judicial decisions related to the property of the Serbian Orthodox Church; (iii) invest efforts to locate and identify the remaining missing persons; and (iv) identify and implement long-term solutions for the refugees and the IDPs.

Following these U.S.-supported efforts, cooperation between the chambers of commerce in Belgrade and Priština has continued. On 22 September 2020, both chambers adopted a joint statement expressing mutual support for promoting the economic and overall relations between the two sides, in accordance with the Washington arrangements of 4 September 2020. However, given that Priština has proved to be the unreliable interlocutor/counterpart so far, it remains to be seen whether and/or to which extent it will fulfil its commitments. Any such failure on part of Priština could cause the already complex relations between Belgrade and Priština to deteriorate or lead to disruption or prevention of normalisation of relations between Belgrade and Priština. However, through a compromised solution resulting from constructive dialogue between Belgrade and Priština, and with the support of EU-facilitated and U.S.-supported efforts, the Government believes that lasting peace and stability in the region can be ensured. The Government remains committed to resolving these open issues and remains convinced that any agreement reached between the parties would represent a positive step towards achieving lasting stability in the region. However, any further deterioration in relations between Belgrade and Priština and/or between Serbia and the EU or the 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 – Risks Associated with Serbia’s Economy – The uncertainties surrounding the relations with so-called 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, coordinates 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.

In the most recent parliamentary elections held on 21 June 2020, the Serbian Progressive Party received the largest number of votes, winning 188 seats in the Assembly, and continued to retain its majority in the parliament. Apart from national minority parties winning 19 parliament seats, the Socialist Party of Serbia won 32 seats and Serbian Patriotic Alliance (“**SPAS**”) won 11 seats. On 20 October 2020, the Serbian Progressive Party decided to form a New Government with the Socialist Party of Serbia and SPAS. The New Government took office on 28 October 2020 with Ana Brnabić as Prime Minister. The leader of the Socialist Party of Serbia (SPS) and former Foreign Minister, was elected as the parliament speaker.

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

Name	Position	Party
Ana Brnabić	Prime Minister	Serbian Progressive Party
Branko Ružić	First Deputy Prime Minister and Minister of Education, Science and Technological Development	Socialist Party of Serbia
Nebojsa Stefanović	Deputy Prime Minister and Minister Defence	Serbian Progressive Party
Branislav Nedimović	Deputy Prime Minister and Minister of Agriculture, Forestry and Water Management	Serbian Progressive Party
Zorana Mihajlović	Deputy Prime Minister and Minister of Mining and Energy	Serbian Progressive Party
Maja Gojković	Deputy Prime Minister and Minister of Culture and the Media	Serbian Progressive Party
Siniša Mali	Minister of Finance	Serbian Progressive Party
Tomislav Momirović	Minister of Construction, Transport and Infrastructure	Nonpartisan person appointed on recommendation of the Serbian Progressive Party
Jadranka Joksimović	Minister for European Integration	Serbian Progressive Party
Maja Popović	Minister of Justice	Appointed on recommendation of the Serbian Progressive Party
Aleksandar Vulin	Minister of the Interior	Serbian Progressive Party

Source: The Government.

The New Government currently comprises 21 ministries with 23 ministers, including four deputy prime ministers and two 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; (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 Base Prospectus. Members of the Serbian Progressive Party have 188 seats or 75.2 per cent. of the total number of seats.

Name of Party	No. of seats	Share of total seats (%)
Serbian Progressive Party.....	188	75.2
Socialist Party of Serbia	32	12.8
SPAS	11	4.4
Alliance of Vojvodina Hungarians	9	3.6
Academician Muamer Zukorlic – Straight Ahead – Justice and Reconciliation Party (SPP) – Democratic Party of Macedonians (DPM)	4	1.6
“Albanian Democratic Alternative - United Valley”	3	1.2
SDA Sandzak	3	1.2
Total	250	100

Source: The Assembly

The Judiciary

Judicial system

Article 4 of the Constitution provides that Serbian courts are bound by 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 consist of the Supreme Court of Cassation, Appellate Courts, High Courts and Basic Courts. Courts of special jurisdiction consist of 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 courts 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. The 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 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, 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 November 2020, a total of 197 public notaries and 231 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 envisages measures aimed at improving the impartiality, ethics and integrity of the holders of judicial functions, as well as providing equalisation and full access to court practice and 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 November 2020, 1744 mediators were registered in the Register of Mediators and 21 organisations had obtained licences 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 digitisation 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 centralised 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 of the Republic of Serbia adopted the National Judicial Development Strategy for the period 2020–2025 and the revised Action Plan for Chapter 23 on 10 July 2020. Together, these strategic documents stand for the continuation of reform processes in the rule of law. The Government intends to continue to implement judicial reforms based on the new strategy 2020-2025. The new strategy 2020-2025 is a continuation of the previous judicial strategy and supports the furtherance of the Government's efforts towards the improvement of judicial efficiency. The new strategy has been developed in line with the next steps in the process of Serbia's accession to the European Union, and

for the purpose of strengthening the rule of law in the country, increasing access to justice and legal certainty. The independence of the judiciary and the 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 is composed 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, Priština. 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 has 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 Supplementary Budget, the budget for the Ministry of Defence has been set at RSD 104 billion (approximately 1.9 per cent. of nominal GDP), as compared to RSD 103.1 billion (approximately 1.9 per cent. of nominal GDP) in 2019.

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 (the “**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 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 to 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 harmonisation with the EU Acquis, after taking into consideration the scope of Serbia’s obligation in all negotiation chapters.

As of the date of this Base Prospectus, Serbia has opened 18 negotiation chapters and provisionally closed two negotiating chapters out of a total of 35 chapters. From 2014 to the date of this Base Prospectus, Serbia has commenced negotiations in respect of the following chapters: Chapters 4 (*Free Movement of Capital*), 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.

Since 2015, the Republic of Serbia has been participating on a yearly basis with EU institutions and EU member states for coordination of economic policies under the framework of the European Semester "light" for the Western Balkans and Turkey. In this respect, every year the Government publishes a strategic Economic Reform Programme ("**ERP**") for the following three-year period, aimed at further harmonising economic policy with the EU. This document sets out in detail the fiscal and monetary policies for the next three years and outlines the key structural reforms planned for improving and developing the Serbian economy. The Government is currently in the seventh cycle of this policy coordination and the ERP for the period 2021 to 2023 is expected to be adopted by the Government in January 2021.

On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which sets out certain indicative steps that Serbia will need to complete in order to potentially be ready for membership by 2025. On 25 March 2020, the European Council reaffirmed its commitment to enlargement by endorsing the communication of the European Commission on "*Enhancing the accession process – A credible EU perspective for the Western Balkans*" of 5 February 2020, aiming to reinvigorate the accession process (including the negotiating framework of Serbia) by making it more predictable, more credible, more dynamic and subject to stronger political steering. On 6 October 2020, the European Commission adopted a comprehensive EIP for the Western Balkans in order to spur the long-term economic recovery of the region, support a green and digital transition, and foster regional integration and convergence with the EU. The EIP is aimed towards ensuring sustainable and stable development of the region during the crisis resulting from the current COVID-19 pandemic in order to support its economic and social development. The EIP consists of (i) a significant investment package of EUR 9 billion in grants and (ii) guarantee instruments for the Western Balkans which has the potential to mobilise up to EUR 20 billion in investments. The investment package is intended to primarily support sustainable connectivity and infrastructure, human capital, competitiveness and inclusive growth, as well as the dual green and digital transition. The EIP also identifies ten investment flagship projects to support major road and railway connections in the region, renewable energy and the transition from coal, renovation of public and private buildings to increase the energy efficiency and reduce greenhouse gas emissions, waste and waste water management infrastructure, as well as roll out of broadband infrastructure. The European Commission reiterated its commitment to enlargement by adopting the EIP, which envisages a substantial financial package to strengthen long-term socio-economic recovery of the Western Balkans after the COVID-19 pandemic and to accelerate economic convergence with the EU.

Along with the EIP, the European Commission adopted the 2020 Enlargement Package, its annual assessment of the implementation of fundamental reforms in the Western Balkans partners and Turkey. These assessments are presented together with clear and more precise recommendations on the reform priorities, which remain a prerequisite to the EU accession process, by specifically highlighting the future steps that need to be implemented by the Western Balkans partners in order to accelerate their EU accession process and achieve long-lasting results. As part of this assessment, the European Commission published the 2020 Report on Serbia. This was the sixth progress report on Serbia since the country opened accession negotiations with the EU in January 2014. The 2020 Report shows that Serbia continues to be committed to the EU integration process and has implemented necessary reforms that demonstrates its moderate level of preparation, but further progress is needed in a number of areas prior to accession. According to the EU-Western Balkans strategy, Serbia's accession in 2025 will ultimately depend on strong political will, the delivery of real and sustained reforms, Serbia's normalisation of relations with so-called Kosovo as well as the stabilisation and

association process in the Balkans more generally. Therefore, 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. 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 the IPA II to support Serbia through various annual action programs, of which a total of EUR 189.1 million, EUR 216.1 million, EUR 189.4 million, EUR 186.7 million, EUR 239.6 million, EUR 211 and EUR 206.6 million (out of which one financial agreement with value of 72.4 million has been signed, whereas the financial agreements with value of 134.2 million will be signed until the end of 2020) has been allocated in 2014, 2015, 2016, 2017, 2018, 2019 and 2020, respectively. These amounts also include allocations made since 2017 under the Instrument for Pre-Accession Assistance for Rural Development Program of the Republic of Serbia for the period 2014-2020 as part of the IPA II. 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.

In April 2020, Serbia joined the public procurement programme of the EU to procure medical supplies essential for combatting COVID-19 by signing the EU Joint Procurement Agreement. While the EU Joint Procurement Agreement has been signed by Serbia, the Government expects this agreement to be ratified by the parliament of Serbia in the short-term. Separately, the EU has extended short and medium term financial assistance to Serbia through the reallocation of IPA II funds to combat the spread of COVID-19.

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 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 2,172 demands of the ICTY for the submission of evidence, as well as the 1,328 demands of the defense for the submission of evidence.

As of August 2020, 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.

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. Similarly, Serbia has continually attached importance to the binding UN Resolution 1244 of the Security Council of the United Nations, 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 13th 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 the United States. 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. As a result 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.

NATO 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 procedures for adopting the new Serbia-NATO IPAP cycle for the period 2019-2021 were completed on 7 November 2019. The new IPAP follows the success of the initial IPAP cycle, demonstrating Serbia’s strong relations with NATO and commitment to common goals. Whilst becoming a member of NATO is not one of Serbia’s priorities, Serbia is open to political dialogue and practical cooperation with the alliance in all areas of common interest.

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. 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 Resolution 1244. Following its 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, an IP protection mechanism and a dispute settlement system, 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 (2017-2020) (the “**MAP REA**”), which was endorsed by the leaders of the economies comprising the Western Balkans Six, these being Albania, Bosnia and Herzegovina, Kosovo*, North Macedonia, Montenegro and Serbia (“**WB6**”), at the Berlin-process summit in Trieste in 2017. The MAP REA allows for unobstructed flow of goods, services, capital and highly skilled labour within the Western Balkan Region, with particular focus on four specific targets: the promotion of further trade integration; the introduction of a dynamic regional investment space; the facilitation of regional mobility; and the creation of a digital integration 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, providing foreign investors equal treatment with domestic and joint participation in the third market, and strengthening the potential of 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 (medicine, dentistry, architecture and civil engineering). The fourth component relating 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. Amongst other things, this will involve the complete abolishment of roaming charges in the WB6 region from 1 July 2021 and improving cyber security. Additional Protocol 6 on trade in services was adopted by the CEFTA

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parties on 18 December 2019, and ratified by National Assembly of the Republic of Serbia on 24 February 2020. A new MAP REA for the period 2021-2024 is currently being developed. Digital integration of the Western Balkans is one of the main components around which the MAP REA 2021-2024 is structured. Alongside free movement of goods, services, people, regional investment and digitisation, the proposed MAP REA 2021-2024 also focuses on regional industrial and innovation. Building on the success of the MAP REA and other CEFTA initiatives, leaders of the WB6 endorsed the Common Regional Market (“**CRM**”) 2021-2024 Action Plan as a catalyst for deeper regional economic and trade integration at the Berlin Process Summit held on 10 November 2020. The CRM will serve a transformative role, alongside the MAP REA, in areas of common regional interests and will bring forth new initiatives to address the fundamental needs of the WB6 region and support its potential.

The CEFTA region is Serbia’s second most important foreign trade partner, after the EU, having a share of 9.5 per cent. of overall international trade (with 17.0 per cent. of total exports and 4.0 per cent. of total imports) in 2019, with Serbia’s total trade in goods with CEFTA parties amounting to EUR 3.9 billion. In the first nine months of 2020, trade with the CEFTA region represented 9.1 per cent. of Serbia’s overall international trade (with 16.3 per cent. of total exports and 3.8 per cent. of total imports), with total trade in goods with CEFTA parties amounting to EUR 2.6 billion.

*South-East European Co-operation Process (“**SEEC**”)*

The SEEC was established in 1996 in order to promote stability, safety and co-operation in South-East Europe, and it consists of 13 “participants” from the region who also make up the board of the Regional Co-operation Council: Serbia, Romania, Bulgaria, Greece, Turkey, Montenegro, Albania, Bosnia and Herzegovina, North Macedonia, Croatia, Slovenia, Moldova and Kosovo*. At the SEEC Summit held in Bucharest on 25 June 2014, Serbia agreed to the participation of Kosovo* in SEEC activities on equal footing, in accordance with the First Arrangement and the agreement on regional representation and cooperation signed between Belgrade and Priština in 2012 (the “**Agreement on Regional Representation and Cooperation**”). The above solution was indicated in the Declaration of the SEEC Summit. Belgrade has thus fulfilled its obligation that it would not prevent or block Priština in the EU integration process. In line with the constructive approach from the Government of Serbia, and according to the agreement achieved in April 2018 between the SEEC participants, Kosovo* took over and completed its one year presidency of SEEC from July 2019 to July 2020. The chairmanship of SEEC, currently held by Turkey, will be transferred to Greece from July 2021.

*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 SEEC. 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. Amongst many other regional initiatives, the RCC has actively contributed to the adoption of the Regional Roaming Agreement, which was signed at the 2nd Western Balkans Digital Summit in Belgrade in April 2019. At the onset of COVID-19 epidemic when restrictions on travel were in place, the RCC, together with the Transport Community and CEFTA, convened meetings to agree on the launch of “Green Lanes” amongst the WB6 economies in order to ensure that cross-border transport of essential goods, such as food and medical supplies, remain uninterrupted amid the epidemic. Following the conclusion of the EU-Western Balkans Zagreb Summit on 6 May 2020, support for the “Green Lanes” initiative was reinforced so as to continue facilitating unrestricted trade flow of essential goods, linking the EU and Western Balkans.

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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 took over the rotating chairmanship of the AII from Montenegro for a one-year period on 1 June 2019. Serbia ended its chairmanship of the AII at the AII/EUSAIR ministerial meeting held on 27 May 2020 via video conference initiated from Belgrade.

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 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.

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). On 22 October 2020, the 9th Annual Forum of the EUSDR was held and the implementation of the revised EUSDR Action Plan was endorsed as a strategy to achieve EU goals and to recognise the contributions of all stakeholders. In addition, the ministers responsible for the implementation of the EUSDR Action Plan also endorsed the process of embedding its objectives and measures into the Partnership Agreements and 2021-2027 European Structural and Investment Funds (“ESIF”) programs, which are the equivalent instruments for non-EU countries and other centrally managed EU programs. The roles of the EUSDR, as well as other macro-regional strategies, were also endorsed during the 9th EUSDR Annual Forum as key facilitators of the European Green Deal, which is a blueprint for systemic modernisation across policy, society and economy.

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, North Macedonia, 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 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. On 1 June 2019, Serbia assumed the rotating chairmanship of the EUSAIR for a one-year period. Such active participation continues to be of importance to the Government as Serbia's participation in EUSAIR contributes towards its EU accession process. EUSAIR benefits from the long experience of intergovernmental cooperation within the Adriatic-Ionian Initiative, which created strong links between the participating countries and generated regional co-operation between cities, chambers of commerce, universities and national parliaments. Accordingly, EUSAIR ensures further integration of the internal market, fosters cooperation between EU and non-EU participating countries, and assists non-EU participating countries in their EU accession process.

The fifth forum of EUSAIR which was to be organised during the chairmanship of the Republic of Serbia was postponed due to COVID-19 pandemic and is currently rescheduled for early 2021. At the AII/EUSAIR ministerial meeting held on 27 May 2020, the ministers called on EUSAIR key implementers to look for ways to link EUSAIR activities more effectively to the enlargement process of the Western Balkans. At the same time, the ministers stressed that the new enlargement methodology, which creates a more credible, dynamic, predictable and political EU accession process, should be taken into account in line with the EU objective to build a "Stronger Europe in the World". The ministers also encouraged the EUSAIR participating countries as well as the European Commission to jointly identify possible financial resources (EU funds, National budgets, IFIs, other donors, etc.) to develop and fund the identified and agreed flagship projects.

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 six participants from the Western Balkans was signed. 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 the signing of 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. After the initial four-year framework, the Berlin Process continued with the addition of new participants. 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

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September 2019 as the first regional organisation based in Belgrade. The last summit on the Western Balkans within the Berlin Process (also known as the “**Sofia Summit**”) was organised and jointly chaired by Bulgaria and North Macedonia by way of a video-conference on 10 November 2020. During the Sofia Summit, leaders of the Western Balkans signed the Western Balkans Leaders Declaration of Common Regional Market (for the establishment of a Regional Trade Area based on the freedom of movement of goods, services, capital and people) and the Sofia Declaration on the Green Agenda for the Western Balkans. Among the most significant results of the Berlin Process to date have been: the establishment of the Regional Youth Cooperation Office in Tirana based on the German-French model; the establishment of the Western Balkans Chamber of Commerce; the 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 more than 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.

“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-Brioni 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); Summit in Skopje (27 April 2018); and Summit in Tirana (8-9 May 2019). However, the “Brdo-Brioni” Process meeting for this year, which was initially planned for 29 June 2020 in Slovenia, has been postponed due to the COVID-19 pandemic. Serbia has continued to actively participate 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 the presidential and governmental levels. On 30 November 2018, during the last MFA meeting conducted in Budva, Montenegro, the ministers agreed that subsequent six-month chairmanships will be first held by Priština, Sarajevo, Skopje, Tirana for the year 2020 and followed by Belgrade in the first half of 2021.

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Other regional cooperation

Since October 2019, regular meetings have taken place 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 with the aim of significantly increasing economic integration within the region. During the first of these meetings, which took place in Novi Sad on 9-10 October 2019, the three leaders signed a joint declaration, pursuant to which they expressed their commitment to the implementation of the four key EU freedoms (free movement of goods, capital, services and people) between their countries in order to further strengthen regional cooperation. In a separate declaration on 10 November 2019, at a meeting in Ohrid, they agreed on common measures to advance this process. This was followed by a further meeting in Tirana on 20-21 December 2019 at which the importance of implementation of the aforementioned measures was discussed, with specific focus on the creation of a single labour market, movement of citizens with identification cards, integration of emergency bodies and creation of a single customs system. However, due to the outbreak of the COVID-19 pandemic, the meeting scheduled for February 2020 in Belgrade was postponed. During a “Mini-Schengen” online conference held on 9 November 2020, the Prime Minister of the Republic of Serbia together with the Prime Minister of the Republic of North Macedonia and the Prime Minister of the Republic of Albania signed a Memorandum of Understanding and Cooperation between their countries as part of a regional cooperation in combatting COVID-19. In an effort to further the freedom of movement based on the EU initiative, the Prime Minister of the Republic of Serbia and the Prime Minister of Albania signed an interstate agreement enabling free travel of citizens between these regions using only their identification cards, abolishing the passport requirement and thus strengthening their cooperation. As the main goal of the “Mini-Schengen” initiative is to serve as a catalyst to strengthen regional economic and trade integration, and support the overall economic and social development of the WB6 region, the three leaders continue to place emphasis that this initiative is open to all of the participants in the WB6.

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 in place since 2009. Recently, along with good bilateral political relations, the two countries have increased their economic cooperation ties, in particular in the areas of investments and infrastructure and energy projects. The trade volume between the two countries in 2019 reached EUR 2,536.1 million, of which exports from Serbia amounted to EUR 295 million. In the first nine months of 2020, trade between China and Serbia amounted to EUR 2,293.5 million (with exports at EUR 235.6 million and imports at EUR 2,057.9 million). Over the past few years, the overall relations between the two countries have been further enhanced not only through bilateral channels, but also through the mechanisms of cooperation between China and the Central and Eastern European Countries and through China’s Belt and Road Initiative.

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 First Agreement.

Germany remains the most important foreign trade and economic partner of Serbia. Trade exchange of goods in 2019 amounted to EUR 5.29 billion (of which exports amounted to EUR 2.21 billion and imports amounted to EUR 3.08 billion), while trade exchange of services amounted to EUR 1.13 billion (of which exports amounted to EUR 750 million and imports amounted to EUR 378 million).

In the first nine months of 2020, trade exchange of goods amounted to EUR 3,795.6 million (with exports at EUR 1,562.5 million and imports at EUR 2,233.1 million). In the first eight months of 2020, trade exchange of services amounted to EUR 660.7 million (of which exports amounted to EUR 432 million and imports amounted to EUR 228.7 million). Amongst the EU member states, Germany is one of the principal investors in Serbia. At present, 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. Serbia's economic cooperation priority is to attract German investments in the infrastructure, energy and the automobile industry.

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 (of which exports amounted to almost EUR 1.987 billion) and EUR 3.844 billion in 2019 (of which exports amounted to EUR 1.770 billion). In the first nine months of 2020, trade exchange of goods amounted to EUR 2,381.6 million (of which exports represented EUR 1,010.9 million).

Russia

Serbia has a strategic political and economic relationship with Russia based on strong political ties between the two countries and successful co-operation in international and regional organisations such as the UN and OSCE. On 24 May 2013, the then 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 demonstrates a readiness to extend the partnership to other fields of mutual interest. Russia is also one of Serbia's key trade partners (foreign trade in both directions cumulatively amounted to EUR 2.59 billion in 2018, EUR 3.18 billion in 2019 and EUR 1,707.3 million in the first nine months of 2020) and the two countries have had a bilateral free trade agreement in place since 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 Base 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. The Serbian embassy in Abu Dhabi opened in 2013, while 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 was around EUR 157.4 million and EUR 145.6 million in 2018 and 2019, respectively. In the first nine months of 2020, trade between the UAE and Serbia amounted to EUR 77.9 million (with exports at EUR 60.5 million and imports at EUR 17.4 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. Bilateral consultations between Serbia and the UK in the fields of defence and security policy are held annually.

Considering the potential for cooperation between the two economies, trade in goods is relatively low, although the past few years have witnessed a growing trend in this regard. In 2019, trade between the two countries totalled EUR 557.4 million (of which exports amounted to EUR 325.6 million and imports amounted to EUR 231.8 million). In the first nine months of 2020, foreign trade between the two countries reached EUR 375 million (with exports at EUR 202.7 million and imports at EUR 172.3 million). The UK Government, through the Good Governance Fund, lends its support to Serbia by encouraging the implementation of necessary reforms, particularly in fighting corruption, enhancing the business environment, judicial reform, the banking and energy sectors, strengthening the rule of law, and supporting media independence.

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. The UK has submitted a proposal to Serbia for a comprehensive partnership agreement, based on the modified provisions of the SAA, which Serbia has with the European Union. Whilst consultation on this process between the countries had begun before the COVID-19 pandemic intensified in Europe, the video conference which was initially scheduled for March was cancelled due to worsening of the pandemic. In the coming period, negotiations are expected to continue with the UK, with a particular focus on increasing trade and investment between the countries.

United States

Serbia is committed to the promotion of bilateral relations with the USA. Over the past few years, cooperation in all areas has gained momentum. In particular, the U.S. State Department continues to prioritise engagement with Serbian officials on topics of mutual importance, especially as regards to both countries’ shared interest in promoting regional security and stability. At the same time, high-level political dialogues have increased as a result of Serbia’s reform agenda and political commitment in other areas. At present, both Serbia and United States are working to strengthen mutually shared interests in order to maintain peace in the Balkan region. The result of these endeavours is illustrated through the bilateral agreement signed between Serbia and the United States on 4 September 2020 relating to the normalisation of economic relations with Priština. In an effort to further strengthen bilateral relations, the US International Development Finance Corporation opened a regional office in Belgrade on 22 September 2020.

In terms of investments, the United States has significant investments in Serbia. Along with direct investments representing approximately U.S.\$ 615 million as at the end of 2019 (the most recent date for which information is available), trade in goods has also increased from EUR 495.9 million in 2017 to EUR 622.0 million in 2018 (of which exports were EUR 224.8 million and imports were EUR 397.2 million) and to EUR 762.7 million in 2019 (of which exports were EUR 271.2 million and imports were EUR 491.5 million). In the first nine months of 2020, trade in goods amounted to EUR 529.4 million (of which exports were EUR 221.1 million and imports were EUR 308.3 million).

Others

Serbia has strong political and economic relations with other countries such as France, India, Japan and Spain as well as neighbouring countries such as Croatia and Bosnia and Herzegovina, which are important bilateral partnerships for both foreign trade and infrastructure cooperation.

On 25 October 2019, Serbia signed a free trade agreement with the Eurasian Economic Union (comprising Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan). This agreement unifies the free trade regime that Serbia currently enjoys with Russia, Belarus and Kazakhstan, and expands the trade regime to the other two member states. While the parliament of Serbia and the State Duma of the Federal Assembly of the Russian Federation have ratified this agreement on 24 February 2020 and 21 October 2020, respectively, the ratification process in other member states of the Eurasian Economic Union is still pending. Under the terms of the agreement, its provisions will come into force 60 days after the last signatory completes the necessary internal procedures for adopting the agreement.

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 previously 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, 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 51.9 per cent. and 7.8 per cent. in 2019. In particular, Serbia had its highest inward investments from net FDI (EUR 3.6 billion) in 2019. During the period from 2015 to 2019, 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 4.2 per cent. in real terms) in 2019 was driven by robust investments and expansion in exports, as well as due to labour market recovery. In 2019, Serbia achieved the following fiscal and economic results:

- Serbia registered real GDP growth of 4.2 per cent., consistent with the IMF's growth projections;
- Unemployment rates decreased from 12.7 per cent. in 2018 to 10.4 per cent.;
- The ratio of General Government Debt to GDP decreased from 54.4 per cent. in 2018 to 52.9 per cent.; and
- Serbia realised a fiscal deficit of RSD 11.1 billion (representing 0.2 per cent. of GDP), against the budgeted deficit of RSD 28.7 billion (being 0.5 per cent. of GDP).

The profound global economic consequences of the COVID-19 pandemic will, however, have a significant unintended bearing upon the performance of the Serbian economy in 2020. The crisis has already caused the Government to initiate response measures in order to prevent the spread of the disease and to support the economy through this period of heightened uncertainty and reduced activity. See *“Risk Factors – Risks Associated with Serbia's Economy – The economic effects of the outbreak of COVID-19 could adversely affect Serbia's economy”* and *“Overview –Recent Developments – Coronavirus”*.

The fiscal strategy of Serbia for 2020 originally projected GDP growth of 4 per cent., but such a scenario will not be achieved due to the slowdown in economic activity seen in Serbia and elsewhere, as a consequence of the social-distancing and other measures enacted worldwide in an effort to reduce the spread of COVID-19. Prior to the outbreak of COVID-19, the macroeconomic developments in Serbia at the beginning of 2020 were in line with the projections of the fiscal strategy of 2020. According to the preliminary estimates published by the Office of Statistics, Serbia's GDP registered a growth of 5.1 per cent. year-on-year in the first quarter of 2020. However, in April 2020, the economy of Serbia began to suffer from the social distancing and health measures enacted in response to the spread of COVID-19, as well as due to a decline in external demand from Serbia's main foreign trade partners experiencing recessionary trends. Businesses operating in the tourism, transport, recreation and entertainment sectors, as well as those in the manufacturing sector were considerably impacted by the measures implemented to reduce the spread of COVID-19. Similarly, export-oriented activities, such as the automotive and metal industries and companies producing electrical equipment, rubber and plastics were particularly affected and significant adverse effects on entrepreneurs, micro businesses and SMEs were also observed. Equally, the disrupted supply chains affected export-oriented sectors with production activities involving significant imported components, as production in China and other parts of the world contracted sharply, making imports of raw and intermediary products and equipment difficult. Consequently, industry production measured a decline of 16.6 per cent. year-on-year in April 2020, as many companies during this period halted or reduced production, whilst a fall of 19.9 per cent. in industrial production within the manufacturing sub-sector was recorded. At the same time, retail trade turnover decreased by 18.6 per cent. year-on-year, which was accompanied with a slump in tourist activities by 97.9 per cent. (when measured by the number of tourist arrivals) and a fall in exports and imports of goods by 28.9 per cent. and 28.1 per cent., respectively. Whilst the gradual reopening of the economy improved the economic situation in Serbia

and more favourable trends were recorded in May and June, Serbia's GDP registered a sharp contraction of 6.4 per cent. year-on-year in the second quarter of 2020 due to the steep decline in economic performance in April 2020.

The following table shows key indicators of economic development for the years 2015 to 2019 and for the six months ended 30 June 2020 and 2019:

	Year ended 31 December					Six months ended 30 June ⁽⁵⁾	
	2015	2016	2017	2018	2019	2019	2020
Nominal GDP (EUR billions) ⁽¹⁾	35.7	36.8	39.2	42.9	46.0	21.5	21.8
Real GDP growth (%).....	1.8	3.3	2.1	4.5	4.2	2.7	(0.8)
End of year retail price increase (Y-O-Y) (%)	1.5	1.6	3.0	2.0	1.9	1.1 ⁽⁷⁾	1.8 ⁽⁷⁾
Balance of goods (% of GDP) ⁽²⁾	(10.2)	(8.5)	(10.2)	(11.9)	(12.2)	(11.7)	(12.2)
Current account deficit (% of GDP).....	(3.5)	(2.9)	(5.2)	(4.8)	(6.9)	(6.6)	(6.2)
Net FDI (EUR billions).....	1.8	1.9	2.4	3.2	3.6	1.7	1.5
Net FDI (% of GDP)	5.0	5.2	6.2	7.4	7.7	7.9	6.8
Average rate of employment (Y-O-Y) (%) ⁽³⁾	0.6	5.6	2.8	1.4	2.4	2.5	(0.1)
Real growth in average net wage ⁽⁴⁾ (%).....	(2.1)	2.5	0.9	4.4	8.5	7.6 ⁽⁶⁾	7.6 ⁽⁶⁾
Labour productivity real growth (%)	1.2	(2.2)	(0.7)	3.1	1.8	0.2	(0.9)
ILO unemployment rate (persons of age 15 and over) (%) ⁽³⁾	17.7	15.3	13.5	12.7	10.4	11.2	8.5
ILO employment rate (persons of age 15 and over) (%) ⁽³⁾	42.5	45.2	46.7	47.6	49.0	48.3	48.5
General government fiscal balance (% of GDP)	(3.5)	(1.2)	1.1	0.6	(0.2)	0.7	(12.1)
Foreign debt (EUR billions).....	26.2	26.5	25.5	26.7	28.3	27.5	31.0
Foreign debt (% of GDP)	73.4	72.0	65.1	62.2	61.5	62.5	67.2
Foreign debt/goods & services exports (%)	166.8	152.4	132.2	126.0	121.0	123.8	138.1

Source: Office of Statistics; National Bank.

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) Since the GDP information for the first nine months of 2020 is not yet available, all data (unless stated otherwise) is presented for the first six months in 2020 and comparable period in 2019 and shown as a percentage of GDP based on the Office of Statistics' estimates of nominal GDP for the six months ended 30 June 2020 and 2019.
- (6) Since the net wage information for the first nine months of 2020 is not yet available, the data presented is for the eight-month period from January to August.
- (7) The data presented is for the nine-month period from January to September.

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 2020-2022, 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, the 2020 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 2020-2022 (“ERP”)

The ERP, which was published in January 2020, 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 2020-2022 period include (i) achieving low fiscal deficit of 0.5 per cent. of GDP each year during the period 2020 to 2022; (ii) attaining cumulative growth of 12.5 per cent. during the period 2020 to 2022 with targeted average annual growth of 4.0 per cent.; (iii) realising average annual GDP growth of 4.0 per cent; (iv) achieving average annual investment growth of 5.8 per cent.; (v) realising average annual export growth of 8.3 per cent.; (vi) improving road, rail, and port infrastructure; (vii) driving industrialisation with targeted average annual growth of 4.1 per cent., 4.6 per cent. and 7.2 per cent. in the service, industry and construction sector, respectively; (viii) reducing General Government Debt to 48.3 per cent. of GDP by 2022; and (ix) having greater availability of foreign investments with FDI inflow of EUR 3.0 billion annually. There can be no assurance that such objectives in fact will be achieved, and these objectives are most unlikely to be realised in 2020 due to the slowdown in economic activity seen in Serbia and elsewhere as a consequence of social-distancing and other measures enacted worldwide in an effort to reduce the spread of COVID-19. Moreover, these targets will be further adjusted, amended or revised in the succeeding Economic Reform Programme for 2021-2023 as part of regular review or otherwise, to take into account the prevalent economic and fiscal indicators, which are evolving based on numerous factors that are highly uncertain, rapidly changing and cannot be accurately predicted.

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

- an action plan for adopting a new industrial development strategy for the period 2021- 2030, 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 late 2014, 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 the IMF’s financial resources. The final review by the IMF under the PCI was conducted in October 2020, following which the IMF, in its press release published on 16 October 2020, noted that Serbia’s program implementation has remained broadly on track and economic performance has rebounded after a sharp contraction in the second quarter of 2020 caused by the COVID-19 pandemic. The IMF also recognised that Serbia’s monetary and financial measures, coupled with the large fiscal package deployed in response to the pandemic, played a key role in supporting the economy. Separately, the IMF estimated that real GDP growth of Serbia is poised to contract by 1.5 per cent. in 2020 before an economic rebound to 5 per cent. in 2021. These economic forecasts were produced based on recent data, which illustrates a faster recovery than that previously anticipated by the IMF. It also projected the overall fiscal deficit to be less than 9 per cent. of GDP in 2020, with Public Debt staying below 60 per cent. of GDP. Following inevitable delays due to the health crisis, it noted that the implementation of structural reforms in Serbia would need to be accelerated to ensure a strong and stable growth in the medium term. At the

same time, it specifically noted that the economic outlook for Serbia remains highly uncertain, reflecting the unpredictable course of the pandemic and the resultant economic disruptions it may cause in Serbia and its trading partners. With the trajectory of the virus, and therefore its economic impact, still subject to significant uncertainty, these estimates may well be revised in the future.

2020 Budget Law

In November 2019, the Assembly adopted the central government budget for 2020 (the “**2020 Budget Law**”) with metrics consistent with the objectives of the PCI. In 2019, the fiscal consolidation measures implemented since late 2014 were abolished, which created fiscal space for new policies. Accordingly, as part of a broader fiscal relaxation, public sector wages were increased by between 8 and 15 per cent. effective from November 2019, while pensions were increased by 5.4 per cent. from January 2020. These measures were aimed at reversing the temporary cuts instituted in 2014. See “*Public Finance—Fiscal Policy and Reform—2020 Budget*”.

On 29 April 2020, the Assembly adopted the First Supplementary Budget to account for the impact of the COVID-19 pandemic and re-stated the macroeconomic targets for the fiscal year 2020 presented in the 2020 Budget Law. Some of the key revised projections under the First Supplementary Budget included total revenues and proceeds of RSD 1,244.8 billion (in place of RSD 1,314.5 billion as originally planned) and total expenditures and outflows of RSD 1,625.8 billion (in place of RSD 1,334.7 billion as originally planned) at the central government level. The Supplementary Budget contemplated a total fiscal deficit of RSD 394.8 billion, or 7.2 per cent. of GDP (compared to RSD 29.0 billion, or 0.5 per cent. of GDP as originally planned), with a central government budget deficit of RSD 381.0 billion, or 6.9 per cent. of GDP (compared to RSD 20.2 billion or 0.3 per cent. of GDP as originally planned).

Keeping in mind the performance of the economy for the first nine months of 2020, the 2020 Budget Law was further revised pursuant to a supplementary budget (the “**Second Supplementary Budget**”) on 12 November 2020. The Second Supplementary Budget seeks to address the effects of COVID-19 on the Serbian economy, with a review of performance of the economy for the period January – September 2020 based on the provisional data available as at the end of September 2020, which indicates that targets for certain macroeconomic indicators are yet to be realised. Under the Second Supplementary Budget (i) total revenues and proceeds are estimated at RSD 1,291.4 billion at the central government level, reflecting a 3.7 per cent. increase compared to the total revenues and proceeds estimated in the First Supplementary Budget and (ii) total expenditures and outflows are estimated at RSD 1,774.4 billion at the central government level, reflecting a 9.1 per cent. increase compared to total expenditures estimated in the First Supplementary Budget.

These projections are based on numerous factors that are highly uncertain, rapidly changing and cannot be accurately predicted as a consequence of COVID-19. Accordingly, there can be no assurance that such projections in fact will be achieved or that revenues will reach these levels and expenditures will not exceed such amounts.

2021 Fiscal Strategy

In the coming years, the Government intends to maintain strong, sustainable and broad-based economic growth. To achieve this objective, the 2021 Fiscal Strategy of the Government, adopted in consultation with the IMF mission, sets out the economic outlook and projections for the period 2021 to 2023. Along with extending support to mitigate the impact of the COVID-19 pandemic on businesses and citizens in the medium term, the fiscal policy will continue to focus on the pursuance of a sustainable policy for reducing the levels of general government debt. As in the past, 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**”) published by the World Bank Group in December 2019 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 seven areas on the domestic front, which require comprehensive, timely and sustained reforms: (i) providing improved financial assistance to the private sector; (ii) increasing public investments and facilitating private investments; (iii) enhancing the skills of the labour force; (iv) raising productivity to achieve higher value-added production, more jobs, and higher wages; (v) promoting exports; (vi) strengthening governance and regulatory practices to enhance the business environment in both the private and public sectors; and (viii) increasing competition in product markets. 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; and combating corruption.

Serbia 2025 Plan

The Government has developed an investment package and a reform plan, known as ‘Serbia 2025’, under which it will invest around EUR 14 billion over the next five years in order to improve the country’s infrastructure and living standards. The plan has been developed in coordination with the World Bank and has a wide-ranging focus including, but not limited to, infrastructure, healthcare, education and agriculture. At the centre of the plan, however, is a proposal to invest around EUR 9 billion in infrastructure projects aimed at improving the country’s rail and road connections. The plan also envisages the average monthly wage in Serbia reaching EUR 900 by the end of 2025 with the average pension amounting to between EUR 430 and EUR 440 per month. Other features of the plan include proposals for investment in the fields of environmental protection, healthcare, education, childcare, artificial intelligence, water transportation and tourism, as well as measures to improve the business climate in Serbia by removing ‘red tape’ (i.e. eliminating barriers to business). The plan would be financed primarily by borrowings. The targeted nature of these investments is expected to contribute directly towards Serbia’s GDP and improve infrastructure, as well as develop key sectors. Equally, these investments are expected to produce a multiplier effect, increasing aggregate demand and benefitting the economy more broadly. The plan also includes reforms for the deepening of the financial markets, the development of the green economy, and the continuation of public sector and education reforms. The realisation of these investments and reforms depends on a number of significant factors outside of the Government’s control, and consequently there can be no assurance that such investments or reforms in fact will be undertaken or achieved.

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 were aligned with the ESA 2010 and were consistent with recommendations from the IMF statistics department and other technical assistance providers. On 1 October 2020, the Office of Statistics published the preliminary annual GDP results for 2019, in addition to the final annual GDP data for 2018. In adherence with the Eurostat and the IMF, the Office of Statistics also released its revised annual rates of GDP for the periods from 2015 and 2017 to reflect results that are compliant with the Supply and Use Tables (i.e. a detailed accounting or information system that serves to increase the quality of GDP and related aggregates by providing a framework to detect and resolve inconsistencies in data sources). For the six months ended 30 June 2020, the GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics using the ESA 2010 methodology, which may be subject to revision and amendments when the actual results or annual estimates are published.

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 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December					Six months ended 30 June ^{(3) (4)}	
	2015	2016	2017	2018	2019	2019	2020
Nominal GDP (RSD billions)	4,315.0	4,528.2	4,760.7	5,072.9	5,417.7	2,540.1	2,560.1
Nominal GDP (EUR millions) ⁽¹⁾	35,740.2	36,779.3	39,235.3	42,892.2	45,970.4	21,508.8	21,774.6
GDP per capita (EUR)	5,037	5,211	5,588	6,143	6,619	-	-
Real GDP growth (%)	1.8	3.3	2.1	4.5	4.2	2.7	(0.8)
RSD/EUR (end of period)	121.63	123.47	118.47	118.19	117.59	117.91	117.58
RSD/EUR (period average) ⁽²⁾	120.73	123.12	121.34	118.27	117.85	118.10	117.57
RSD/US\$ (end of period)	111.25	117.14	99.12	103.39	104.92	103.77	104.63
RSD/US\$ (period average) ⁽²⁾	108.85	111.29	107.50	100.28	105.28	104.51	106.66
US\$/EUR (end of period)	0.91	0.95	0.84	0.87	0.89	0.88	0.89
US\$/EUR (period average) ⁽²⁾	0.90	0.90	0.89	0.85	0.89	0.88	0.91

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.
- (3) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019.
- (4) The GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics.

The following table shows contributions of expenditure (in percentage points) to real GDP growth for the years 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December					Six months ended 30 June ^{(1) (2)}	
	2015	2016	2017	2018	2019	2019	2020
	(percentage points)						
Household final consumption expenditure....	(0.6)	1.3	1.5	2.1	2.4	2.2	(1.8)
NPISH* final consumption expenditure	0.1	0.1	0.0	0.1	0.0	0.0	0.0
Government final consumption expenditure.....	(0.7)	0.0	0.5	0.6	0.3	0.4	1.8
Gross fixed capital formation.....	1.0	0.9	1.1	3.1	3.4	1.5	(0.3)
Changes in inventories and acquisitions less disposals of valuables.....	0.0	(0.6)	0.9	0.9	0.4	(0.5)	0.7
Exports of goods and services.....	3.9	5.4	4.0	3.8	3.9	4.1	(4.9)
Imports of goods and services.....	2.0	3.7	5.9	6.2	6.3	5.0	(3.7)
Gross domestic product.....	1.8	3.3	2.1	4.5	4.2	2.7	(0.8)

Source: Ministry of Finance.

* Non-Profit Institutions Serving Households

Notes:

- (1) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019.
- (2) The GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics.

The following table shows share of investments as a percentage of GDP for the years 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December					Six months ended 30 June ^{(1) (2)}	
	2015	2016	2017	2018	2019	2019	2020
	(%)						
Investments.....	18.7	18.1	19.6	22.7	25.1	22.1	20.7
Gross fixed capital formation.....	17.0	17.1	17.7	20.0	22.5	20.4	20.1
Private investments.....	14.3	14.0	14.9	16.1	17.6	16.9	15.6
Public investments.....	2.7	3.1	2.8	3.9	4.9	3.5	4.5
Stock building.....	1.7	1.0	1.8	2.6	2.6	1.7	0.6
Private investment plus stocks	16.0	15.0	16.8	18.7	20.2	18.6	16.2

Source: Ministry of Finance

Notes:

- (1) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019.
- (2) The GDP data is presented as a sum of two quarters, based on quarterly estimates of the Office of Statistics.

After a few years of negative growth, the Serbian economy began its recovery in 2015 with GDP amounting to EUR 35,740 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 1.3 percentage points to GDP based on the increase in the GVA of trade and transport, followed by education and financial and insurance services. The GVA of the industry sector grew by 2.1 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 (3.0 per cent.), which contributed to GDP by 0.4 percentage points. Within the manufacturing industry, the growth was diversified and mainly led by export-oriented activities. Also, positive contribution to GDP of 0.5 percentage points originated from agriculture, which recorded an increase in GVA of 7.5 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 6.1 per cent., which resulted in a positive contribution of 0.2 percentage points to GDP.

GDP performance in 2017, when compared to the previous year, increased by 2.1 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 2.6 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 4.5 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 by 4.4 per cent. Similarly, the adverse weather conditions in 2017 reduced agricultural production by 11.4 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 3.4 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 5.4 per cent. in 2017.

In 2018, real GDP increased by 4.5 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 12.4 per cent. in GVA with a 0.5 percentage points contribution to GDP, while the service sector recorded a real growth of 3.8 per cent. with a positive contribution of 1.9 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 15.1 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 4.5 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 2019. According to the Office of Statistics, the Serbian economy recorded a real growth of 4.2 per cent. in 2019. This was primarily due to growth in the service sector, which contributed 2.2 percentage points, and the positive contribution of 1.5 percentage points from the construction sector driven by intensive infrastructure activities. Apart from human health and social activities, all other service subsectors recorded real growth, with almost three-quarters of increase in this sector contributed by a growth in trade, transport, information and communication services as well as public administration. The share of the service and construction sectors in GDP amounted to 51.2 per cent. and 5.7 per cent. of GDP in 2019, respectively, as compared to 51.0 per cent. and 4.5 per cent. in 2018. The industrial sector had a modest positive impact on overall growth, with a contribution of 0.1 percentage points. All of the industrial subsectors recorded a real increase, with water supply and manufacturing sub-sectors dominating the total industry growth, while mining and electricity production had a fair contribution. On the consumption side, growth was driven by investment, with a contribution of 3.4 percentage points, and household consumption, with a contribution of 2.5 percentage points, as well as from government spending due to a degree of fiscal relaxation. Net exports had a negative impact on growth of 2.4 percentage points. This was primarily

due to stronger imports of raw materials and equipment, linked to high levels of investment, and to a lesser extent, due to increased imports of consumer goods.

In the first half of 2020, GDP fell by 0.8 per cent. year-on-year. Economic developments in this period was characterised by the favourable economic conditions during the first quarter of 2020, when growth of 5.1 per cent. year-on-year was achieved, although this was substantially offset by the dramatic changes in the international and domestic environment due to the coronavirus pandemic, leading to a year-on-year decline of 6.4 per cent. in the second quarter of 2020. Between January and March 2020, positive trends were seen in all economic sectors, with GDP growth driven by a cumulative contribution of 2.6 percentage points from the service sector, primarily due to a growth in the information and communication subsectors, along with trade, transport and tourism activities. The industrial production in the first quarter of 2020 continued to grow consistent with the trends of the second half of 2019 and contributed 0.9 percentage points to GDP. A similar trend was observed in the construction sector, which showcased a contribution of 0.7 percentage points, mainly due to the continuation of the infrastructure projects and private construction activities. On the expenditure side, economic growth was underpinned by domestic demand, with private consumption contributing 2.2 percentage points due to improvements in the labour market, and investment and government consumption each realising contribution of around 2.0 percentage points. Net exports recorded a negative contribution of 3.3 percentage points, due to increased imports of capital and intermediate goods, as well as lagging demand for exports in March 2020 from Serbia's most important foreign trade partners as a consequence of COVID-19.

The contraction in economic activities in the second quarter is a direct consequence of the closure of the economy due to the state of emergency declared on 15 March 2020 and introduction of health measures in response to the pandemic. From the production side, a negative contribution of 3.8 percentage points to GDP growth stemmed from the service sector, as trade, transport and tourism subsectors as well as professional and technical activities suffered a decline, especially those related to arts, entertainment and recreation. Whilst growth in the construction sector remained neutral, industrial production fell by 7.7 per cent. year-on-year and noted a negative contribution of 1.5 percentage points to economic growth. By contrast, there was an increase in agricultural production owing to favourable agro-meteorological conditions, although its contribution (i.e. 0.1 percentage points) was only moderate due to the comparison with the higher base of calculation from the previous year. Private consumption on the expenditure side suffered the greatest impact from COVID-19, with negative contribution of 5.6 percentage points to GDP growth. Similarly, investments fell by 11.9 per cent., and affected the GDP growth by 2.5 percentage points. Meanwhile, the sharp decline of GDP in the second quarter of 2020 was partially offset by the growth in government consumption of 8.9 per cent., or 1.6 percentage points mainly from an increase in health care expenditures. At the same time, the shock experienced in external trade resulted in a significant decline in export and import activities, although this was marginally counteracted by the positive contribution of 0.9 percentage points from net exports. Since May, the economic activities have shown signs of recovery following the gradual reopening of the economy and an improvement of epidemiological situation in Serbia. Additionally, the economic stimulus measures of the Government for the economy and citizens significantly alleviated the negative economic impact caused by the pandemic. Whilst the gradual reopening of the economy improved the economic situation in Serbia and more favourable trends were recorded in May and June, Serbia's GDP registered a sharp contraction of 6.4 per cent. year-on-year in the second quarter of 2020 due to the steep decline in economic performance in April 2020.

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 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December					Six months ended 30 June ^{(3) (4) (5)}	
	2015	2016	2017	2018	2019	2019	2020
	(RSD billions)						
Agriculture, forestry and fishing	289.7	308.4	286.3	321.8	322.6	139.5	146.7
Industry⁽¹⁾	951.1	992.7	1,045.6	1,067.3	1,076.3	526.0	509.7
Mining	92.5	88.3	101.2	100.8	104.3	-	-
Manufacturing	637.2	670.7	718.2	737.0	740.3	-	-
Electricity and gas	169.5	180.8	171.4	173.4	171.8	-	-
Water supply	51.8	52.9	54.7	56.1	59.9	-	-
Construction	162.0	176.5	196.1	226.2	309.2	109.2	119.8
Trade, transport and tourism	693.5	732.4	797.5	850.3	895.0	429.9	398.5
Trade	480.1	504.0	545.7	581.5	616.3	-	-
Transport	159.4	170.1	186.1	197.9	203.0	-	-
Tourism	54.0	58.2	65.7	70.9	75.7	-	-
Information and communication	208.2	219.2	235.6	243.4	263.9	128.6	145.2
Financial and insurance activities	128.3	133.2	134.8	152.1	170.6	80.2	83.8
Other⁽²⁾	1,164.9	1,193.6	1,256.8	1,341.9	1,443.3	691.2	719.7
Total GVA	3,597.8	3,756.0	3,952.7	4,202.9	4,480.9	2,104.6	2,123.5
Taxes less subsidies for products	717.3	772.2	808.0	870.0	936.8	435.5	436.6
GDP	4,315.0	4,528.2	4,760.7	5,072.9	5,417.7	2,540.1	2,560.1

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.
- (3) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019.
- (4) The GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics.
- (5) The GVA information for the first six months of 2020 is not yet available in respect of the individual activities within the industry and trade, transport and tourism sectors.

The following table shows nominal GVA growth rates measured in current prices of the sectors in the Serbian economy for the years 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December					Six months ended 30 June ^{(3) (4) (5)}	
	2015	2016	2017	2018	2019	2019	2020
	(%)						
Agriculture, forestry and fishing	(1.5)	6.5	(7.2)	12.4	0.2	(1.9)	5.2
Industry⁽¹⁾	3.7	4.4	5.3	2.1	0.9	0.0	(3.1)
Mining	(3.1)	(4.6)	14.6	(0.4)	3.5	-	-
Manufacturing	2.4	5.2	7.1	2.6	0.5	-	-
Electricity and gas	15.5	6.6	(5.2)	1.1	(0.9)	-	-
Water supply	(0.9)	2.2	3.3	2.6	6.7	-	-
Construction	21.9	8.9	11.1	15.3	36.7	19.4	9.7
Trade, transport and tourism	6.3	5.6	8.9	6.6	5.3	7.4	(7.3)
Trade	5.2	5.0	8.3	6.6	6.0	-	-
Transport	9.3	6.8	9.4	6.3	2.6	-	-
Tourism	7.1	7.8	12.9	7.9	6.7	-	-
Information and communication	5.2	5.3	7.4	3.3	8.4	8.1	12.9
Financial and insurance activities	7.5	3.8	1.2	12.8	12.2	6.0	4.5
Other⁽²⁾	(1.3)	2.5	5.3	6.8	7.6	6.7	4.1
Total GVA growth rate	3.0	4.4	5.2	6.3	6.6	5.1	0.9
Taxes less subsidies for products	7.7	7.7	4.6	7.7	7.7	5.9	0.3
Total GDP growth rate	3.7	4.9	5.1	6.6	6.8	5.2	0.8

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.

- (3) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019.
- (4) The GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics.
- (5) The GVA information for the first six months of 2020 is not yet available in respect of the individual activities within the industry and trade, transport and tourism sectors.

The following table shows GVA in constant previous year prices, with the reference year being 2015, by economic sector for the years 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December					Six months ended June ⁽³⁾ (4) (5)	
	2015	2016	2017	2018	2019	2019	2020
	<i>(RSD billions)</i>						
Agriculture, forestry and fishing	289.7	311.3	275.8	317.5	312.4	102.7	104.7
Industry⁽¹⁾	951.1	970.8	996.4	1,005.3	1,009.3	402.6	395.9
Mining.....	92.5	94.5	96.5	91.9	92.0	-	-
Manufacturing.....	637.2	656.2	685.8	696.0	697.0	-	-
Electricity and gas.....	169.5	172.3	164.7	166.3	166.5	-	-
Water supply	51.8	47.8	49.4	51.2	53.9	-	-
Construction	162.0	171.9	181.3	203.7	272.3	78.0	84.5
Trade, transport and tourism	693.5	719.1	756.5	804.6	853.0	300.4	277.4
Trade	480.1	496.9	521.2	555.5	590.2	-	-
Transport	159.4	164.0	171.0	180.4	190.1	-	-
Tourism	54.0	58.1	64.3	68.7	72.8	-	-
Information and communication	208.2	214.6	222.6	234.7	254.1	101.0	109.4
Financial and insurance activities	128.3	134.8	136.2	146.4	149.8	62.2	64.6
Other⁽²⁾	1,164.9	1,180.9	1,211.1	1,229.7	1,261.3	517.2	519.7
Total GVA	3,597.8	3,703.5	3,780.4	3,942.6	4,116.2	1,569.3	1,557.5
Taxes less subsidies for products.....	717.3	755.6	772.4	814.9	843.4	279.5	276.1
GDP	4,315.0	4,459.1	4,552.8	4,757.4	4,959.5	1,848.7	1,833.3

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.
- (3) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019.
- (4) The GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics.
- (5) The GVA information for the first six months of 2020 is not yet available in respect of the individual activities within the industry and trade, transport and tourism sectors.

The following table shows real GVA growth rates of the sectors in the Serbian economy for the years 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December					Six months ended 30 June ⁽³⁾ (4) (5)	
	2015	2016	2017	2018	2019	2019	2020
	<i>(%)</i>						
Agriculture, forestry and fishing	2.2	7.5	(11.4)	15.1	(1.6)	(0.1)	2.0
Industry⁽¹⁾	4.5	2.1	2.6	0.9	0.4	(1.8)	(1.7)
Mining.....	8.7	2.1	2.1	(4.7)	0.1	-	-
Manufacturing.....	3.1	3.0	4.5	1.5	0.2	-	-
Electricity and gas.....	12.5	1.7	(4.4)	0.9	0.1	-	-
Water supply	(7.6)	(7.9)	3.4	3.6	5.2	-	-
Construction	17.3	6.1	5.4	12.4	33.7	13.8	8.3
Trade, transport and tourism	3.1	3.7	5.2	6.4	6.0	5.5	(7.7)
Trade.....	2.8	3.5	4.9	6.6	6.2	-	-
Transport	4.3	2.9	4.3	5.5	5.3	-	-
Tourism	2.8	7.6	10.6	6.8	6.0	-	-
Information and communication	2.7	3.1	3.7	5.4	8.3	6.8	8.3
Financial and insurance activities	1.2	5.1	1.0	7.5	2.3	3.9	4.0
Other⁽²⁾	(1.6)	1.4	2.6	1.5	2.6	2.2	0.5
Total real GVA growth rate	2.3	2.9	2.1	4.3	4.4	2.6	(0.7)
Taxes less subsidies for products.....	(0.8)	5.3	2.2	5.5	3.5	3.4	(1.2)
Total real GDP growth rate	1.8	3.3	2.1	4.5	4.2	2.7	(0.8)

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.
- (3) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019.
- (4) The GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics.
- (5) The GVA information for the first six months of 2020 is not yet available in respect of the individual activities within the industry and trade, transport and tourism sectors.

Agriculture, forestry and fishing

Serbia occupies approximately 88,361 square kilometres (including Kosovo and Metohija), of which 68.9 per cent. is arable land. Utilised agricultural land covers more than 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 2015, the agriculture, forestry and fishing sector represented 8.1 per cent. of total GVA measured in current prices. The GVA of this sector reduced by 1.5 per cent. in current terms, to RSD 289.2 billion from RSD 289.7 billion in 2014, while it increased by 2.2 per cent. in real terms as compared to 2014.

In 2016, the agriculture, forestry and fishing 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 6.5 per cent. (RSD 18.7 billion), or 7.5 per cent. (RSD 21.6 billion) in real terms compared to 2015.

In 2017, the share of the agriculture, forestry and fishing sector in the total GVA declined to 7.2 per cent. in current terms. Due to extreme drought conditions in 2017, the agriculture sector recorded a decrease in GVA of 7.2 per cent. (RSD 22.1 billion) in current terms, or 11.4 per cent. (RSD 35.5 billion) in real terms compared to 2016.

In 2018, the agriculture, forestry and fishing 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 12.4 per cent. (RSD 35.5 billion) in current terms, or 15.1 per cent. in real terms (RSD 41.7 billion), as a result of a surge in the yield of crops and industrial plants.

In 2019, the agriculture, forestry and fishing sector accounted for 7.2 per cent. of the total GVA at current prices. The GVA of this sector increased by 0.2 per cent. (RSD 0.8 billion), measured at current prices, while in real terms it decreased by 1.6 per cent. (RSD 5.1 billion) compared to 2018.

During the first six months of 2020, the agriculture, forestry and fishing sector accounted for 6.9 per cent. of the total GVA at current prices. The GVA of this sector increased by 5.2 per cent. (RSD 7.2 billion) when measured in current prices, while in real terms it increased by 2.0 per cent. compared to the same period in 2019. Due to favourable agro-meteorological conditions in 2020, agricultural production achieved a higher level of activity with record yields in certain agricultural plants.

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 markets health and safety standards and 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.

To support such initiatives, the Government has allocated RSD 36.2 billion under the Second Supplementary 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 exhibited a stable trend in 2019. 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. The mining sector represents an important element of Serbia's economic development given its current contribution, and additional potential for significant national and regional development. The opening of new mines, and the expansion of existing mines, is expected to contribute to long-term sustainable economic growth of Serbia. 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, realisation of projects such as the Chukaru Peki copper and gold projects (carried out by the Serbia Zijin Mining via Rakita Exploration) and the Jadar lithium and boron minerals project (implemented by Rio Tinto near Loznica). As part of the Chukaru Peki mine project, Rakita Exploration is developing the Timok mine, which is expected to produce an average of 380,000 tonnes of copper concentrate annually. An initial investment of USD 500 million has been projected for the development and construction of the Upper Zone of the Timok mine. The opening of the Jadar mine is expected to help position Serbia as a major global supplier of lithium and borates. As at the date of this Base Prospectus, approximately USD 250 million has been invested in this project, and further investment of USD 200 million has been announced, out of the planned investment of more than USD 1.0 billion, which is expected to be made over the next four years. As a result of the volume of investment anticipated for this project as well as its potential for creating jobs, the Jadar mine is seen not only as an avenue for economic development in the Loznica region, but also for the whole of Serbia. The Government intends to continue its strategic partnership with Rio Tinto and eventually form a strategic relationship to commence the production of hybrid and electronic cars as well as electric batteries in Serbia, thereby allowing Serbia to take on a leading role in the region in terms of low-carbon development technologies. Additionally, the development of Serbia Zijin Bor Copper (formerly RTB Bor), under a strategic partnership with Serbia Zijin Mining, with a planned investment of USD 1.26 billion, is equally important as the metal complex is expected to produce more than 120,000 tonnes of copper annually. These projects are expected to support the Government's long-term objective, which envisages the share of the mining industry in the total GDP to increase to 5.0 per cent. The realisation of the above objective and plans (including the related economic development) depends on a number of significant factors outside of the Government's control, and consequently there can be no assurance that such objectives or plans in fact will be achieved.

To attract investments in the mining sector, the Government adopted the Law on Mining and Geological Explorations in December 2015, 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 Base Prospectus, a strategy for the reconstruction of mines is being developed with the support of the Ministry of Mining and Energy 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.

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. It intends to continue with the development, in terms of capacity expansion and technological modernisation, to improve the resilience of its energy system, secure a safe and stable energy supply and ensure compliance with environmental standards. In 2015, the Government adopted the ‘Energy Development Strategy of Serbia for the period to 2025’, which contains projections through 2030. In 2017, the Government adopted a programme for the implementation of this Energy Development Strategy for the period from 2017 up to 2023. This programme 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. In addition, over the last few 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. In 2014, the new Law on Energy was adopted which is harmonised with the EU’s third energy package. The Government also maintains minimum reserves of oil and oil derivatives in line with the EU directive EU 2009/119/EC to increase the security of supply. More recently, three National Energy Efficiency Action Plans and more than 40 pieces of secondary legislation have been adopted. At present, Serbia’s energy legislation is partially aligned with the current EU Acquis. In order to ensure complete harmonisation, a revision of various regulations is ongoing with IPA assistance.

The Government is also actively seeking to implement environmental protection measures, reduce greenhouse gas emissions and gradually achieve the transformation towards a low-carbon economy. At the EU level, the Government will seek to align its policy with the EU’s climate and energy objectives by developing an integrated National Energy and Climate Plan for the period 2021 to 2030, based on a streamlined framework of the Energy Community. The Ministry of Environmental Protection has prepared a Draft Law on Climate Change, which transposes the EU Acquis in this area. This aims to establish a system for the reduction of greenhouse gas emissions and a transition towards a greater reliance on sustainable energy in order to fulfil Serbia’s obligations to the United Nations Framework Convention on Climate Change and the Paris Agreement to which Serbia is a signatory. The Ministry has submitted the Draft Law on Climate Change to the Government. The Ministry is also developing a Draft Law on Carbon Development Strategy in conjunction with the Draft Law on Climate Change. Alongside the aforementioned Draft Laws, the Ministry of Environmental Protection has prepared an action plan identifying measures that will be taken at a national level to reduce and mitigate greenhouse gas emissions. As part of this action plan, the Government will prescribe certain levels of permitted greenhouse gas emissions by sources as a means of controlling and reducing overall emissions.

In recent years, the Government has made efforts to promote renewable energy sources and attract investors to construct renewable energy plants in Serbia. In signing the Treaty Establishing the Energy Community of Southeast Europe and the EU in 2006, the Government acknowledged its obligation to harmonise national practices with EU directives relating to renewable energy sources. As a result, the Law on Energy and several bylaws in Serbia transpose the EU’s renewable energy directive (i.e. directive 2009/28/EC). Further, as a candidate for accession to the EU, Serbia intends to increase renewable energy up to 32 per cent. of its gross energy consumption by 2030 in line with the EU’s Clean Energy for all Europeans Package. 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. As part of its efforts, the Government is continuously aiming to increase the share of renewable energy sources in the production of electrical and heat energy. This can be seen from the Government’s plans to construct a gas desulphurization system at the Nikola Tesla A Thermal Power

Plant and from its commitment to continue with the implementation of similar projects with the aim of transforming Serbia's entire energy system into being environmentally sustainable. However, it recognises that the development of energy infrastructure is a prerequisite for the development of a sustainable energy sector, as this will support greater competition and make more types of energy available to consumers.

In the coming years, in order to provide uninterrupted energy supply, the Ministry of Mining and Energy has identified the following projects as its main priorities:

The Turkish Stream Pipeline

Gastrans (a joint venture company, of which 51 per cent. is owned by the Russian company, Gazprom, and 49 per cent. by the Serbian gas company, PE "Srbijagas") has been constructing the 403-km Serbian stretch of the Turkish Stream Pipeline since 2019. This project involves the construction of a pipeline which is intended to provide uninterrupted and direct gas supply from Russia to south-eastern European countries, including Serbia. Serbia considers the project to be important for the development of key sectors of its economy, benefitting industry and export-orientated sectors in particular, as well as for attracting new investments. When it is operational, the Government expects the pipeline to positively contribute towards its net exports as a part of the imported gas will be exported. It also anticipates that the pipeline will provide an uninterrupted and sufficient gas supply to Serbia for its economic growth and long-term development. According to the public announcements from Gastrans, the value of the project is estimated at approximately EUR 1.8 billion, which is expected to be mainly financed through FDI inflows. In December 2019, Gastrans completed the laying of the pipes for the pipeline, which represented the first phase of the project. The second phase includes the construction of the compressor stations. Originally, the pipeline was scheduled to be completed by the second half of 2020. However, with the significant disruption caused by the COVID-19 pandemic, the exact date of completion is difficult to predict.

In addition, on 15 July 2020, the US Department of State updated its guidance regarding the implementation of Section 232 of CAATSA. Under CAATSA, certain investments in the Turkish Stream Pipeline may be subject to sanctions, even if undertaken pursuant to an existing contract. Accordingly, any future investment in, or financial assistance to, the Turkish Stream Pipeline could expose the involved companies to the risk of being sanctioned under Section 232 of CAATSA. While the Government has not made any investments since the release of the updated guidance in July 2020, any future investments required to complete the pipeline could be delayed. Accordingly, there can be no assurance as to when or whether the anticipated benefits, in fact, will be achieved.

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 single energy system. The Niš - Dimitrovgrad transmission gas pipeline is planned under the 'Energy Sector Development Strategy for the period to 2025' and the Law on the Spatial Plan from 2010 to 2020.

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. The Second Supplementary Budget anticipates securing a loan of a further EUR 25 million from the European Investment Bank to help co-finance this project. This loan has been approved by the Board of Directors of the European Investment Bank and the preliminary draft of the finance contract was

delivered to the Government for review in October 2020. The Niš - Dimitrovgrad transmission gas pipeline will increase the number of interconnections with neighbouring countries from two to three and it will increase the technical capacity of interconnections in Serbia from approximately 5,238 bcm to an estimated 7,038 bcm. The tender documentation for the construction works and supervision of the gas interconnector have been completed and are pending final approval from the European delegation in Serbia.

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 350 km line) is underway. The total cost of the first phase of the construction is estimated at EUR 157 million, which is being funded in part by EU pre-accession funds, WBIF and KfW, and in part by the funds of Elektromreže Srbije.

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) is underway. The construction of this new block B3 is expected to increase the regulatory reserve, expand the production capacities and improve energy stability in Serbia. The project also included expansion of the Drmno mine, which involved the increase of coal production from nine to twelve million tonnes per year. This expansion was completed in December 2019. This project (comprising the construction of block B3 and expansion of Drmno mine) is valued at USD 715.6 million, of which 85 per cent. is being funded by the Chinese Export-Import Bank loan under preferential conditions with an approved state guarantee, and the remaining 15 per cent. is being financed from the funds of PE EPS.

Expansion of capacity of underground storage in Banatski Dvor

The Government is working on expanding the capacity of underground gas storage in Banatski Dvor. The first phase will increase capacity from 450 to 750 million m³, with the eventual capacity being improved to one billion m³ in the subsequent phases. This expansion will be carried out alongside efforts to find suitable new locations for gas storage.

Kostolac Wind Farm

Serbia produces 70 per cent. of its energy from coal and the rest from hydropower, and aims to secure 27 per cent. of its gross 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 will be the first Serbian public utility-scale wind farm. The plant is expected to have a capacity of 66 MW. The total cost of the construction of the wind farm is estimated at about EUR 97.4 million, of which EUR 80 million will be financed by the German Development Bank (KfW). The construction permit and temporary status of privileged power producer were obtained in 2019. Agreements with contractors are expected to be signed in 2020.

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. At the end of 2018, EMS and SEEPEX initiated a project of market coupling between Croatia, Serbia and Bulgaria within the framework of Multi Regional Coupling. As an initiative of the WB6, a market-coupling project between the electricity markets of Albania, Montenegro, Serbia and Italy is being considered. A working group was formed, which produced a

precondition analysis in 2019, and this document is expected to be approved by the respective countries in 2020.

The following table shows the growth rate of industrial production (physical volume), mining, manufacturing and electricity, gas and steam for the years 2015 to 2019 and for the nine months ended 30 September 2020 and 2019:

	Year ended on 31 December					Nine months ended	
	2015	2016	2017	2018	2019	30 September	
						2019	2020
				(%)			
Industrial production, physical volume	7.3	5.2	3.9	1.3	0.3	(0.8)	(0.2)
Mining	12.2	3.2	2.2	(4.8)	1.2	1.0	2.9
Manufacturing	5.7	6.0	6.3	1.9	0.2	(1.1)	(0.1)
Electricity, gas, steam	12.5	2.7	(6.2)	1.2	0.5	(0.2)	(1.4)

Source: Office of Statistics.

In 2015, the industry sector represented 26.4 per cent. of total GVA when measured in current prices, correlating to an increase in GVA of 3.7 per cent. (RSD 34.1 billion) in current terms, or 4.5 per cent. in real terms as compared to 2014.

In 2016, the industry sector represented 26.4 per cent. of total GVA measured in current prices. The growth of this sector's GVA measured in current terms was 4.4 per cent. (RSD 41.6 billion), or 2.1 per cent. (RSD 19.7 billion) in real terms compared to 2015. This increase was largely influenced by positive trends in manufacturing activities, being the largest contributor (accounting for 17.9 percent. in current terms) from the industry sector to total GVA. Compared to 2015, the growth in the GVA of the manufacturing sub-sector measured in current terms was 5.2 per cent. (RSD 33.4 billion), or 3.0 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, the GVA of the industry sector in the total GVA recorded an increase of 5.3 per cent. (RSD 52.9 billion) in current terms, or 2.6 per cent. (RSD 25.6 billion) in real terms, owing to the steady growth of the manufacturing sector. The share of the manufacturing sub-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 7.1 per cent. (RSD 47.5 billion) when measured in current prices, or 4.5 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 2.1 per cent. in current terms, corresponding to an increase from RSD 1,045.6 billion in 2017 to RSD 1,067.3 billion in 2018, or 0.9 per cent. (RSD 8.9 billion) in real terms compared to 2017. Except for mining, all industry sub-sectors recorded growth in 2018. The manufacturing sub-sector, with a real increase of 1.5 per cent. contributed the most to the overall growth, accounting for 17.5 per cent. of total GVA in current prices.

In 2019, the industry sector represented 24.0 per cent. of total GVA measured in current prices. This sector's GVA in nominal terms recorded an increase of 0.9 per cent. (RSD 9.1 billion), while it recorded an increase of 0.4 per cent. (RSD 4.0 billion) in real terms, compared to 2018. All industry sub-sectors recorded real growth in 2019, with a slight positive or neutral contribution to the overall growth of the economy. The share of the manufacturing sector in the total GVA accounted for 16.5 per cent. in current terms in 2019. Compared to 2018, the GVA of this sector recorded a growth of 0.5 per cent. (RSD 3.4 billion) when measured in current prices, or 0.2 per cent. in real terms.

In the first six months of 2020, this sector's GVA in nominal terms recorded a decrease of 3.1 per cent. (RSD 16.2 billion), while it recorded a decrease of 1.7 per cent. (RSD 6.7 billion) in real terms, compared to the same period in 2019. The GVA information in respect of the first six months of 2020 is not yet available for the sub-sectors.

Based on the short-term indicators of physical volume, the industry sector recorded a decrease in industrial production of 0.2 per cent. in the first nine months of 2020, compared to the corresponding period in 2019. In the first nine months of 2020, industrial production faced contractions in each of March and April 2020, during which the negative effects of COVID-19 mainly manifested, which resulted in a steep contraction of 7.7 per cent. year-on-year during the second quarter of 2020. However, the strong growth of 4.5 per cent. in the first quarter and a gradual recovery of 3.0 per cent. in the third quarter almost compensated for the industrial contraction in the second quarter. A slowdown in industrial production was first observed in March due to the changes in external environment caused by the COVID-19 pandemic, which resulted in the lockdown of Serbia's most important foreign trade partners. In addition, the state of emergency that was introduced in mid-March to curb the spread of the pandemic led to the closure of the economy, which affected industrial production considerably. The largest decrease in industrial production of 16.6 per cent. year-on-year was registered in April, when the negative effects of the pandemic were seen in a large number of activities across the industry sector. After the state of emergency was lifted in early May, industrial production witnessed a gradual recovery, when the decline in May almost halved compared to contraction in April. Moreover, in the months of June to September, industrial productions registered a year-on-year increase and this recovery was driven primarily by the increased production in the manufacturing sector, as well as increased electricity production. In August and September 2020, the industrial production grew by 4.2 per cent. and 4.6 per cent. year-on-year respectively, with manufacturing reaching production volumes before the COVID-19 pandemic. This gradual recovery of industrial production resulted in a growth of 3.0 per cent. year-on-year in the third quarter, which was supported by increased production volumes from all three sub-sections of the industry sector. In this quarter, the highest positive contribution stemmed from manufacturing and electricity production, which grew by 2.1 per cent. and 9.1 per cent, respectively. In addition, mining and quarrying with an increase of 1.3 per cent. contributed positively to the total production growth. Despite the favourable trends in the third quarter of 2020, the contraction in the months of March, April and May resulted in a decline of 0.2 per cent. in the industrial production on an overall basis at the end of nine-month period September 2020. In the first nine months of 2020, the largest negative contribution to the overall industrial production stemmed from export-oriented activities, such as automotive, rubber and metal industries, which were especially impacted by the negative effects of the pandemic. By contrast, the largest positive contribution stemmed from the oil industry and pharmaceutical and chemical industry, followed by food industry. Overall, industrial production in the first nine months of 2020 was characterised by strong growth in first quarter, followed by a slowdown in the second quarter, with industrial production showing signs of gradual recovery in the third quarter.

Construction

During the period from 2015 to 2019, the Government has strived to achieve greater transparency and to 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, 2018, 2019 and first half of 2020, which witnessed an increase of 11.1 per cent., 15.3 per cent., 36.7 per cent. and 9.7 per cent., respectively, in current terms. Growth in this sector, however, is dependent upon the availability of multilateral and bilateral funding and financial assistance from international financial institutions in order to support national and regional infrastructure projects. As at the date of this Base Prospectus, the Government has concluded bilateral loans for infrastructure projects with the Chinese Export-Import Bank, the Republic of Azerbaijan, the Russian Federation, the Turkish T.C. Ziraat Bankasi A.Ş. and the Abu Dhabi Development Fund. Moreover, some of the infrastructure projects in Serbia are being financed by loans from international financial institutions such as the EIB, EBRD and World Bank. 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. A new Spatial Plan for the period 2021 – 2035 is currently being drafted.

Major construction projects in Serbia are mainly seen in the transportation sector as the existing infrastructure is in need of upgrade. The most significant infrastructure projects are being undertaken at Corridors 10 and 11 (being the pan-European corridors), which are mainly financed by international loans. In addition to the construction of these two major transport routes, large-scale construction and renovation of other roads, and of Serbia's rail infrastructure, has been completed or is currently in progress. As an example, a number of large-scale infrastructure projects were completed in 2019, which were of national and regional importance. This included construction at Corridor 10 (i.e. the southern section leading to North Macedonia (74.2 km) and the eastern section leading towards Bulgaria (86.9 km)) and Route 4 connecting Belgrade to the South Adriatic (where the sections from Obrenovac to Ljig of 50.2 km and from Surčin to Obrenovac of 17.6 km were completed and opened for traffic). In addition to these projects, the Government has commenced, or expects to start, the construction work on the Belgrade Bypass Project (i.e. bridge over Sava near Ostruznica-Bubanj Potok), the Belgrade to Sarajevo Motorway (Sremska Rača to Kuzmin of 17 km), the Niš to Merdare Highway (Niš-Pločnik-Merdare of 77 km with planned works beginning in 2021), the Morava Corridor (Pojate to Preljina of 112.32 km), the "Miloš Veliki" Motorway (Preljina to Pozega of 30.96 km), the combined Ruma-Šabac-Loznica Motorway/Dual Carriageway (77 km) and the Kragujevac-Batocina Motorway (24 km).

The construction work on the Fruška Gora Corridor (Novi Sad to Ruma) is being planned, along with Sector C on the Belgrade Bypass, the Požega-Užice-Kotroman Road, the Šumadija Corridor (Vožd Karadorđe), the Požega to Boljare Road, Loznica-Valjevo-Lazarevac State Road and Iverak-Lajkovac Section (i.e. being the intersection on the Highway E-763 Belgrade-Pozega). Sector B of the Belgrade Bypass, with a total length of 20.4km, is also under construction. The construction and rehabilitation of approximately 5,000 km of national roads is currently underway, together with measures to improve safety. In the course of 2021, the Government intends to commence preparatory work for the construction on the Belgrade Subway, Phase I of the Peace Highway (section Nis to Pločnik of 33 km), the Belgrade-Zrenjanin-Novi Sad Highway (110 km), the Sombor-Kula-Vrbas-Bejec-Kikinda Fast Road (135 km), the Kragujevac Northern Bypass (22 km) and the Loznica and Novi Sad Bypass (27 km) to transversely connect all northern parts of Serbia. Construction work is also expected to begin on the Vožd Karadjordje Highway and the Belgrade-Sarajevo Highway (Pozega-Užice-Kotroman section of 61 km) by 2023. Similarly, the construction of the highway on Corridor 11 "Miloš Veliki" (Pozega to Boljar) continues to remain one of the priorities of the Government. In terms of railway infrastructure, reconstruction of existing sections and construction of new sections is ongoing. See "*Transport*". These projects are of particular importance to the growth of the Serbian economy as they increase activity in the construction sector itself, and provide a multiplier effect producing benefits in other sectors.

In recent years, real estate construction has also attracted significant investment, estimated to account for around 9 per cent. of total FDI. This includes large-scale developments such as the Belgrade Waterfront project, which has an estimated total investment value of approximately EUR 3.1 billion. This project involves the construction of more than two million square metres of office space, as well as hotels, apartments, public buildings and a shopping mall. The development is aimed at revitalising a previously neglected area spanning more than 100 hectares on the right bank of the Sava River. The project is a joint venture between Eagle Hills, the renowned Abu Dhabi-based private investment company and the Republic of Serbia, which holds a junior stake of just over 30 per cent. In recent years, simplification of the process for obtaining construction permits, as well as improved legislation, has further encouraged the increase of FDI in the property construction subsector.

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 21.9 per cent. in current terms, to RSD 162.0 billion from RSD 132.9 billion, and by 17.3 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 8.9 per cent. (RSD 14.4 billion) in current terms, and by 6.1 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 11.1 per cent. (RSD 19.6 billion) in current terms, and by 5.4 per cent. (RSD 9.3 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 15.3 per cent. (RSD 30.1 billion) in current terms, or 12.4 per cent. (RSD 22.4 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 in nominal terms or 0.5 percentage points in real terms to overall GDP growth.

In 2019, the construction sector recorded positive growth rates in all four quarters, but particularly accelerated in the second half of the year, which contributed to the high growth rate in 2019. The sector's GVA grew by 36.7 per cent. (RSD 83.0 billion) in current terms, or by 33.7 per cent. (RSD 68.6 billion) in real terms compared to 2018. The construction sector continued to be one of the main drivers of economic growth in the Serbian economy, with its share of total GVA increasing to 6.9 per cent. from 5.4 per cent. in 2018.

The GVA of the construction sector witnessed an increase in the first six months of 2020, with an increase of 9.7 per cent. in current prices (RSD 10.5 billion) and 8.3 per cent. in real terms (RSD 6.5 billion), compared to the same period in 2019. The share of the construction sector in the total GVA expressed at current prices was 5.6 per cent., reflecting a growth of 0.4 percentage points compared to the corresponding period in 2019.

In the first quarter of 2020, based on the available data on short-term indicators, construction activity recorded a strong growth, with a 24.4 per cent. increase in real value of construction works compared to the same period in 2019, followed by a 22.3 per cent. growth in the number of issued building permits. During the second quarter of 2020, when the negative effects of the pandemic were most pronounced, the real value of construction works and the number of issued building permits measured a decline of 0.8 per cent. and 21.0 per cent., respectively. Construction activity in the third quarter of 2020 measured by the real value of construction works grew by 16.4 per cent. as compared to the second quarter of 2020, while the real value of construction works fell by approximately 17.0 per cent. as compared to the same period in the previous year. The decrease in real value of construction works was due to the comparison with the high base of growth during the corresponding period in 2019. In the first nine months of 2020, construction activity decreased by 3.3 per cent. year-on-year, while the number of issued building permits recorded a decline of 2.7 per cent.

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 Base Prospectus, the trade sector consists of wholesale accounts, retail accounts and motor vehicle accounts, representing 53.4 per cent., 37.4 per cent. and 8.9 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 2015, the output of this sector increased as it accounted for 13.3 per cent. (RSD 480.1 billion) of total GVA measured in current prices. The GVA of this sector grew by 5.2 per cent. (RSD 23.7 billion) in current terms, or 2.8 per cent. (RSD 13.1 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 (5.4 per cent), followed by the wholesale accounts (3.1 per cent.) and retail trade (1.8 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 5.0 per cent. in current terms, or by 3.5 per cent. in real terms compared to 2015. All three segments contributed to this growth, with motor vehicles accomplishing a real growth of 17.6 per cent. and wholesale and retail trading recording a real growth of 0.3 per cent. and 5.5 per cent., respectively.

In 2017, this sector continued to show a gradual increase as it represented 13.8 per cent. (RSD 545.7 billion) of total GVA measured in current prices. Compared to 2016, the GVA of this sector grew by 8.3 per cent. (RSD 41.7 billion) in current terms, and by 4.9 per cent. in real terms. This growth primarily resulted from an increase in trade of motor vehicles (14.4 per cent.) and, to a lesser extent, due to an increase in wholesale (4.3 per cent.) and retail trade (3.6 per cent.).

In 2018, this sector represented 13.8 per cent. (RSD 581.4 billion) of total GVA measured in current prices. Compared to 2017, the GVA of this sector grew by 6.6 per cent. (RSD 35.8 billion) in current terms, and by 6.6 per cent. in real terms. The wholesale trade recorded growth of 6.9 per cent. in current terms, with retail trade representing nominal growth of 7.0 per cent, or 2.8 percent when expressed in real terms. Within retail trade, the highest nominal growth was recorded by motor fuels (9.9 per cent.), followed by non-food products (7.6 per cent.) and food products (4.9 per cent.).

Consistent with 2018, this sector maintained a share of 13.8 per cent. (RSD 616.3 billion) of total GVA in 2019 when measured in current prices. However, the GVA of this sector grew by 6.0 per cent. (RSD 34.9 billion) in current terms, and by 6.2 per cent. (RSD 34.7 billion) in real terms compared to 2018. This increase is mainly attributable to a growth in trade of motor vehicles (12.0 per cent.) and, to a smaller degree, due to an increase in retail trade (7.4 per cent.) and wholesale trade (4.5 per cent.) in real terms.

Since the GVA information for the first six months of 2020 is not yet available in respect of the trade subsector, the aggregate data from the Office of Statistics has been used for identifying growth indicators. In the first six months of 2020, the GVA of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food services witnessed a decline, with negative nominal growth of 7.3 per cent. (RSD 31.4 billion), or negative real growth of 7.7 per cent. (RSD 23.1 billion) compared to the corresponding period in 2019. The share of these sectors in the total GVA measured in current prices was 18.8 per cent.

In the first nine months of 2020, the retail trade turnover increased by 4.5 per cent. in nominal terms, and by 4.9 per cent. in real terms, compared to the same period in 2019. In this period, retail trade of non-food products recorded the highest real growth of 10.2 per cent. year-on-year, followed by 4.2 per cent. growth of food products, while automotive fuel decreased by 2.8 per cent. A significant drop in retail trade turnover (by 18.9 per cent. in nominal terms) was recorded in April 2020 as compared to the same period in 2019, due to the enforcement of a state of emergency to curb the spread of COVID-19. However, this was followed by a gradual growth in the succeeding two months with 2.4 per cent. and 9.9 per cent. increase in May and June 2020, respectively. In the third quarter of 2020, retail trade turnover continued to grow and registered an increase of 5.3 per cent. in nominal terms, and 5.5 per cent. in real terms compared to the corresponding period of 2019.

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) supports the development of its transportation sector. Serbia aims 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 projects listed above are an important part of achieving these aims. See “–Construction”. At the same time, railway infrastructure projects at Corridor 10 are particularly important for modernising the railway network in Serbia. A total of 324.4km of regional rail lines have been reconstructed to date, along with construction of the main line with a length of 227.3km, with work in progress on another 269.4km (the sections between Beograd Centar – Stara Pazova – Novi Sad, Jajinci to Mala Krsna, Niš to Zaječar, Matejevac to Knjazevac, Subotica to Senta, Markovac to Resavica, Svilajnac to Despotovac and Kumane to Banatsko Miloševo). Equally, the reconstruction and modernisation of the high-speed Belgrade-Budapest railway is considered important as it is expected to increase activity in the transportation sector and result in economic and other benefits. The construction and modernisation of the first two sections of this high-speed railway line from Belgrade to Novi Sad (i.e. from Beograd Centar to Stara Pazova and from Stara Pazova to Novi Sad with a total length of 74.9 km) is underway, while the overhaul of the third section from Novi Sad to Subotica and from Subotica to State border (108.2 km) is planned for the beginning of 2021. Similarly, the preparation of technical documentation for the modernisation of the railway from Belgrade to Nis and from Nis to Presevo is underway. Separately, following the completion of the initial project documentation, the reconstruction work of the ‘Bar Railway’ is expected to commence, which will fully cover the main railway lines on Corridors 10 and 11. Additionally, the technical documentation for the development of a modern Dispatch Center is currently being developed, which will facilitate and allow railway traffic in Serbia to be centrally managed by 2023. Over the years, the Government has also been pursuing reforms of public enterprises for the improvement of the railway network and the 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 three new railway companies: Infrastruktura zeleznice Srbije a.d. (the state-owned public railway infrastructure manager), Srbija Voz a.d. (the state-owned passenger railway undertaking) and Srbija Kargo a.d. (the state-owned cargo railway undertaking). The Government is equally committed to maintaining the operational and financial sustainability of independent rail undertakings/infrastructure managers and further opening up the market for railway transport and infrastructure management. Since 2016, private railway undertakings have been able to use the public railway infrastructure. As at the date of this Base Prospectus, ten private railway undertakings (of which two are involved in infrastructure maintenance and the rest are involved in freight transportation) and two state-owned undertakings (one involved in freight transportation and the other involved in passenger transportation) actively operate on the railway infrastructure of Serbia.

The Government is equally focused on the development of logistics centres of regional and local character at multimodal Corridors 10 and 7, and in large regional economic hubs and their key transportation and administrative zones. The tender procedure for the intermodal terminal and logistics centre “Batajnica” has been completed, and the construction work that commenced in September 2020 is currently underway. This future terminal, which is funded jointly by the European Union and Serbia, is expected to reduce logistics costs and enable the supply of goods to end customers in an efficient and more economical way. These logistics centres are important for enabling efficient transport services for businesses and facilitating ‘just in time’ and ‘door to door’ delivery processes.

Separately, the implementation of several projects concerning Serbia’s inland waterways is in progress. For instance, designs are being developed for Belgrade Port and the tender file is being prepared for the Port of Smederevo. Meanwhile, the Port of Novi Sad was privatised in May 2019. Plans for 2020 envisage the development of technical documentation for the expansion of the ports of Bogojevo and Prahovo on the Danube, Sremska Mitrovica on the Sava, and Senta on the Tisa River (although these plans may be altered by the effects of the COVID-19 pandemic). In addition, the upgrade of the navigation lock facilities on the Tisa Dam and the upgrade of the Iron Gate 1 navigation lock is planned. 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 Government is also considering the expansion of the Morava Airport with the construction of a new 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 an example, the reconstruction and modernisation of railway line, Niš – Dimitrovgrad of 108 km, which is expected to commence in 2021, is being pursued by the Government to support this objective. The estimated cost of this project is EUR 268 million, which will be financed through a grant from the WBIF Investment Grant Fund, a loan from the EIB and from the Budget. In order to support regional integration, the Government also participates in the Trade and Transport Facilitation Project for Western Balkans, launched in cooperation with the World Bank, which aims at facilitating regional trade through improved transportation infrastructure. The first phase of this project, which covers Serbia, North Macedonia and Albania, will involve the introduction of modern software solutions such as the introduction of a single-window system for regulatory documents, an electronic data interchange and the implementation of 'Intelligent Transport Systems', increasing the use of data and technology on highways to improve the efficiency of these transport networks. In addition, the reconstruction and modernisation of the railway line from Valjevo to Montenegro (209.4 km), which is expected to commence in 2022, is a project of regional importance that the Government is actively pursuing.

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 2015, the GVA of this sector grew by 9.3 per cent. (RSD 13.6 billion) in current terms, and by 4.3 per cent. (RSD 6.6 billion) in real terms compared to 2014.

This sector continued to grow in 2016 and represented 4.4 per cent. of total GVA measured in current prices. The GVA of this sector increased by 6.8 per cent. in current terms to RSD 170.1 billion from RSD 159.4 billion, or 2.9 per cent. (RSD 4.7 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 9.4 per cent. (RSD 16.0 billion) in current terms, and by 4.3 per cent. (RSD 7.0 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 6.3 per cent. (RSD 11.8 billion) in current terms, and by 5.5 per cent. (RSD 9.4 billion) in real terms compared to 2017.

In 2019, the transportation and storage sector represented 4.5 per cent. of total GVA measured in current prices. The GVA of this sector increased by 2.6 per cent. (RSD 5.2 billion) in current terms, and by 5.3 per cent. (RSD 9.6 billion), in real terms compared to 2018.

Since the GVA information for the first six months of 2020 is not yet available in respect of the transport subsector, the physical volume data from the Office of Statistics has been used for identifying growth indicators. Based on the aggregate data for the first six months of 2020, the physical volume of transport services decreased by 31.1 per cent. compared to the corresponding period in 2019, owing to the decrease in the volume of service in road transportation (11.5 per cent.), air transportation (55.9 per cent.), railway transportation (6.7 per cent.) and inland waterway

transportation (29.3 per cent.). Due to the pandemic, the number of transported passengers in the first six months of 2020, relative to the same period in 2019 decreased by 43.0 per cent., with the number of passengers in domestic and international transport decreasing by 42.1 per cent. and 56.4 per cent., respectively. Overall, the number of air transport passengers fell by 57.3 per cent., while road transport passengers reduced by 42.3 per cent. and railway transport passengers decreased by 45.3 per cent.

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 5.8 per cent., 5.8 per cent., 6.0 per cent, 5.8 per cent., 5.9 per cent. and 6.8 per cent. of total GVA in, 2015, 2016, 2017, 2018, 2019 and in the first half of 2020, 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 the date of this Base Prospectus, the number of households with computer and broadband internet access amounted to 80.8 per cent. of the total number of households, and the number of companies using computers and broadband internet exceeded 98.4 per cent., of which 84.4 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 in part dependent on the improvement of legislation regulating this area. With the adoption of the Law on Electronic Document, Electronic Identification and Trust Services 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 provide 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 Base 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. The main priority for the Government in this area in 2021 is the preparation of public auction for the development of 5G mobile network in Serbia. This process has already begun, with the Radio-Frequency Allocation Plan and the Rulebook on Stipulating Radio Frequency Assignment Plan having already been adopted. As part of its efforts to ensure that access to high quality information and communications services is widespread, the Government is in the process of implementing a project which will enable the acceleration of high-speed broadband roll-out across rural Serbia. Through three phases, the Government plans to connect approximately 1,500 priority rural broadband users (schools/public objects) as well as 3,25,000 households. In the coming periods, further harmonisation with the EU Acquis in the field of electronic communications will continue to be one of the main priorities of the Government.

The GVA of this sector in 2015 grew by 5.2 per cent. in current terms to RSD 208 billion from RSD 198 billion, or by 2.7 per cent. in real terms compared to 2014. In 2016, the GVA of this sector increased by 5.3 per cent. (RSD 11.0 billion) in current terms, or 3.1 per cent. (RSD 6.4 billion) in real terms compared to 2015.

In 2017, this sector’s GVA grew by 7.4 per cent. (RSD 16.3 billion) in current terms, or 3.7 per cent. (RSD 8.0 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 5.4 per cent. (RSD 12.0 billion) in real terms compared to 2017.

In 2019, this sector's GVA continued to grow by 8.4 per cent. (RSD 20.6 billion) in current terms, or 8.3 per cent. (RSD 19.4 billion) in real terms compared to 2018. The share of this sector in the total GVA measured in current prices was 5.9 per cent.

In the first six months of 2020, this sector's GVA grew by 12.9 per cent. (RSD 16.6 billion) in current terms, or 8.3 per cent. (RSD 8.4 billion) in real terms compared to the corresponding period in 2019. The share of this sector in the total GVA measured in current prices was 6.8 per cent.

Finance and insurance

According to statistics from the National Bank, as at 30 September 2020, Serbia had 26 banks (of which 19 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 30 September 2020, the total assets in the banking sector amounted to RSD 4,510 billion, whereas total assets held by insurance companies and financial leasing companies amounted to RSD 313.8 billion and RSD 102.9 billion, respectively.

As at 30 September 2020, 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 30 September 2020, the total assets and capital in the banking sector amounted to RSD 4,510 billion (EUR 38.4 billion) and RSD 717 billion (EUR 6.1 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 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 5.1 per cent. (RSD 6.5 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 1.0 per cent. (RSD 1.3 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 10.2 billion) in real terms compared to 2017.

In 2019, the finance and insurance sector's GVA grew by 12.2 per cent. (RSD 18.5 billion) in current terms, or 2.3 per cent. (RSD 3.4 billion) in real terms compared to 2018. This sector represented 3.8 per cent. of total GVA when measured in current prices.

In the first six months of 2020, the finance and insurance sector's GVA increased by 4.5 per cent. (RSD 3.6 billion) in current terms, or 4.0 per cent. (RSD 2.5 billion) in real terms compared to the

* The term insurance companies includes both insurance and reinsurance companies. As at 30 September 2020, Serbia had 16 insurance companies and 4 reinsurance companies.

corresponding period in 2019. This sector represented 3.9 per cent. of the 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, the Strategy for Tourism Development 2016-2025 was adopted, which is expected to increase revenues from tourism services and establish conditions for increased employment in the tourism sector. The number of tourist arrivals increased gradually from 2.5 million in 2015 to 3.7 million in 2019. In this period, domestic arrivals increased by 41.3 per cent., while foreign arrivals increased by 63.1 per cent. In 2019, the total number of tourist arrivals in the Republic of Serbia amounted to 3,689,983 (an increase of 7.6 per cent. compared to 2018), of which domestic tourists made up 1,843,432 (an increase of 7.2 per cent. compared to 2018), accounting for 50.0 per cent. of total tourist arrivals. The number of arrivals of foreign tourists was 1,846,551 (an increase of 8.0 per cent. compared to 2018), which represents a share of 50.0 per cent. in total tourist arrivals. Between 2015 and 2019, the number of total overnight stays increased by 3,421,447, from 6,651,852 to 10,073,299. During the period 2015 to 2019, domestic overnight stays increased by 51.4 per cent., while foreign overnight stays increased by 42.9 per cent. During 2019, 10,073,299 tourist overnights were recorded (an increase of 7.9 per cent. compared to 2018), of which domestic tourists realised 6,062,921 overnight stays (an increase of 6.8 per cent. compared to 2018, and accounted for 60.2 per cent. of the total number of overnight stays), while foreign tourists realised 4,010,378 overnight stays (an increase of 9.6 per cent. compared to 2018, and accounted for 39.8 per cent. of the total number of overnights stays). Foreign currency inflow from tourism increased to EUR 1.4 billion in 2019, reflecting a 52.0 per cent. increase compared to 2015. In 2019, foreign exchange inflow from tourism increased by 9.1 per cent. in Euros (EUR 119.3 million) as compared to 2018. At the beginning of 2020, the number of arrivals and overnight stays continued to increase (21.4 per cent. and 22.5 per cent., respectively, in the first two months of 2020 compared to the same period in 2019). By March 2020, the negative effects of the lockdown related to COVID-19 became visible, and resulted in the number of arrivals and overnight stays recording a fall of 1.4 million and 2.8 million, respectively, between January and September 2020 relative to same period in 2019. The decrease was especially notable in foreign tourist arrivals and overnight stays in this period, which fell by more than 1.2 million (74.8 per cent.) and 2.4 million (68.0 per cent.) each. Consequently, foreign currency inflow in the first eight months of 2020 reduced by 27.3 per cent. (EUR 250.7 million) compared to the same period in 2019.

According to the statistics of the statistical office of the Republic of Serbia (“**SORS**”) on tourism, the total catering trade turnover in 2015 at current prices amounted to RSD 67.3 billion and was 3.4 per cent. higher than in the previous year, while an increase of 1.9 per cent. was noted in terms of constant prices. 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 an increase of 7.5 per cent. was noted in terms of constant prices. 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.) and 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 9.7 per cent. higher than in the previous year, while an increase of 7.9 per cent. was noted in terms of constant prices. 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.), then of alcoholic and non-alcoholic beverages (27.3 per cent.) and 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 an increase of 10.1 per cent. was noted in terms of constant prices. The structure of tourism in 2018, observed by type of tourists, indicates an increase in both domestic and foreign tourist arrivals (by 8.3 per cent. and 14.3 per cent., respectively) as well as overnight stays (by 10.3 per cent. and 15.2 per cent., respectively, in the case of domestic and foreign overnight stays).

According to SORS statistics on tourism, the total catering trade turnover in 2019 increased by 10.8 per cent. at current prices, and by 9.1 per cent. in constant prices compared to 2018. The total number of arrivals and overnight stays of tourists increased by 7.6 per cent. and 7.9 per cent., respectively. Domestic tourism increased by 7.2 per cent, with an increase of 6.8 per cent. in overnight stays, whilst foreign tourism increased by 8.0 per cent., with a 9.6 per cent. increase in overnight stays.

According to SORS statistics on tourism, in the first eight months of 2020, the total catering trade turnover decreased by 21.2 per cent. at current prices, and by 22.7 per cent. in constant prices compared to the corresponding period in 2019. Strong growth in the tourism industry in the first two months of 2020 was followed by a sharp decline in the months of March to September, due to the significant disruption caused by the impact of COVID-19. As a result, the tourist arrivals and overnight stays in the first nine months of 2020 decreased by 48.3 per cent. and 36.0 per cent., respectively, on a year-on-year basis. During this period, domestic and foreign tourist arrivals decreased by 22.4 per cent. and 74.8 per cent., respectively, on a year-on-year basis. Domestic overnight stays decreased by 16.0 per cent. in this period, while foreign overnight stays decreased by 68.0 per cent. compared to the same period in 2019. Both mountain and spa resorts were affected, with reduced arrivals of 23.0 per cent. and 19.1 per cent., respectively. In the third quarter of 2020, total arrivals recorded a decrease of 42.2 per cent. year-on-year due to the drastic fall of 86.4 per cent. in foreign tourist arrivals, while domestic arrivals recovered and increased by 11.3 per cent. Consistent with the trends observed in total arrivals, overnight stays decreased by 25.1 per cent. in total, as a result of the fall in foreign stays by 82.1 per cent, while domestic stays increased by 13.0 per cent.

In 2015, the tourism sector represented 1.5 per cent. of total GVA measured in current prices, and the GVA of this sector increased in both nominal and real terms by 7.1 per cent. and 2.8 per cent., respectively. In 2016, this sector grew by 7.8 per cent. in current prices, and by 7.6 per cent. in constant prices. The tourism sector's GVA continued to grow in 2017, with nominal and real increase of 12.9 per cent. and 10.6 per cent., respectively. In 2018, the tourism sector represented 1.7 per cent. of total GVA in current terms and increased by 7.9 per cent. in nominal terms, and by 6.8 per cent. in real terms. In 2019, this sector grew by 12.2 per cent. in current prices, and by 6.0 per cent. in constant prices. The GVA information for the first six months of 2020 is not yet available in respect of the tourism subsector. Tourism sector continues to be one of the industries most affected by COVID-19, and as a result of this, the performance of this industry in the coming months will be highly dependent on the trajectory of the virus and the extent to which travel restrictions remain in place throughout Europe.

Other sectors

The largest sectors comprising the "other" category are real estate activities, professional, scientific and technical activities, human health and social work activities, education and public administration and defence.

In 2015, the share of the other sectors in the total GVA slightly declined to 32.4 per cent. when measured in current prices. The GVA of the other sectors in current terms declined by 1.3 per cent. (RSD 15.9 billion), or 1.6 per cent. in real terms compared to 2014.

In 2016, the other sectors represented 31.8 per cent. of total GVA measured in current prices. The GVA of these sectors grew by 2.5 per cent. (RSD 28.7 billion) in current terms, or by 1.4 per cent. (RSD 16.1 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 5.3 per cent. (RSD 63.2 billion) in current terms, and 2.6 per cent. in real terms (RSD 30.2 billion) compared to 2016.

In 2018, the other sectors represented 31.9 per cent. of total GVA when measured in current prices. The GVA of these sectors increased by 6.8 per cent. (RSD 85.1 billion) in current terms, or 1.5 per cent. (RSD 18.6 billion) in real terms compared to 2017. As a result, these sectors contributed 0.4 percentage points to total real GDP in 2018, with the highest contribution from the administrative services, public administration, defence, and health and social welfare sectors.

In 2019, the other sectors' GVA continued to grow, with nominal growth of 7.6 per cent. (RSD 101.4 billion), or real growth of 2.6 per cent. (RSD 31.6 billion) compared to 2018. Measured in current prices, the share represented by the other sectors in total GVA increased from 2018 to 32.2 per cent. (RSD 1,443.3 billion).

In the first six months of 2020, the other sector's GVA recorded an increase, with nominal growth of 4.1 per cent. (RSD 28.6 billion), or real growth of 0.5 per cent. (RSD 2.5 billion) compared to the corresponding period in 2019. As a result, the other sectors represented 33.9 per cent. of the 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 2015 to 2019 and for the eight months ended 31 August 2019 and 2020:

	Year ended 31 December ⁽¹⁾					Eight months ended 31 August	
	2015	2016	2017	2018	2019	2019	2020
	<i>(period average)</i>						
Average monthly gross wage (RSD)	61,145	63,474	65,976	68,629	75,814	74,902	81,862
Average monthly net wage (RSD)	44,432	46,097	47,893	49,650	54,919	54,257	59,234
Public sector employees, net (RSD)	46,721	47,636	48,865	55,423	61,392	60,669	67,306
Private sector employees, net (RSD)	43,279	45,360	47,456	47,216	52,316	51,673	56,027
Average monthly gross wage (EUR) ⁽²⁾	506	516	544	580	643	635	696
Average monthly net wage (EUR) ⁽²⁾	368	374	395	420	466	460	504

Source: Office of Statistics.

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 is based on the data from 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.

In 2019, the average net wage nominally increased by 10.6 per cent., and in real terms by 8.5 per cent., and amounted to RSD 54,919. 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 8.9 per cent., and was supported by a 9.0 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.

In the first eight months of 2020, the average net wage amounted to RSD 59,234 (EUR 504), reflecting an increase of 9.2 per cent. in nominal terms, and 7.6 per cent. in real terms compared to the corresponding period in 2019. Wages in both the private and public sectors witnessed an increase, despite the slowdown in economic activity in second quarter of 2020, owing to the comprehensive economic measures of the Government. Real wage growth in the public sector amounted to 9.3 per cent., and was supported by private sector wage growth of 6.8 per cent. Since the beginning of 2020, the greatest contribution to the growth of average earnings stemmed from the health sector and trade and manufacturing industries.

Employment

Positive labour market trends in Serbia have persisted since 2014 and continued to improve in 2019 as a result of a number of factors, including improved economic activities, more intensified investments, expanded production capacities and recent labour market measures. Pursuant to the National Strategy for Employment 2011–2020, each year the Government sets out a National Employment Action Plan to determine the strategic objectives and define goals and priorities of the employment policy for that year. A new National Employment Strategy for the period 2021 – 2026 is scheduled to be adopted in 2020, along with the Action Plan for the period 2021–2023. In December 2019, the Government adopted the National Employment Action Plan of 2020. The National Employment Action Plan of 2020 sets out the following strategic objectives as key priorities:

- reducing contrast between the ‘primary’ and ‘secondary’ sector of the labour market through improvement of market conditions and advancement of the labour market institutions;
- encouraging employment and inclusion of hard-to-employ persons in the labour market through active employment policy measures;
- providing support to regional and local employment policies; and

- enhancing the quality of the labour force and investing in human capital.

The following table shows key employment statistics for the years 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December ⁽¹⁾					Six months ended 30 June ⁽²⁾	
	2015	2016	2017	2018	2019	2019	2020
	<i>(period average, in thousands, unless otherwise indicated)</i>						
Labour force	3,126.1	3,208.8	3,229.8	3,245.1	3,236.9	3,224.1	3,127.4
Employed persons.....	2,574.2	2,719.4	2,794.7	2,832.9	2,901.0	2,863.5	2,860.8
Public sector	729.8	726.3	735.4	732.7	727.8	720.0	728.0
Private sector	1,785.3	1,956.4	2,029.7	2,061.0	2,133.7	2,105.4	2,107.5
Other	59.0	36.8	29.6	39.1	39.5	38.3	25.4
Unemployed persons.....	551.9	489.4	435.2	412.1	335.9	360.6	266.6
Persons actively seeking employment ⁽¹⁾	873.7	845.7	779.7	692.6	643.1	668.6	609.8
Change in average rate of employment (Y-O-Y) (%).....	0.6	5.6	2.8	1.4	2.4	2.5	(0.1)
Employment rate (%).....	42.5	45.2	46.7	47.6	49.0	48.3	48.5
Unemployment rate (%).....	17.7	15.3	13.5	12.7	10.4	11.2	8.5
GDP/employed person (RSD).....	1,676,257	1,665,144	1,703,485	1,790,689	1,867,537	887,055 ⁽³⁾	894,900 ⁽³⁾
GDP/employed person (EUR)	13,884	13,525	14,039	15,140	15,846	7,511 ⁽³⁾	7,611 ⁽³⁾

Source: Office of Statistics, National Employment Service.

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.
- (2) Since employment statistics for the first nine months of 2020 are not yet available, all data is presented for the first six months in 2020 and comparable period in 2019, and is shown as the average sum of the first two quarters, based on the quarterly estimates of the Office of Statistics, National Employment Service.
- (3) The GDP data is presented as the sum of two quarters, based on quarterly estimates of the Office of Statistics

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 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 2019, the unemployment rate reduced by 2.3 percentage points compared to 2018, and reached a level of 10.4 per cent. Total employment increased by 1.4 per cent. compared to 2018, with formal employment growth of about 92.7 thousand and reduction in informal employment of about 24.6 thousand persons. This was largely as a result of more efficient inspection of services for suppression of the grey economy. The unemployment rate in the category of young people (15-24) decreased to 27.5 per cent., which is 2.2 percentage points lower compared to 2018.

According to the Labour Force Surveys conducted in the first and second quarter of 2020, the average unemployment rate declined by 2.7 percentage points as compared to the same period in 2019, and reached a level of 8.5 per cent., but mostly as a consequence of lower participation rate in the survey (i.e. participation rate among working age population (being 15+) was 53.0 per cent., which was lower by 1.4 percentage points compared to the corresponding period in 2019). The unemployment rate in the category of young people (15-24) decreased to 23.1 per cent., which is 4.5 percentage points lower compared to the same period in 2019. At the same time, the rate of employment amounted to 48.5 per cent., representing an increase of 0.2 percentage points compared to the corresponding period in 2019. The total formal employment during the same period on average increased by approximately 70.9 thousand persons (3.1 per cent. year-on-year of which approximately over 2,411.3 thousands were formally employed) despite the effects of the pandemic, due to the effective economic support of the Government, while the informal segment decreased by 73.6 thousand persons. Employment in the private sector increased by 2.2 thousand persons (0.1 per cent. year-on-year) and the number of employees in the public sector increased by 8.0 thousand persons (1.1 per cent. year-on-year). When observed in terms of activities, positive contribution to the growth of employment stemmed from manufacturing, construction and information and communication sectors.

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. To support such initiatives, in recent years, the Government has increasingly allocated funds from the Budget for active employment policy measures (“AEP”), for example: In 2015, RSD 3.30 billion was allocated from the Budget, while an amount of RSD 4.55 billion was allocated in 2019. The provision of such funds for the realisation of AEP 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 included 145,356 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 an 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, an 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. 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 2019, 142,540 unemployed persons (of whom 79,283 were women) were covered by AEP measures, with additional coverage for 1,028 unemployed persons (of whom 482 were women) based on the support from the IPA 2013. Furthermore, with the implementation of 56 technical cooperation agreements with local government units, an additional 2,701 unemployed persons were included in AEP measures. As of 31 December 2019, the share of women included in AEP measures in the total number of registered unemployed women was 28.55 per cent. As of 31 December 2019, the share of Roma included in the AEP measures in the total number of registered unemployed Roma was 25.60 per cent.

In accordance with the National Employment Plan 2020, the Government has determined certain AEP measures, which are intended primarily for hard-to-employ persons, and are planned mainly for the private sector. As part of these measures, the Government will continue to remain committed to additional education and training programmes, with a particular focus on young people, so as to facilitate their efficient transition from the education system to the workplace. In particular, these measures will focus on helping young people to gain work experience and perform independent vocational work through apprenticeship programmes. Moreover, the Government will continue to provide employment subsidies to hard-to-employ persons, as well as extend support to entrepreneurs through self-employment subsidies, professional assistance and training, and mentoring services in the first year of doing business. In addition, the implementation of public works programmes is expected to continue, with a focus on hard-to-employ persons and those in social need in the less developed parts of the country where job vacancies remain low. Under a newly minted “My First Salary” programme, the Government will set aside RSD 2.0 billion to grant 10,000 young people an opportunity to gain their first work experience or permanent employment. With the aim of ensuring youth employment, the Government will subsidise salaries of eligible candidates with secondary education and higher education in the amount of RSD 20,000 and RSD 24,000, respectively for a period of nine months, with the rest of the salary payments contributed by participating employers.

More recently, the Government has adopted a Strategy on Economic Migration for the period 2021 - 2027 and has also streamlined the procedure for foreign workers applying for work permits. These measures were introduced with the aim of encouraging the movement of labour into Serbia, and thus improving the overall labour force by reducing net labour migration.

However, the economic impact of the spread of COVID-19 is likely to manifest with a lag and exert pressure on the labour market upon the expiry of the support measures of the Government (all of which are slated to expire in 2020) if the recently gained economic momentum of Serbia is affected. For instance, a deeper or more protracted slowdown in economic growth is likely to result in increased levels of redundancies and affect the rate of unemployment and the prospects for real wage growth in Serbia. While the Government has adopted a number of measures as part of its economic response plan in an attempt to mitigate the negative effects on the labour market, it remains likely that the remainder of 2020 will see an increase in unemployment and to some extent may frustrate the objectives of the National Employment Action Plan of 2020. In the absence of further measures to support vulnerable sectors, businesses in Serbia that are negatively affected by the ongoing outbreak of COVID-19 will most likely adopt measures to counteract its effects, including by means of layoffs,

which may increase the unemployment rate in Serbia. According to the world economic outlook of IMF published on 13 October 2020, the unemployment rate in Serbia will increase to 13.4 per cent. by the end of 2020 and be 13.0 per cent. by the end of 2021.

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 2018, 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 23,272 and maximum threshold of RSD 53,949. 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"), the latest amendments to which came into force on 14 December 2019. 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 national system offers insurance against the following risks: old age, occurrence of disability, incidence of death and need for assistance and care by another person.

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 63 years. Whereas the conditions for early retirement in Serbia are a combination of age and insurance coverage, which includes 40 years of insurance coverage with 58 years and 4 months of age for men, compared to 39 years of insurance coverage with 57 years and 8 months 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 1 November 2020, the total number of retired persons in Serbia was approximately 1.7 million, while the contributions were made by approximately 2.1 million persons. As at the date of this Base Prospectus, the contribution rate for retirement and disability insurance is 25.5 per cent. of gross salary deducted at source, with the employee and employer contribution rates being at 14 per cent. and 11.5 per cent., respectively.

The following table presents the retirement and disability fund finances for the years 2015 to 2019 and for the nine months ended 30 September 2019 and 2020:

	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	(RSD billions)						
Current Revenues	573.73	582.63	590.33	614.18	656.97	474.73	510.01
Social Contributions.....	353.14	368.44	396.49	432.66	480.82	348.27	326.96
Grants and Transfers	219.67	213.04	192.98	180.30	175.22	125.74	182.25
Non-tax Revenue.....	0.92	1.15	0.86	1.22	0.93	0.73	0.80
Financing Inflows	0.21	0.74	0.34	1.84	6.47	3.06	0.31
Current expenditures	569.28	583.87	588.19	612.82	653.31	483.01	510.41
Expenditures for employees	3.53	3.43	3.47	3.46	3.66	2.42	2.57
Purchase of goods and services	1.86	1.76	1.78	1.99	2.00	1.35	1.74
Interest payment.....	0.04	0.05	0.03	0.02	0.02	0.02	0.02
Social grants and transfers.....	563.96	578.55	582.21	606.99	647.17	478.90	505.66
Other current expenditures	(0.12)	0.08	0.70	0.35	0.46	0.33	0.43
Capital expenditures	0.33	0.22	0.34	0.48	0.84	0.53	0.60
Net lending	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing outflows	0.16	0.30	0.06	0.71	6.26	1.60	0.02

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 2019, 25.7 per cent. (RSD 167.9 billion) of the fund's total expenditure was financed by allocations from the Budget, compared to 28.1 per cent. (RSD 172.2 billion) in 2018, 31.5 per cent. (RSD 185.1 billion) in 2017 and 35.2 per cent. (RSD 205.5 billion) in 2016. Pension expenses in 2019 amounted to 10.3 per cent. of nominal GDP. Due to reduced income from contributions, caused by the moratorium of mandatory social contributions and difficulties encountered by businesses as a consequence of COVID-19, allocations from the Budget to the retirement and disability insurance fund were increased, for the purpose of securing regular payment of pensions and other entitlements. In the first nine months of 2020, 35.7 per cent., or approximately EUR 1.5 billion (RSD 182.3 billion), of the fund's total expenditure was financed by allocations from the Budget. In the first nine months of 2020, the Government's expenditure on public wages and pensions from the Budget amounted to RSD 863.4 billion. 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 36 per cent. in 2015 to 25.6 per cent. of all earnings and incomes realised by the fund in 2019. In 2020, as a consequence of COVID-19, such transfers are set at 30.7 per cent. of total earnings and incomes of the fund as estimated in the Second Supplementary Budget. In 2019, revenues from the contributions were higher than expected by 1.14 per cent., allowing RSD 6.1 billion less to be withdrawn from the revised budget grants of 2019 against the allocated amount of 173.7 billion. An amount of RSD 466.5 billion has been allocated for pension contributions under the Second Supplementary Budget, which is RSD 46.9 billion less than RSD 513.4 billion originally allocated under the 2020 Budget. In order to address this gap, the Second Supplementary Budget allows for an increased amount of grants to be transferred to the retirement and disability insurance fund (being RSD 210.1 billion as compared to RSD 157.6 billion originally planned, which represents an increase of RSD 52.5 billion).

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 per cent. 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, pursuant to the amendments to the 2019 Budget System Law adopted on 7 October 2019, a one-off allowance of RSD 5,000 was provided to pensioners. A further one-off allowance of RSD 4,000 was provided to pensioners at the outbreak of the COVID-19 crisis. Additionally, on 14 December 2019, the bill on amendments to the LRDI, which sets out the new parameters for the pension adjustment, was adopted. With effect from 1 January 2020, pension adjustments are now calculated based on the Swiss formula, whereby payments are 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. In line with this approach, pensions were increased by 5.4 per cent. from 1 January 2020, and a further increase of 5.9 per cent. from 1 January 2021 is contemplated under the Draft Budget for 2021. However, 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 and allocations made to the Ministry of Health

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 Health Insurance Fund was established with the responsibility to coordinate the health insurance.

This fund is financed by the payment of compulsory health insurance contributions, paid by all income-generating citizens of Serbia. Health insurance contributions for citizens who do not generate income, and who cannot be insured as family members of persons paying such contributions, are paid by the Government. As of the date of this Base Prospectus, 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 who are entitled to health security from the Budget. This includes persons who 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 2019, revenues from health insurance amounted to RSD 268.5 billion and expenditures amounted to RSD 269.4 billion (a deficit of RSD 0.9 billion). In 2018, revenues from health insurance 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). In the first nine months of 2020, revenues from health insurance amounted to RSD 275 billion and expenditures amounted to RSD 274.4 billion (a surplus of RSD 0.6 billion). Compared to the first nine months of 2019, revenues from health insurance increased by RSD 83.9 billion, while expenditures also increased by RSD 82.6 billion due to the COVID-19 pandemic. In order to finance the rising costs of medicines and equipment, increase in salary for healthcare workers and deferral of contributions to the Health Insurance Fund, an amount of RSD 101.2 billion was transferred from the Budget to the Health Insurance Fund, which is RSD 87.3 billion higher than the amounts transferred in the corresponding period of 2019.

The Government has allocated RSD 34.8 billion (approximately 0.6 per cent. of nominal GDP) to the Ministry of Health under the Second Supplementary Budget, as compared to RSD 22.6 billion (approximately 0.4 per cent. of nominal GDP) allocated under the First Supplementary Budget, RSD 32.7 billion (approximately 0.6 per cent. of nominal GDP) allocated under the 2020 Budget and RSD 18.8 billion (approximately 0.3 per cent. of nominal GDP) allocated in 2019. In addition, the Second Supplementary Budget envisages an increase in the transfer of funds to the Health Insurance Fund

from RSD 93.1 billion (1.7 per cent. of GDP) allocated under the First Supplementary Budget and RSD 22.9 billion (0.4 per cent. of GDP) allocated under the 2020 Budget, to RSD 122.3 billion ((2.2 per cent. of GDP) in order to mitigate the increased burden on the health system as a result of the COVID-19 pandemic. Following the first budget rebalance, an amount of RSD 4.1 billion and RSD 2.0 billion was set aside to fund the construction of two new hospitals in an effort to prevent and mitigate COVID-19 and to further ease the pressure on the health system.

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 state enterprises were protected from forced collection by creditors. As at the date of this Base 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. All companies within the privatisation portfolio are obliged to operate under market conditions and to service their liabilities regularly. Privatisation in Serbia is an ongoing process with a number of entities yet to be privatised. As of 30 September 2020, 74 out of the initial 556 companies, with a total of around 28,000 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. 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. The most significant privatisations in 2019 were the sale of Novi Sad Port to P&O Ports FZE from the UAE for EUR 8 million and the sale of JAT Tehnika to Avia Prime from the Czech Republic for EUR 10.3 million. More recently, in March 2020, the Government adopted a conclusion for the privatisation of HIP Petrohemija, through the transfer of shares from state-owned companies and local governments to the Republic of Serbia with the aim of a structural reorganisation prior to electing a strategic partner via a tender process. As of October 2020, the Ministry of Economy has received a majority of decisions for the free transfer of shares to the Republic of Serbia from local municipalities.

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. In 2019, the Ministry of Economy launched 16 tenders for privatisation, of which 14 were tenders for sale of equity and two were tenders for sale of assets. The two asset sales were both completed and a total of five companies were sold in 2019. In the first quarter of 2020, four of the privatisations which had started in 2019 were completed. As at the beginning of 2020, privatisation tenders were expected to be announced in respect of ten companies in the calendar year of 2020, while bankruptcy proceedings were expected to be initiated in respect of companies without viable business activities (although these expectations were altered by the effects of the COVID-19 pandemic). Following the state of emergency imposed on Serbia in March 2020, privatisation activities slowed down and the Government now expects to announce five tenders in total for the calendar year of 2020. No new privatisation tenders were announced in the first nine months of 2020, but a tender for the equity sale of VPD Smederevo Limited (water management company) was announced on 9 October 2020, followed by subsequent announcement on 23 October 2020. Similarly, privatisation procedures are intended to be suspended in respect of companies where there are circumstances that prevent the sale of capital or assets. As at the date of this Base Prospectus, and since the adoption of the Law on Privatisation in 2014, the Government has announced 257 public invitations for the sale of equity and assets of certain state-owned companies, of which 229 invitations related to the sale of equity and 24 related to the sale of assets, while there were four public invitations for strategic partnership. 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 2015 to 2019 and for the nine months ended 30 September 2019 and 2020:

	Year ended on 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019 ⁽¹⁾	2019	2020
Number of sold companies.....	39	4	7	10	5	5	4
Number of employees	4,229	4,818	1,908	6,521	526	526	928
Sale price (EUR millions)	28.1	47.6	27.8	127	13.6	13.6	14.5

Source: Ministry of Economy

Note:

- (1) The data for 2019 does not include the four privatisations which started in 2019 but were completed in the first quarter of 2020. These four companies together employed 928 employees and the combined sale price was EUR 14.5 million.

In the coming periods, the Government intends to consider all options for further privatisations, including joint ventures, sales to foreign investors and bankruptcies in order to complete the reform of large public enterprises, which were the source of huge fiscal costs in the past. The recently established Fiscal Risk Monitoring Department, which operates within the Ministry of Finance, monitors public enterprises through quarterly financial reporting and development of financial forecasts, thus ensuring greater transparency and accountability in the public sector. This additional state engagement further encourages the management of these companies to focus on financial performance and accelerate corporate restructuring where appropriate. In light of the predicted impact of the COVID-19 pandemic on the financial performance of the state-owned enterprises over the course of 2020, the Ministry of Finance requested public enterprises to review their forecasts for the financial year, and to propose cost-saving measures where this is appropriate. This was duly complied by all state-owned enterprises through reduction of 20 per cent. of their expenses. Separately, state-owned companies currently undergoing privatisation can avail favourable loans through the Serbian Fund for Development in order to minimise the effects the COVID-19 pandemic has had on such companies. As of 31 October 2020, approximately EUR 33.0 million has been disbursed to companies currently in the privatisation process. Alongside this, Serbia has also compiled a comprehensive list of state-owned enterprises in accordance with the PCI concluded with the IMF, and in collaboration with the ERBD, Serbia is also currently developing a draft policy on state-owned enterprises, which may be adopted by the Government in light of its privatisation measures.

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 PE Roads of Serbia (the state-owned company for maintenance and preservation of public roads) and PE “Elektroprivreda Srbije” (the state-owned electric utility power company). These restructuring processes are being undertaken in cooperation with leading global financial institutions, (e.g. the IMF, the World Bank and EBRD) so that these companies are able to function in line with market principles and as a result are equipped to reduce any potential fiscal costs that may arise from their operation.

Privatisation of state-owned banks

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

Banka Poštanska štedionica a. d. Beograd (79.0 per cent.);

Komercijalna banka a. d. Beograd (83.2 per cent.); and

Srpska banka a. d. Beograd (76.7 per cent.)

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, which focuses on reorienting the bank's business with individuals, sole traders and micro and small enterprises, and improving the bank's internal organisation, corporate governance, risk management and IT infrastructure, and involves implementation its business strategy for the period 2020-2022.

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 shares in Komercijalna Banka is in progress. The Government launched a tender for the privatisation of Komercijalna Banka on 31 May 2019 and three binding bids were submitted as part of the tender process. On 26 February 2020, the Government signed an agreement for sale of its 83.2 per cent. stake in Komercijalna Banka to Nova Ljubljanska Bank d.d. Slovenia. The transaction is subject to customary conditions precedent and is currently expected to close in the fourth quarter of 2020.

In accordance with the Government's strategy for state-owned banks, 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 defence industry in Serbia, was formed on 21 January 2019. This working group has been functioning since March 2019, when its first constituent session was held. The preparation of proposals on the scope of business and the specifics of initial capital, contributions from existing shareholders and recapitalisation for Srpska Banka is underway.

In addition, 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 currently expected to be completed by the end of 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 within the Higher Public Prosecutors' Office and Higher Courts, the Agency for Prevention of Corruption ("APC") and the Financial Intelligence Unit ("FIU") are the main arms of the Government which are specifically tasked with this responsibility. As part of its efforts, the Government has been actively pursuing several reforms since 2015. For example, on 21 May 2019, the Government adopted the new Law on Prevention of Corruption ("LPC") following the recommendation of the Council of Europe Group of States Against Corruption, which came into force on 29 May 2019 and has been effective from 1 September 2020. A total of nine relevant by-laws and regulations have been issued since then in accordance with the LPC. In conjunction with the country's Criminal Code, the LPC prohibits corruption in Serbia and strengthens the independence and competencies of the APC. It bestows extensive powers on the APC as an independent and autonomous state authority and aims to improve the legislation surrounding issues such as conflicts of interest and asset disclosures by public officials. Similarly, 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. This law came into force on 14 August 2019 and relevant secondary legislation has been adopted accordingly. Under this law, the Anti-Corruption Agency of Serbia maintains central registers of individuals and legal entities conducting lobbying activities, with separate registers for domestic and foreign lobbyists. These registers are controlled by the director of the Anti-Corruption Agency. This centralised system supports the agency in carrying out enquiries and, where necessary, introducing measures or initiating investigations in connection with lobbying activities. 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 office and judiciary courts. In 2014, Serbia enacted its first whistle-blower protection law with the aim of providing comprehensive and effective protection to whistle-blowers. On 29 February 2020, the new “Origin of Property and Special Tax Law” was adopted, which came into force on 11 March 2020. Under this law, a special unit of the Tax Administration is tasked with determining the lawful origin of property. This law targets property acquisitions which cannot be proved to have been funded entirely by lawful income. The Tax Administration will impose a 75 per cent. tax rate on the increase in value of such property. The law is seen as a crucial part of the Government’s strategy to fight against organised crime, corruption and money laundering.

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, in 2016, the Government adopted the amendments to the Law on Confiscation of Proceeds from Criminal Offences 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. More recently, the memorandum of understanding concerning cooperation in fighting corruption through the South Eastern European Anti-Corruption Initiative was ratified by Serbia on 29 February 2020.

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. At its December 2018 plenary meeting, MONEYVAL 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 (the “**2016 ME Report**”). At its December 2019 plenary meeting, MONEYVAL upgraded Serbia’s compliance ratings on further three recommendations from the 2016 ME Report. Given the progress made by Serbia, it also noted that Serbia will present its next enhanced follow-up report at the first MONEYVAL plenary meeting in 2021, instead of December 2020. In February 2018, FATF included Serbia on its grey list of jurisdictions with strategic deficiencies in anti-money laundering and counter-terrorist financing regimes. However, in light of the progress made by the Government in strengthening its framework, FATF in its public statement on 21 June 2019 noted that Serbia had addressed the technical deficiencies identified in February 2018 and will therefore no longer be subject to FATF’s monitoring process.

In May 2018, the Government conducted a new National Money Laundering and Terrorism Financing Risk Assessment, to identify threats and vulnerability at the national level (the “**2018 National Risk Assessment**”). The 2018 National Risk Assessment was conducted in accordance with the methodology of the World Bank. On 13 February 2020, the Government adopted a new national “Strategy against Money Laundering and Terrorism Financing” for the period 2020 – 2024 (the “**AML & CFT Strategy**”). The AML & CFT Strategy takes into account the findings of the 2018 National Risk Assessment and outstanding recommendations of MONEYVAL. Specifically, the AML & CFT Strategy focuses on the following four strategic objectives: (i) reducing the risk of money laundering and terrorist financing through strategic planning, coordination and cooperation of all participants in the system; (ii) preventing suspected proceeds from crime or funds intended to support terrorist activity from entering the economy, or detecting and reporting of such property if already present; (iii) confiscating any proceeds from crime and sanctioning money launderers in an effective manner; and (iv) detecting and eliminating the threat of terrorist financing and sanctioning any persons found guilty of such an offence. These strategic objectives are intended to be achieved through the Action Plan developed for the period 2020-2022. Serbia’s strategic objectives may be

further amended and revised to reflect the findings of an updated National Risk Assessment and implement the recommendations of the MONEYVAL assessment mission, both due to take place between 2021 and 2023. In 2019, the Government also established a Coordination Body for the Prevention of Money Laundering and the Financing of Terrorism (the “**Coordination Body**”) to ensure effective national coordination and cooperation in implementing Serbia’s national strategy. As part of its remit, the Coordination Body will also monitor the implementation of the AML& CTF Strategy. The Coordination Body consists of 32 members representing 27 governmental bodies and institutions of particular importance in this area. Since June 2019, Serbia’s Minister of Finance, Sinisa Mali, has been presiding over the Coordination Body.

In December 2017, the Government adopted the Law on Prevention of Money Laundering and Financing of Terrorism (the “**AML & CFT Law**”) to implement the provisions of the 4th Anti-Money Laundering Directive of the European Parliament and of the Council of Europe. The AML & CFT Law was amended in December 2019 to address the remaining technical compliance concerns of MONEYVAL, to align its provisions with the 5th Anti-Money Laundering Directive of the EU and to ensure compliance with the recommendations of FATF on customer due diligence. These amendments came into force on 1 January 2020. A number of regulations (bylaws) have since then been amended or introduced in order to reflect the changes presented in the amended AML/CFT Law or to specify new provisions for complying with AML & CFT Law. As of the date of this Base Prospectus, the Serbian authorities are in the final stages of drafting a law to govern crypto-assets. This law includes provisions concerning fit and proper standards, i.e. the necessary AML/CFT controls have been incorporated in the draft. Similarly, a number of strategic analyses have been conducted (on online casinos, postal operators, cross-border threats, forms of high-risk companies, etc.) for the National Risk Assessment to take place in 2021.

Serbia also benefits from a number of EU-funded IPA projects, including EUR 1.4 million support under IPA II, which are intended for improving reporting and other competencies in Serbia’s Administration for the Prevention of Money Laundering. Serbia also works closely with a number of international organisations, such as the Council of Europe, the Organisation for Security and Co-Operation in Europe, the United Nations Office on Drugs and Crime and the U.S. Department of Justice’s OPDAT, to detect and eliminate organised crime, corruption, money laundering and terrorism financing.

Despite such reform efforts, and although Serbia has implemented and is pursuing major initiatives to prevent and fight corruption and unlawful enrichment, corruption remains an issue affecting Serbia. In Transparency International’s 2019 Corruption Perceptions Index survey of 180 countries, the Republic of Serbia was ranked 91, down from 87 in 2018, indicating that the perception of public sector corruption within the country remains widespread. 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. In the most recent compliance report adopted by GRECO at 86th GRECO Plenary Meeting in October 2020, it concluded that Serbia’s overall level of compliance with the recommendations of GRECO is “globally unsatisfactory” and requested the Head of Delegation of Serbia to submit a report on the progress in implementing the outstanding recommendations by 31 October 2021. In its 2020 Report, the European Commission noted that Serbia has made limited progress but has achieved some level of preparation in the fight against corruption. It recognised that the number of finalised high-level corruption cases in Serbia has decreased compared with the previous years, although overall corruption remains an issue of concern. As regards repression of corruption at high-levels, more recently in October 2020 after several months of pre-investigation, the Assistant Minister of Agriculture was arrested on suspicion of receiving a bribe for assisting in obtaining a contract in the public procurement procedure of the Ministry of Agriculture. The Assistant Minister of Agriculture is suspected of accepting a bribe of approximately EUR 1,000 per month as pre-promised benefits for the next two years while the public procurement contract lasts. Following the arrest, the suspected Assistant Minister of Agriculture was detained in police custody. After the initial hearing, the pre-trial judge of the Special Department for Organized Crime within the High Court of Belgrade issued a

decision ordering custody of the Assistant Minister of Agriculture due to the existence of special circumstances (i.e. the possibility of obstructing the proceedings by influencing witnesses). At present, the Assistant Minister of Agriculture has been dismissed from her position and continues to be in custody. Similarly, in February 2020, the then State Secretary in the Ministry of Construction, Transport and Infrastructure and five other officials were arrested on suspicion of abuse of an official position and public procurement fraud as part of an ongoing investigation of embezzlement in the state-owned railway infrastructure company. Following the recent changes in the composition of the New Government, the then State Secretary in the Ministry of Construction, Transport and Infrastructure has now been appointed as a State Secretary in the Ministry of Energy. However, both these investigations into suspected corruption on the part of the State Secretary and the five other officials as well as the Assistant Minister of Agriculture are ongoing as at the date of this Base Prospectus, but these cases demonstrate the emphasis that the Government has placed on eradicating corruption within its Ministries and elsewhere. In addition, competent anti-corruption bodies regularly conduct proceedings involving state officials, including proceedings relating to submission of incomplete data in asset and income statements, or delays in filing such statements, failure to submit requests for approval to perform another public function or to carry out non-public work and failures to disclose relevant conflicts of interest. All such proceedings are of an administrative nature. Separately, in order to address deficiencies in its procurement procedure, the Government adopted the new Law on Public Procurement at the end of 2019, with the aim of harmonising domestic regulations with EU directives. The primary aim of the new Law on Public Procurement is to, on the one hand, increase efficiency and competition in public procurement procedures, by reducing the administrative burden and the costs of participating in procedures and, on the other hand, to increase transparency and efficiency in the implementation of public procurement. These measures reflect the initiatives undertaken by the Government to eradicate corruption. Fighting corruption is one of the key priorities for Serbia. Over the years, the Government has made steady progress in improving the accountability, governance standards and the legislative framework in Serbia, but corruption continues to remain an issue in Serbia, as it is in many other countries.

EXTERNAL SECTOR

Balance of Payments

The following table presents Serbia's balance of payments for the years 2015 to 2019 and for the nine-months ended 30 September 2019 and 2020:

	Year ended 31 December ⁽¹⁾					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	<i>(EUR million)</i>						
Current account balance	(1,233.8)	(1,074.9)	(2,050.8)	(2,076.1)	(3,160.9)	(2,014.0)	(1,713.9)
Goods and services (net)	(2,915.4)	(2,211.9)	(3,031.4)	(4,090.6)	(4,611.6)	(3,140.5)	(3,052.4)
Goods (net).....	(3,644.5)	(3,118.9)	(3,997.5)	(5,085.4)	(5,623.4)	(3,807.6)	(3,838.8)
Services (net).....	729.2	907.0	966.1	994.9	1,011.8	667.1	786.4
Primary income (net)	(1,658.0)	(2,022.2)	(2,533.4)	(2,182.3)	(2,478.5)	(1,729.0)	(1,093.9)
Equity related income, net.....	(674.9)	(1,001.7)	(1,624.1)	(1,469.3)	(1,771.4)	(1,158.5)	(591.4)
Debt related income, net.....	(983.0)	(1,020.4)	(909.3)	(713.1)	(707.1)	(570.5)	(502.5)
Secondary income (net)	3,339.6	3,159.2	3,513.9	4,196.8	3,929.3	2,855.6	2,432.4
Capital account balance	(17.5)	(9.9)	4.8	(6.6)	(112.1)	(53.1)	(20.7)
Financial account balance	919.8	535.3	1,648.2	1,743.5	3,104.2	2,006.6	2,261.8
Direct investments (net)	1,803.8	1,899.2	2,418.1	3,156.5	3,551.1	2,584.4	1,727.8
Portfolio investments (net) ⁽²⁾	(291.2)	(925.9)	(806.6)	(934.0)	187.9	204.2	1,285.2
Other investments (net)	(426.4)	(739.9)	264.8	644.1	1,238.0	903.1	(1,185.4)
Reserves assets (net) (negative sign indicates increase)	(166.5)	301.8	(228.2)	(1,123.2)	(1,872.8)	(1,685.2)	434.1
Errors and omissions (net)	(331.6)	(549.4)	(397.9)	(339.3)	(168.8)	(60.5)	527.1

Source: National Bank.

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 2015 to 2019 and for the six-months ended 30 June 2019 and 2020:

	Year ended 31 December ⁽¹⁾					Six months ended 30 June ⁽³⁾	
	2015	2016	2017	2018	2019	2019	2020
	<i>(% of GDP)</i>						
Current account balance	(3.5)	(2.9)	(5.2)	(4.8)	(6.9)	(6.6)	(6.0)
Goods and services (net)	(8.2)	(6.0)	(7.7)	(9.5)	(10.0)	(10.0)	(9.6)
Goods (net).....	(10.2)	(8.5)	(10.2)	(11.9)	(12.2)	(11.7)	(12.0)
Services (net).....	2.0	2.5	2.5	2.3	2.2	1.7	2.4
Primary income (net)	(4.6)	(5.5)	(6.5)	(5.1)	(5.4)	(5.2)	(3.5)
Equity related income, net.....	(1.9)	(2.7)	(4.1)	(3.4)	(3.9)	(3.5)	(1.9)
Debt related income, net.....	(2.8)	(2.8)	(2.3)	(1.7)	(1.5)	(1.7)	(1.6)
Secondary income (net)	9.4	8.6	9.0	9.8	8.5	8.6	7.0
Capital account balance	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.2)	(0.1)
Financial account balance	2.6	1.5	4.2	4.1	6.8	7.8	8.0
Direct investments (net)	5.1	5.2	6.2	7.4	7.7	7.9	6.8
Portfolio investments (net) ⁽²⁾	(0.8)	(2.5)	(2.1)	(2.2)	0.4	0.7	6.9
Other investments (net)	(1.2)	(2.0)	0.7	1.5	2.7	2.7	(4.1)
Reserves assets (net) (negative sign indicates increase).....	(0.5)	0.8	(0.6)	(2.6)	(4.1)	(3.6)	(1.7)
Errors and omissions (net)	(0.9)	(1.5)	(1.0)	(0.8)	(0.4)	1.0	1.9

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) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019 and shown as a percentage of GDP based on the Office of Statistics' estimates of nominal GDP for the six months ended 30 June 2020 and 2019.

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 3.5 per cent. of GDP to 6.9 per cent. of GDP in the period 2015 to 2019, remaining within its sustainable target level of under 8 per cent. of GDP.

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 resulted from growing imports of equipment and intermediate goods, while the value of energy imports declined due to lower 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 9.3 per cent. of GDP) as a result of higher inflows from private sector transfers (by 9.5 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 equipment, 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 amounted to EUR 2,076.1 million, a 1.2 per cent. increase (EUR 25.3 million) from 2017 with 27.2 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 7.4 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 11.8 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 995 million) and the secondary income account (amounting to EUR 4,197), as well as through the reduction in the deficit of the primary income account (which reduced by 13.9 per cent. to EUR 2,182 million), which led to the narrowing of the current account deficit to 4.8 per cent. of GDP compared to 5.2 per cent. in 2017. 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**”). 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 1.7 billion, the foreign exchange reserves of the National Bank increased to EUR 11,261.8 million in 2018.

In 2019, the current account deficit increased to EUR 3,160.9 million, representing an increase of 52.2 per cent. compared to EUR 2,076.1 million in 2018, primarily due to the widening of the trade deficit in goods by EUR 538.0 million. The import of goods (on F.O.B. basis) increased by 9.1 per cent. compared to 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 slightly slower pace by 8.7 per cent. despite a slowdown in external demand. The largest contribution to the growth in exports stemmed from electrical equipment, machines and other forms of equipment and agricultural products (including food industry products). The increase in the trade deficit of goods was compensated by the increase in surplus from the trade in services (by 1.7 per cent. compared to 2018). On the other hand, the deficit of the primary income account increased by 13.6 per cent. due to higher outflows of dividend payments. The surplus of the secondary income account decreased by 6.4 per cent. compared to 2018. This decrease was primarily as a consequence of a lower inflow of other current transfers due to the 100 per cent. tariff on goods from Serbia imposed by the authorities in Priština. The exchange of goods with the autonomous province of Kosovo and Metohija are included in the secondary income account. FDI inflows more than fully covered the current account deficit (by 112.3 per cent.) in 2019.

During the nine-month period ended 30 September 2020, the current account deficit amounted to approximately EUR 1.7 billion, representing a decrease of 14.9 per cent. compared to approximately EUR 2.0 billion in the corresponding period in 2019. This decrease was primarily due to an

improvement in the primary income account deficit (of 36.7 per cent. year-on-year) and increase in surplus from trade in services (of 17.9 per cent. year-on-year). On the other hand, trade deficit of goods increased slightly (by 0.8 per cent. year-on-year) and surplus from the secondary income account decreased (by 14.8 per cent. year-on-year) compared to the corresponding period in 2019. Owing to the consequences of COVID-19, the current account deficit declined by approximately 40 per cent. during the period April to September 2020, in comparison to the corresponding period in 2019. More specifically, this was as a result of a decrease in the trade deficit of goods and primary income deficit. At the same time, the increase in surplus from trade in services fully compensated for the lower inflow to the secondary income account which decreased due to reduced remittances. Additionally, the inflows to the financial account, mainly driven by the net FDI, more than fully covered and financed the current account deficit (by 100.8 per cent.).

Financial Account

During the period 2015 to 2019, the net inflow to the financial account (excluding foreign reserves) mainly consisting of FDI, amounted to 6.3 per cent. of GDP. This inflow contributed to the increase of foreign reserves from EUR 10.4 billion in 2015 to EUR 13.4 billion in 2019, representing 29.1 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 73.4 per cent. of GDP at the end of 2015, which amounts to an increase by 1.0 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 72.0 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 65.1 per cent. of GDP at the end of 2017, representing a decrease of 6.9 percentage points compared to 2016.

In 2018, the net inflow to the financial account amounted to EUR 1.7 billion, mainly due to the 30.5 per cent. increase in FDI inflows compared to 2017, 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 0.2 billion, EUR 0.7 billion and EUR 0.5 billion, respectively. As a result, the stock of gross external debt stood at EUR 26.7 billion or 62.2 per cent. of GDP at the end of 2018, representing a decrease of 2.9 percentage points compared to 2017.

In 2019, the financial account recorded a net inflow of EUR 3.1 billion, mainly as a result of net FDI inflows of EUR 3.6 billion, which increased by 12.5 per cent. relative to 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 the net borrowings of enterprises and banks amounted to EUR 0.5 billion and EUR 0.4 billion, respectively. The stock of gross external debt stood at EUR 28.5 billion or 61.5 per cent. of GDP at the end of 2019, representing a decrease of 0.7 percentage points compared to 2018.

In the first nine months of 2020, a net inflow to the financial account (excluding changes in foreign reserves) of EUR 1.8 billion was recorded, mainly as a result of net FDI inflows (EUR 1.7 billion) and portfolio investments (EUR 1.3 billion). On the other hand, a net outflow of EUR 1.2 billion was recorded as a result of net outflows of trade loans which increased in contrast to its usual trade patterns as the physical movement of goods, in both export and imports, had slowed down.

Foreign Trade in Goods

The following table presents Serbia's trade balance in goods for the years 2015 to 2019 and for the nine months ended 30 September 2019 and 2020:

	Year ended 31 December ⁽¹⁾					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	(EUR million)						
Balance of goods	(4,048.0)	(3,635.8)	(4,345.2)	(5,636.6)	(6,338.9)	(4,350.6)	(4,314.7)
Exports of goods	12,038.7	13,432.1	15,050.8	16,282.0	17,536.4	12,995.0	12,196.3
Imports of goods	16,086.6	17,067.9	19,396.0	21,918.7	23,875.3	17,345.6	16,511.0

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 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 2015 to 2019 and for the six months ended 30 June 2019 and 2020:

	Year ended 31 December ⁽¹⁾					Six months ended 30 June ⁽²⁾	
	2015	2016	2017	2018	2019	2019	2020
	(% of GDP)						
Balance of goods	(11.3)	(9.9)	(11.1)	(13.2)	(13.8)	(13.5)	(13.3)
Exports of goods	33.7	36.5	38.4	38.0	38.2	39.9	36.0
Imports of goods	45.0	46.4	49.4	51.1	51.9	53.5	49.3

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) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019 and shown as a percentage of GDP based on the Office of Statistics' estimates of nominal GDP for the six months ended 30 June 2020 and 2019.

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 65.8 per cent. of total exports in 2019 and 62.7 per cent. of total exports in the first nine months of 2020.

In 2015, the trade deficit in goods improved to 11.3 per cent. of GDP. The exports of goods increased by 7.9 per cent. as a result of the growth of exports of manufactured goods, 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 5,636.6 million (or 13.1 per cent. of GDP) in 2018.

In 2019, the trade deficit in goods increased by 13.8 per cent. to EUR 6,338.9 million as compared to 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 2019, and also as a result of the increased imports of equipment and intermediary products, particularly in export-orientated sectors, arising from strong inflows of FDI.

In the first nine months of 2020, the trade deficit in goods marginally increased by 0.8 per cent. to EUR 4,314.7 million as compared to the corresponding period in 2019, due to both exports and imports of goods decreasing by 5.9 per cent. and 4.3 per cent., respectively.

Composition of trade in goods

Exports

The main sectors driving export growth in 2019 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 72.2 per cent. in 2015 to 75.0 per cent. in 2019.

The strongest contribution to exports in the period 2015 to 2019 originated from exports of automobile parts and equipment (classified under the various SITC sections and divisions), which together accounted for 7.6 per cent. and 11.6 per cent. of total exports in 2015 and 2019, respectively. 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 export of parts and accessories for motor vehicles increased by 12.7 per cent. in 2019, once again fully compensating for the reduced export of cars in 2019. The same period (i.e. 2015 to 2019) 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 an increase of 14.6 per cent. in 2019, primarily due to exports of corn, the output of which increased as a result of the good harvest season in 2018.

The first effects of the pandemic on foreign trade in Serbia were observed in March 2020, but the magnitude of the negative effects was broadly in line with National Bank's expectations. For the nine month period ended 30 September 2020, total exports of goods amounted to EUR 12.2 billion, representing a 6.1 per cent. decrease compared to the same period in 2019. This decrease was

primarily caused by a decline in manufacturing exports, which contracted as a result of reduced external demand and disrupted global value chains. Within manufacturing exports, there were particularly significant declines in exports of motor vehicles and trailers (of 22.6 per cent. year-on-year), basic metals (of 23.5 per cent. year-on-year), rubber and plastic products (of 7.5 per cent. year-on-year) and metal products (excluding machinery and equipment) (of 11.0 per cent. year-on-year). On the other hand, Serbia recorded an increase in exports of tobacco products (of 56.2 per cent. year-on-year), crop and animal products (of 12.5 per cent. year-on-year) and food products (of 4.4 per cent. year-on-year) in the first nine months of 2020.

Considering the month-on-month trends, based on the trade movements in March and April alone, exports of goods from Serbia declined (by 36.2 per cent. on a cumulative basis in seasonally adjusted terms) on the back of lower demand from the EU (i.e. Serbia's main trading partner). With the reopening of manufacturing factories across Europe, exports of goods started to gradually recover from May when observed in seasonally adjusted terms. Between May and September, the export of goods increased by 49.0 per cent. on a cumulative basis in seasonally adjusted terms. When observed in year-on-year terms, exports of goods recorded a downfall in March when the state of emergency was proclaimed in Serbia, and have continued to fall during the following months, with the sharpest decline in April and May (exports in April and May were 28.9 per cent. and 25.9 per cent. lower than in the same months in 2019). With the passing of the 'first wave of the pandemic', trade flows began progressively recovering in June, July and August, with each of these months still recording a downfall compared to the same months in 2019, although the decline was more moderate than in April and May. However, export flows returned to positive territory in September when it recorded a growth of 6.6 per cent. year-on-year, driven by a rebound in exports of manufactured goods, in particular motor vehicles, auto-components, machinery and textile products, followed by chemical, food and other industries. In line with gradual reopening of manufacturing factories across Europe, the Government expects the exports to continue to improve in the remainder of 2020 and to recover completely in 2021 (although these expectations may be altered by the effects of the COVID-19 pandemic). However, given the openness of the Serbian economy, any severe impact of COVID-19 on Serbia's major trade partners amid the renewed and exacerbated health risks, could cause a further slowdown in Serbia's overall trade exchange. Though global economic rebound since May has been faster than anticipated, the accelerated spread of the coronavirus from October 2020, particularly in Europe, remains a concern. If economic conditions of countries in the EU, or other major trading partners of Serbia, deteriorate, Serbia may experience a decline in foreign trade given the EU's position as Serbia's most important trade partner.

The following table presents the value of Serbia's exports by product category for the years 2015 to 2019 and for the nine months ended 30 September 2019 and 2020:

Exports⁽¹⁾ Groups of products⁽²⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	<i>(EUR million)</i>						
Food and live animals	1,877.4	2,048.0	2,035.5	2,052.1	2,304.9	1,716.4	1,846.3
Beverages and tobacco	396.4	495.4	438.3	456.2	520.5	385.4	478.3
Crude material (inedible), except fuels	403.4	445.7	532.8	562.1	558.2	327.2	284.2
Mineral fuels, lubricants and related materials	342.6	329.5	382.5	492.9	469.1	327.2	284.2
Animal and vegetable oils, fats and waxes	141.6	174.6	166.3	143.0	198.8	139.5	130.4
Chemicals and related products	1,019.2	1,181.0	1,390.9	1,575.1	1,614.3	1,199.8	1,235.7
Manufactured goods classified chiefly by material	2,582.7	2,752.5	3,553.2	4,039.9	4,268.8	3,195.6	2,746.4
Machinery and transport equipment	3,505.6	3,966.9	4,220.8	4,515.1	4,979.5	3,700.0	3,335.4
Miscellaneous manufactured articles	1,585.7	1,786.8	1,997.6	2,091.2	2,296.7	1,695.0	1,567.0
Commodities and transactions not specified	184.0	251.8	332.9	354.2	322.6	225.3	148.2

Exports ⁽¹⁾ Groups of products ⁽²⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	(EUR million)						
Total	12,038.7	13,432.1	15,050.8	16,282.0	17,533.4	12,995.0	12,196.3

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 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Exports ⁽¹⁾ Groups of products ⁽²⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	(Share of total export, %)						
Food and live animals	15.6	15.2	13.5	12.6	13.2	13.2	15.1
Beverages and tobacco	3.3	3.7	2.9	2.8	3.0	3.0	3.9
Crude material (inedible), except fuels.....	3.4	3.3	3.5	3.5	3.2	3.2	3.5
Mineral fuels, lubricants and related materials	2.8	2.5	2.5	3.0	2.7	2.5	2.3
Animal and vegetable oils, fats and waxes ..	1.2	1.3	1.1	0.9	1.1	1.1	1.1
Chemicals and related products.....	8.5	8.8	9.2	9.7	9.2	9.2	10.1
Manufactured goods classified chiefly by material	21.5	20.5	23.6	24.8	24.3	24.6	22.5
Machinery and transport equipment	29.1	29.5	28.0	27.7	28.4	28.5	27.3
Miscellaneous manufactured articles.....	13.2	13.3	13.3	12.8	13.1	13.0	12.8
Commodities and transactions not specified.....	1.5	1.9	2.2	2.2	1.8	1.7	1.2
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 in fixed capital assets of 67.2 per cent. in the period 2015 to 2019, 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.

For the nine month period ended 30 September 2020, total imports of goods amounted to EUR 16.5 billion, representing a 4.8 per cent. decrease as compared to the same period in 2019. This decrease was largely attributable to lower domestic demand as a result of reduced overall economic activity and decrease in oil imports, driven by a decline in global oil prices. The main contribution to the overall decrease in imports during this period stemmed from the decline in imports of: coke and refined petroleum products (of 52.0 per cent. year-on-year), motor vehicles and trailers (of 25.5 per cent. year-

on-year), basic metals (of 18.3 per cent. year-on-year), metal ores (of 48.7 per cent. year-on-year) and crude petroleum and natural gas (of 16.7 per cent. year-on-year). The same period witnessed an increase in imports of fabricated metal products, excluding machinery and equipment (of 34.6 per cent. year-on-year), basic pharmaceutical products and preparations (of 21.8 per cent. year-on-year) and food products (of 15.2 per cent. year-on-year). The Government expects the recovery of imports to be slower in the short and medium term, due to the combined effect of lower domestic demand and low energy prices.

The following table presents the value of Serbia's imports by product category for the years 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Imports ⁽¹⁾ Groups of products ⁽²⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	(EUR million)						
Food and live animals	996.4	985.8	1,123.0	1,244.0	1,381.0	983.9	1,117.4
Beverages and tobacco	199.9	279.4	277.9	292.0	341.1	254.5	242.3
Crude material (inedible), except fuel.....	661.2	701.0	944.4	921.8	1,126.1	873.3	618.9
Mineral fuels, lubricants and related materials	1,876.3	1,549.4	2,033.1	2,549.0	2,565.8	1,811.1	1,260.0
Animal and vegetable oils, fats and waxes	45.0	45.5	58.5	52.0	43.0	30.1	41.4
Chemicals and related products	2,398.0	2,495.2	2,748.6	2,968.7	3,285.0	2,448.6	2,632.4
Manufactured goods classified chiefly by material.....	2,928.6	3,085.7	3,644.8	4,059.7	4,477.4	3,307.8	3,059.3
Machinery and transport equipment.....	4,444.2	4,759.6	4,962.8	5,665.6	6,244.9	4,396.6	4,139.1
Miscellaneous manufactured articles....	1,177.4	1,297.8	1,440.8	1,599.9	1,815.7	1,306.3	1,296.2
Commodities and transactions not specified.....	1,359.5	1,868.4	2,162.0	2,566.0	2,595.3	1,933.4	2,104.1
Total	16,086.6	17,067.9	19,396.0	21,918.7	23,875.3	17,345.6	16,511.0

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.

The following table shows the value of Serbia's imports by product category as a percentage of total imports for the years 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Imports ⁽¹⁾ Groups of products ⁽²⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	(Share of total imports, %)						
Food and live animals	6.2	5.8	5.8	5.7	5.8	5.7	6.8
Beverages and tobacco	1.2	1.6	1.4	1.3	1.4	1.5	1.5
Crude material (inedible), except fuel.....	4.1	4.1	4.9	4.2	4.7	5.0	3.7
Mineral fuels, lubricants and related materials.....	11.7	9.1	10.5	11.6	10.7	10.4	7.6
Animal and vegetable oils, fats and waxes	0.3	0.3	0.3	0.2	0.2	0.2	0.3
Chemicals and related products.....	14.9	14.6	14.2	13.5	13.8	14.1	15.9
Manufactured goods classified chiefly by material.....	18.2	18.1	18.8	18.5	18.8	19.1	18.5
Machinery and transport equipment	27.6	27.9	25.6	25.8	26.2	25.3	25.1
Miscellaneous manufactured articles	7.3	7.6	7.4	7.3	7.6	7.5	7.9
Commodities and transactions	8.5	10.9	11.1	11.7	10.9	11.1	12.7

Imports ⁽¹⁾ Groups of products ⁽²⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	<i>(Share of total imports, %)</i>						
not specified.....							
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 approximately 63.5 per cent. (on average) of Serbia's total trade in goods during the period 2015 to 2019 and 62.1 per cent. in the first nine months of 2020. The share of exports to these markets, as a percentage of total exports, increased from 65.7 per cent. in 2015 to 66.7 per cent. in 2019, and to 65.9 per cent. in the first nine months of 2020, while the share of imports, as a percentage of total imports, declined from 62.5 per cent. in 2015 to 58.2 per cent. in 2019, and to 59.4 per cent. in the first nine months of 2020. 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, Serbia has actively reduced its exposure to Italy from 16.2 per cent. in 2015 to 9.3 per cent. in 2019, and to 8.3 per cent. in the first nine months of 2020 to mitigate external shocks from the Italian economy. Over the same period (i.e. 2015 to 2019), the share of exports to other EU countries such as Poland, Austria and Slovakia has increased, with the share of exports to these countries increasing by 0.7 percentage points, 0.6 percentage points and 0.5 percentage points, respectively. In the first nine months of 2020, the share of exports to other EU countries such as Poland, the Czech Republic and Croatia has increased compared to the corresponding period in 2019, with the share of exports to these countries increasing by 0.9 percentage points, 0.6 percentage points and 0.4 percentage points, respectively.

The value of exports to EU member states, as a percentage of total exports, amounted to 66.7 per cent. in 2019, representing a 7.1 per cent. increase compared to 2018, of which exports to Italy and Germany accounted for 34.1 per cent. of total exports to EU member states, followed by Romania, Hungary, the Czech Republic, Slovenia and Bulgaria. In the same period, Serbia realised a surplus in trade with Romania, Slovakia, Bulgaria, Great Britain, Croatia, Cyprus, Sweden, Lithuania and Slovenia. The value of exports to EU member states, as a percentage of total exports, amounted to 65.9 per cent. in the first nine months of 2020, representing a 7.7 per cent. decrease compared to the corresponding period in 2019, of which exports to Italy and Germany accounted for 32.0 per cent. of total exports to EU member states, followed by exports to Romania, which accounted for 9.3 per cent. of total exports to EU member states. In the first nine months of 2020, imports from the EU as a percentage of total imports amounted to 59.4 per cent., which represents an increase of 0.1 percentage points compared to the corresponding period in 2019. Compared to the first nine months of 2019, imports from Germany and Hungary increased to 13.5 per cent. (from 13.0 per cent.) and 4.6 per cent. (from 4.4 per cent.), respectively, while imports from Italy and Romania decreased to 8.3 per cent. (from 8.8 per cent.) and 3.0 per cent. (from 3.2 per cent.), respectively.

Serbia also has a significant amount of trade with CEFTA parties, which represented approximately 10.0 per cent. (on average) of its total trade in goods during the period 2015 to 2019 and 9.1 per cent. in the first nine months of 2020. Although exports to CEFTA parties increased by 32.8 per cent. in 2019 compared to 2015, the share of exports to these markets accounted for 17.0 per cent. of Serbia's total exports in 2019, representing a decline of 1.6 per cent. relative to 2015. This decline was primarily due to the stronger growth of exports to EU countries and other non-CEFTA markets (such as China), a sign of continued diversification in respect of Serbia's export markets. In the first nine months of 2020, exports to CEFTA parties represented 16.3 per cent. of total exports of goods as compared to the corresponding period in 2019, when it amounted to 17.1 per cent. In contrast, the total

volume of imports from CEFTA parties increased by 42.3 per cent. between 2015 and 2019. However, the share of imports from CEFTA parties as a percentage of total imports also decreased from 4.2 per cent. in 2015 to 4.0 per cent. in 2019, as a consequence of the stronger growth in imports from China, Turkey, the United States, and various other countries. Despite this, Serbia realised a surplus of EUR 2.0 billion in trade with CEFTA region in 2019. Within CEFTA, a surplus was achieved with all parties. The above surpluses stemmed from exports of agricultural products, iron and steel, road vehicles, as well as exports of various finished products. In the first nine months of 2020, imports from CEFTA parties represented 3.8 per cent. of total imports of goods, compared to 4.0 per cent. in the same period in 2019. This led to a trade surplus of EUR 1.4 billion with CEFTA parties in the first nine months of 2020, compared to EUR 1.5 billion in the corresponding period in 2019. Among the CEFTA parties, Bosnia and Herzegovina continues to be an important trade destination, accounting for almost 50 per cent. of Serbia's exports to the CEFTA parties in 2019 and 45.3 per cent. in the first nine months of 2020.

The share of trade with CIS countries accounted for 8.9 per cent. (on average) of Serbia's total trade in goods during the period 2015 to 2019 and 7.3 per cent. in the first nine months of 2020. The share of exports directed to these countries (mainly to Russia) decreased by 0.2 percentage points from 2015 to 6.3 per cent. of total exports in 2019, while imports from these countries represented 11.9 per cent. of total imports in 2019, reflecting a decrease of 0.2 percentage points relative to 2015. In the first nine months of 2020, exports to CIS countries represented 6.1 per cent. of total exports of goods, while imports from CIS countries represented 8.2 per cent. of total imports of goods.

The following table presents the value of Serbia's exports of goods by destination and economic group for the years 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Exports ⁽¹⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
Economic zones and countries⁽²⁾....	<i>(EUR million)</i>						
EU – 28⁽³⁾.....	7,907.4	8,870.9	9,944.0	10,910.4	11,688.2	8,706.6	8,039.9
Germany.....	1,503.8	1,750.1	1,888.7	1,942.2	2,212.7	1,657.4	1,562.5
Italy.....	1,945.6	1,954.2	1,990.3	1,986.6	1,769.6	1,359.8	1,010.9
Romania.....	670.5	769.5	726.1	969.6	1,026.5	753.1	747.5
Hungary.....	320.7	425.9	545.8	659.4	741.4	548.6	564.8
Slovenia.....	375.1	428.3	499.4	576.9	580.7	442.1	381.2
Poland.....	253.4	303.5	374.2	388.5	484.3	349.9	396.3
Other.....	2,838.3	3,239.4	3,919.6	4,387.2	4,872.9	3,595.7	3,376.7
CEFTA⁽⁴⁾.....	2,239.4	2,412.0	2,635.1	2,834.0	2,972.9	2,225.2	1,991.4
Bosnia and Herzegovina.....	1,055.1	1,119.5	1,211.6	1,289.6	1,352.3	1,007.8	901.5
Montenegro.....	611.8	651.6	725.9	767.0	787.4	602.8	494.8
North Macedonia.....	470.9	538.6	561.6	628.4	674.5	495.7	466.2
Other.....	101.6	102.4	136.1	149.0	158.8	118.9	128.9
CIS⁽⁴⁾.....	782.5	865.6	1,063.4	1,059.6	1,097.9	813.6	743.8
Russia.....	653.2	718.0	881.0	864.9	872.5	647.7	598.9
Other.....	129.3	147.6	182.4	194.7	225.4	166.0	144.8
Other Countries.....	1,109.4	1,283.6	1,408.2	1,478.0	1,777.3	1,249.6	1,421.3
China.....	18.2	22.9	55.0	78.1	295.0	191.3	235.6
USA.....	225.8	222.7	228.3	224.8	271.2	183.1	221.1
Turkey.....	223.9	243.4	273.2	251.6	287.6	220.1	226.4
Other.....	641.5	794.6	851.8	923.5	923.5	655.2	738.1
Total	12,038.7	13,432.1	15,050.8	16,282.0	17,536.4	12,995.0	12,196.3

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) The UK has been included in EU-28 for the purpose of this table.
- (4) 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 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Exports ⁽¹⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
Economic zones and countries⁽²⁾	<i>(Share of total export, %)</i>						
EU – 28⁽³⁾	65.7	66.0	66.1	67.0	66.7	67.0	65.9
Germany.....	12.5	13.0	12.5	11.9	12.6	12.8	12.8
Italy	16.2	14.5	13.2	12.2	10.1	10.5	8.3
Romania	5.6	5.7	4.8	6.0	5.9	5.8	6.1
Hungary.....	2.7	3.2	3.6	4.1	4.2	4.2	4.6
Slovenia.....	3.1	3.2	3.3	3.5	3.3	3.4	3.1
Poland	2.1	2.3	2.5	2.4	2.8	2.7	3.2
Other	23.6	24.1	26.0	26.9	27.8	27.7	27.7
CEFTA⁽⁴⁾	18.6	18.0	17.5	17.4	17.0	17.1	16.3
Bosnia and Herzegovina.....	8.8	8.3	8.0	7.9	7.7	7.8	7.4
Montenegro	5.1	4.9	4.8	4.7	4.5	4.6	4.1
North Macedonia.....	3.9	4.0	3.7	3.9	3.8	3.8	3.8
Other	0.8	0.8	0.9	0.9	0.9	0.9	1.1
CIS⁽⁴⁾	6.5	6.4	7.1	6.5	6.3	6.3	6.1
Russia	5.4	5.3	5.9	5.3	5.0	5.0	4.9
Other	1.1	1.1	1.2	1.2	1.3	1.3	1.2
Other Countries.....	9.2	9.6	9.4	9.1	10.1	9.6	11.7
China	0.2	0.2	0.4	0.5	1.7	1.5	1.9
USA.....	1.9	1.7	1.5	1.4	1.5	1.4	1.8
Turkey	1.9	1.8	1.8	1.5	1.6	1.7	1.9
Other	5.3	5.9	5.7	5.7	5.3	5.0	6.1
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) The UK has been included in EU-28 for the purpose of this table.
- (4) 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 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Imports ⁽¹⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
Economic zones and countries⁽²⁾	<i>(EUR million)</i>						
EU – 28⁽³⁾	10,061.7	10,791.8	12,102.2	13,218.7	13,903.2	10,282.2	9,800.7
Germany.....	1,988.0	2,189.5	2,454.7	2,942.2	3,080.2	2,253.6	2,233.1
Italy	1,703.6	1,766.0	1,955.1	2,047.9	2,074.7	1,525.6	1,370.7
Hungary.....	774.9	791.3	940.6	1,049.9	1,019.4	768.3	766.7
Poland	676.5	743.1	795.3	779.4	802.8	599.9	535.1
Romania	461.6	492.4	569.1	602.0	729.1	550.2	490.3
Slovenia.....	492.0	512.2	530.7	567.9	574.7	430.5	486.5
Other	3,965.2	4,297.4	4,856.8	5,229.4	5,622.3	4,154.1	3,918.3
CEFTA⁽⁴⁾	671.4	685.0	821.1	931.1	955.4	697.0	627.0
Bosnia and Herzegovina.....	384.0	400.5	515.6	580.5	608.2	449.8	383.7
North Macedonia.....	181.2	188.8	207.7	229.4	223.8	163.0	155.1
Montenegro	56.4	56.0	50.6	60.7	69.9	44.0	44.1
Other	49.8	39.7	47.1	60.6	53.5	40.2	44.1
CIS⁽⁴⁾	1,941.4	1,705.4	1,821.1	2,247.0	2,841.8	1,952.6	1,349.7
Russia	1,565.3	1,361.1	1,410.6	1,726.0	2,307.0	1,504.1	1,108.4
Other	376.1	344.2	410.5	521.0	534.8	448.5	241.2
Other Countries.....	3,412.1	3,885.7	4,651.6	5,521.8	6,174.7	4,413.9	4,733.6
China	1,318.9	1,375.5	1,560.8	1,836.5	2,241.1	1,582.8	2,057.9

Imports ⁽¹⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
Economic zones and countries⁽²⁾	<i>(EUR million)</i>						
USA.....	225.9	293.1	267.6	397.2	491.5	345.2	308.3
Turkey.....	510.5	593.7	724.8	832.7	945.2	684.6	706.0
Other.....	1,326.8	1,623.4	2,098.5	2,455.5	2,496.9	1,801.2	1,661.5
Total.....	16,086.6	17,067.9	19,396.0	21,918.7	23,875.1	17,345.6	16,511.0

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) The UK has been included in EU-28 for the purpose of this table.
- (4) 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 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Imports ⁽¹⁾	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
Economic zones and countries⁽²⁾	<i>(Share of total import, %)</i>						
EU – 28⁽³⁾	62.5	63.2	62.4	60.3	58.2	59.3	59.4
Germany.....	12.4	12.8	12.7	13.4	12.9	13.0	13.5
Italy.....	10.6	10.3	10.1	9.3	8.7	8.8	8.3
Hungary.....	4.8	4.6	4.8	4.8	4.3	4.4	4.6
Poland.....	4.2	4.4	4.1	3.6	3.4	3.5	3.2
Romania.....	2.9	2.9	2.9	2.7	3.1	3.2	3.0
Slovenia.....	3.1	3.0	2.7	2.6	2.4	2.5	2.9
Other.....	24.6	25.2	25.0	23.9	23.5	23.9	23.7
CEFTA⁽⁴⁾	4.2	4.0	4.2	4.2	4.0	4.0	3.8
Bosnia and Herzegovina.....	2.4	2.3	2.7	2.6	2.5	2.6	2.3
North Macedonia.....	1.1	1.1	1.1	1.0	0.9	0.9	0.9
Montenegro.....	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Other.....	0.3	0.2	0.2	0.3	0.2	0.2	0.3
CIS⁽⁴⁾	12.1	10.0	9.4	10.3	11.9	11.3	8.2
Russia.....	9.7	8.0	7.3	7.9	9.7	8.7	6.7
Other.....	2.3	2.0	2.1	2.4	2.2	2.6	1.5
Other Countries	21.2	22.8	24.0	25.2	25.9	25.4	28.7
China.....	8.2	8.1	8.0	8.4	9.4	9.1	12.5
USA.....	1.6	1.7	1.4	1.8	2.1	2.0	1.9
Turkey.....	3.2	3.5	3.7	3.8	4.0	3.9	4.3
Other.....	8.2	9.5	10.8	11.2	10.5	10.4	10.1
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) The UK has been included in EU-28 for the purpose of this table.
- (4) 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 significant 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 2.0 per cent. of GDP in 2015 to 2.3 per cent. of GDP in 2019, and to 2.4 per cent. of estimated GDP in the first six months of 2020. 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 3.0 per cent. and amounted to EUR 1.0 billion, with the largest contribution from the growth in exports of ICT services (by 26.2 per cent.) and other business services (by 18.4 per cent.). Consistent with the trends of previous years, the surplus from trade in services in 2019 increased by 1.7 per cent. in comparison to 2018, mainly as a result of the exports of ICT services which grew by 25.4 per cent.

During the first nine months of 2020, the surplus from trade in services increased by 17.9 per cent. in comparison to the corresponding period in 2019, mainly as a result of a comparatively faster decrease in imports of services than exports. The total export of services decreased by 12.5 per cent. to EUR 4.4 billion in comparison to the corresponding period in 2019. The largest decline in exports of services was noted in travel (of 27.5 per cent. year-on-year) and transportation (of 23.5 per cent. year on year) services. Despite the global economic contraction, exports of ICT services remained consistent in comparison to the corresponding period in 2019, which led to an increase of 13.3 per cent. in surplus from ICT services.. Imports of services decreased by 17.2 per cent. in comparison to the corresponding period in 2019. Similar to export of services, the largest decline was seen in imports of travel (of 40.9 per cent. year-on-year) and transportation (of 20.4 per cent. year-on-year) services.

The following table presents the international trade in services of Serbia for the years 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	(EUR million)						
Services balance.....	729.2	907.0	966.1	994.9	1,011.8	667.1	786.4
Travel	(48.0)	(44.9)	(35.4)	(79.5)	(179.2)	(176.3)	35.8
Transport	49.5	73.6	64.7	(57.0)	(141.2)	(102.0)	(111.6)
Other business services.....	207.7	273.1	365.8	460.0	517.5	415.0	357.8
Telecommunications, computer, and information services	317.4	407.3	473.1	614.8	801.7	565.7	640.8
Charges for the use of intellectual property	(121.8)	(142.6)	(167.0)	(197.2)	(223.5)	(166.2)	(163.8)
Personal, cultural, and recreational services	71.5	97.8	103.3	136.9	149.2	111.9	69.0
Manufacturing services on physical inputs.....	163.7	202.4	222.6	238.8	227.9	162.5	128.2
Other ⁽¹⁾	89.2	40.3	(60.9)	(122.0)	(140.4)	(143.5)	(169.8)
Export.....	4,273.5	4,570.8	5,245.7	6,060.5	6,933.7	5,028.2	4,399.2
Travel	945.5	1,040.0	1,179.7	1,316.6	1,435.9	1,042.7	755.7
Transport.....	1,008.4	1,037.8	1,186.9	1,219.9	1,327.3	981.0	750.7
Other business services	957.6	1,038.0	1,211.4	1,434.7	1,788.8	1,299.7	1,254.7
Telecommunications, computer, and information services	610.8	739.5	898.9	1,134.6	1,422.4	1,025.6	1,023.0
Charges for the use of intellectual	40.8	38.3	44.2				

	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
				(EUR million)			
property.....				49.1	48.3	37.1	57.0
Personal, cultural, and recreational services.....	130.7	158.4	176.4	217.7	252.0	182.4	126.4
Manufacturing services on physical inputs.....	179.1	221.6	239.0	253.0	244.0	174.1	140.9
Other ⁽¹⁾	400.6	297.2	309.3	435.0	415.0	285.5	290.9
Import	3,544.3	3,663.8	4,279.6	5,065.6	5,921.9	4,361.1	3,612.8
Travel	993.5	1,084.9	1,215.2	1,396.1	1,615.2	1,219.0	719.8
Transport	958.8	964.2	1,122.2	1,276.9	1,468.5	1,083.0	862.3
Other business services	749.9	764.8	845.5	974.7	1,271.4	884.7	896.9
Telecommunications, computer, and information services.....	293.4	332.2	425.9	519.9	620.7	459.9	382.2
Charges for the use of intellectual property	162.6	181.0	211.2	246.2	271.9	203.3	220.7
Personal, cultural, and recreational services	59.3	60.6	73.1	80.7	102.8	70.5	57.4
Manufacturing services on physical inputs.....	15.4	19.2	16.3	14.2	16.1	11.6	12.7
Other ⁽¹⁾	311.4	256.8	370.2	556.9	555.4	429.1	460.6

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, increased investment in construction and improved roads and infrastructure of Serbia. The Government expects its measures aimed at reducing the fiscal deficit (see "*Public Finance – Fiscal Policy and Reform*") to lead to an improvement in the trade balance. 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*".

Serbia has set out trade facilitation as one of the major structural reforms under the ERP to increase foreign trade in goods and services and strengthen foreign economic relations. In November 2017, Serbia established the National Trade Facilitation Body, which consists of representatives from all relevant state institutions and the private sector, with the aim of increasing trade by streamlining procedures and controls governing the movement of goods while safeguarding key regulatory objectives. In particular, it works closely with businesses to implement the measures defined in Serbia's Trade Facilitation Action Plan for 2020-2021 to facilitate sanitary and phytosanitary measures, reduce technical barriers to trade, improve customs clearance procedures to reduce the time spent at Serbia's borders, and apply measures set out in the WTO's Trade Facilitation Agreement ("TFA"). The work of this body has been recognised internationally. In 2019, the UN Global Survey on Digital and Sustainable Trade Facilitation issued a report in which it noted that Serbia had made considerable progress in the field of trade facilitation. The overall trade facilitation score of Serbia in 2019 was 61.29 per cent., compared to the scores of 38.71 per cent. and 36.56 per cent. given in the reports of 2017 and 2015, respectively. Serbia's progress has also been recognised by the World Bank's TFA tracking tool portal. The tracking tool portal tracks a country's alignment with the TFA. Serbia's overall alignment score has increased from 65 per cent. in 2014 to 78 per cent. in 2018.

The growth of 4.2 per cent. in Serbia's real GDP in 2019 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 44.0 per cent. in 2015 to 51.0 per cent. in 2019 and represented 47.1 per cent. in the first six months of 2020. The export/import

coverage ratio of Serbia amounted to 84.0 per cent. in 2019 and 83.9 per cent. in the first nine months of 2020. Compared to 2015, the share of the trade deficit of goods and services as a percentage of nominal GDP increased from 8.2 per cent. in 2015 to 10.0 per cent. in 2019 mainly due to an increase in global oil prices and imports of equipment and intermediary goods for investment and industrial purposes. The share of the trade deficit of goods and services as a percentage of nominal GDP stood at 9.6 per cent. in the first six months of 2020 as a consequence of pandemic and a decline in global oil prices. 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 continuing at the same level.

Compared to 2018, the export of goods and services increased by 10.5 per cent. in 2019, with growth in 18 out of 23 areas of the manufacturing industry, while the growth in exports of services stemmed primarily from ICT and other business services. In 2019, 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 17.5 billion in 2019, representing a 7.7 per cent. increase relative to 2018, with the highest contribution being from companies producing cars and automotive parts, food and food products. Similarly, other business services, tourism, ICT and transportation were the largest contributors to exports of services in 2019, with a share of 25.7 per cent., 20.6 per cent., 20.4 per cent. and 19.0 per cent, respectively, in total exports of services. In the first nine months of 2020, exports of goods decreased to EUR 11.5 billion (compared to EUR 12.2 billion in the corresponding period in 2019) as a consequence of COVID-19 crises which led to a decrease of external demand. Exports of services amounted to EUR 4.4 billion in the first nine months of 2020, representing a decrease of 12.5 per cent. compared to the first nine months of 2019. The greatest decline in exports of services stemmed from travel and transportation services (by 27.5 per cent. and by 23.4 per cent., respectively), while exports of ICT services remained resilient but declined by 0.3 per cent. compared to the first nine months of 2019.

Serbia's exports are largely directed towards EU and countries of the region, and are reliant on demands in those countries, which are currently lacking or experiencing slowdown due to reduced overall economic activity. In the nine-month period ended 30 September 2020, most of Serbian exports were directed to EU, followed by CEFTA and CIS. In the same period, majority of imports originated from the EU and China, followed by CIS and CEFTA. As a consequence of the stronger growth in imports from China, which represented 12.5 per cent. of total imports in the first nine months of 2020, reflecting an increase of 30.0 per cent. relative to the corresponding period in 2019, China became the most important trading partner of Serbia for imports, after Germany. In comparison to the nine-month period in 2019, the total volume of exports to EU, CEFTA and CIS decreased by 8.3 per cent. The value of exports to EU, CEFTA and CIS, as a percentage of total exports, amounted to 65.9 per cent., 16.3 per cent. and 6.1 per cent., respectively, in the first nine months of 2020, representing a 7.7 per cent., 10.5 per cent. and 8.6 per cent. decrease compared to the corresponding period in 2019. Unlike EU, CEFTA and CIS markets, exports to China continued to grow by 23.2 per cent. in the first nine months of 2020 compared to the corresponding period in 2019.

Whilst no significant changes are expected in Serbia's main import and export destinations, Serbia aims to strengthen economic relations with the 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 co-operation with the CEFTA region, implementation of MAP REA, increasing exports to Russia and other members of the Eurasian Economic Union, the Organisation of the Petroleum Exporting 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 2019, these partners accounted for 83.5 per cent. of Serbia’s total foreign trade, and 91.6 per cent. of total exports, of which the EU and CEFTA accounted for 66.7 per cent. and 17.0 per cent., respectively. In the first nine months of 2020, these partners accounted for 82.3 per cent. of Serbia’s total foreign trade, and 90.5 per cent. of total exports, of which the EU and CEFTA accounted for 65.9 per cent. and 16.3 per cent. of total exports, 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, in the area of goods, agriculture and genetically modified food. On 25 October 2019, Serbia signed a free trade agreement with the Eurasian Economic Union (comprising Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan), pursuant to which 99 per cent. of its exports of products to the other member countries will be free from custom duties. This agreement unifies the free trade regime that Serbia already enjoys with Russia, Belarus and Kazakhstan, and expands the free trade regime to the other two member states. While the parliament of Serbia and the State Duma of the Federal Assembly of the Russian Federation have ratified this agreement on 24 February 2020 and 21 October 2020, respectively, the ratification process in other member states of the Eurasian Economic Union is still pending. Under the terms of this agreement, its provisions will come into force 60 days after the last signatory completes the necessary internal procedures for adopting the agreement.

Since 2000, the EU has been a major trade and economic partner of Serbia. 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, although there are a few products, such as wine, sugar, baby beef, and certain types of fish, which are subject to a duty free quota as well as customs duties above the quota. 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 apply tariff protections for a certain number of products within the agricultural sector that are considered the most sensitive. Additionally, under the agreements with partners of the Pan-Euro-Mediterranean Convention (the “**PEM 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 diagonal cumulation of origin under the PEM Convention, are 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 2019, Serbia recorded a trade surplus of EUR 2,017.5 million with the CEFTA region. In the first nine months of 2020, a trade surplus of EUR 1.4 billion was achieved 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 the EFTA was fully liberalised, and different levels of trade liberalisation for agricultural products were adopted by each of the EFTA member states. Serbia is updating its free trade agreement with the EFTA, as well as the bilateral agricultural agreements with the member states, in order to align their provisions on rules of origin with the PEM Convention. The signing of these updated agreements was planned for the fourth EFTA-Serbia Joint Committee Meeting, scheduled for 26 May 2020 in Belgrade. However, this has now been postponed in light of the COVID-19 pandemic. Although the EFTA's share in Serbia's international trade is not significant, exports to these countries increased by 65.2 per cent. in 2019 compared to 2015 and represented 1.1 per cent. of total exports in the first nine months of 2020, while imports increased by 23.3 per cent. in 2019 from 2015 and represented 1.5 per cent. of total imports in the first nine months of 2020. The cooperation with the EFTA states, being an integral part of the European Economic Area, is important to Serbia for the benefits of the diagonal cumulation of origin under the PEM Convention.

Serbia signed 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). These individual agreements will be superseded when the free trade agreement signed by the Republic of Serbia with the Eurasian Economic Union and its members becomes effective. This new agreement will unify the free trade regime which Serbia previously enjoyed with Russia, Belarus and Kazakhstan, and extend the trade regime to Armenia and Kyrgyzstan.

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 strategic objectives: the promotion of further trade integration; the introduction of a dynamic regional investment space; the facilitation of regional mobility; and the creation of a digital integration 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 which are 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 trade in 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 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020 (except for the share in GDP calculations which is presented for six months ended 30 June 2019 and 2020):

	Year ended 31 December ^{(1) (2)}					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
Foreign Direct Investments, net, mln EUR	1,803.8	1,899.2	2,418.1	3,156.5	3,551.1	2,584.4	1,727.8
Direct Investment abroad, mln EUR.....	(310.4)	(227.8)	(130.0)	(307.9)	(264.2)	(201.6)	(67.2)
Direct Investment in Serbia, mln	2,114.2	2,126.9	2,548.1	3,464.5	3,815.3	2,786.0	1,795.0

	Year ended 31 December ^{(1) (2)}					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
EUR.....							
Foreign Direct Investments, net, % of GDP.....	5.0	5.2	6.2	7.4	7.7	7.9⁽³⁾	6.8⁽³⁾
Direct Investment abroad, % of GDP.....	(0.9)	(0.6)	(0.3)	(0.7)	(0.6)	(0.7)	(0.1)
Direct Investment in Serbia, % of GDP.....	5.9	5.8	6.5	8.1	8.3	8.6	7.0
Coverage of current account deficit by FDI, %	146.2	176.7	117.9	152.0	112.3	128.3	100.8

Source: National Bank; Office of Statistics

Notes:

- (1) The data is prepared in accordance with the IMF Balance of Payments Manual, 6th Edition.
- (2) Sign convention: positive sign indicates inflow of capital.
- (3) Since the GDP information for the first nine months of 2020 is not yet available, the share in GDP calculations is presented for six months ended 30 June 2019 and 2020.

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 2015 to 2019, FDI inflows recorded a continuous year-on-year growth, both nominally and as a percentage of GDP, with cumulative net inflow exceeding EUR 13 billion.

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 (7.4 per cent. of GDP), representing a year-on-year increase of 30.5 per cent., mainly as a result of the large inflow from the concession agreement for the Belgrade airport and privatisation of several state-owned companies. Even if these “one-off” inflows were excluded, FDI in Serbia would have increased by around 2 per cent. in 2018 compared to 2017. In 2019, net FDI amounted to EUR 3,551.1 million, an increase of 12.5 per cent. compared to 2018, mainly due to the investments in the Turkish stream pipeline project. Approximately 80 per cent. of the FDI inflow in 2019 originated in the form of equity capital, consistent with the trends in the last three years, during which around 75 per cent. of FDI inflows were in the form of equity. During the period from 2015 to 2019, 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.

In 2020, FDI inflows contracted as a result of COVID-19. According to the UNCTAD’s *Global Investment Trends Monitor*, global FDI flows decreased by 49 per cent. world-wide in the first half of 2020. In Serbia, net FDI in the first nine months of 2020 amounted to EUR 1.8 billion, a decrease of 35.6 per cent. compared to the same period in 2019. A large part of this decline was a result of the reduced reinvested earnings. Consistent with the trends in the past five years, FDI inflows were primarily directed to export-oriented enterprises (i.e. 64 per cent. of total FDI) in the first nine months of 2020.

The following table shows the inflow of FDI in Serbia by sectors for the years 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Foreign Direct Investments	Year ended 31 December ⁽¹⁾					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020 ⁽²⁾
(EUR million)							

Foreign Direct Investments	Year ended 31 December ⁽¹⁾					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020 ⁽²⁾
	(EUR million)						
Foreign Direct Investments in							
Serbia	2,114.2	2,126.9	2,548.1	3,464.5	3,815.3	2,786.0	1,794.9
Tradeable sectors	913.3	859.9	910.7	2,188.1	2,026.2	1,232.9	1,142.3
Share of tradable sectors in FDI (%).....	43	40	36	63	53.1	44.3	63.6
Manufacturing	721.1	749.5	634.3	929.5	1,101.4	818.6	595.8
Mining	22.1	(33.0)	102.5	415.2	122.3	10.3	119.1
Agriculture, forestry and fishing.....	63.8	43.3	72.0	151.2	48.1	36.0	27.4
Supply of electricity, gas, etc.	12.8	15.0	52.2	9.4	84.0	52.9	14.2
Water supply	17.9	13.6	11.1	20.7	62.3	8.0	53.4
Transportation and storage.....	68.5	68.6	22.4	654.4	599.6	302.3	328.1
Accommodation and food service activities.....	7.0	2.9	16.3	7.6	8.5	4.7	4.4
Non-tradeable sectors	1,168.9	1,257.7	1,629.6	1,257.3	1,779.6	1,547.7	608.6
Share of non-tradeable sectors in FDI (%).....	55	59	64	36	46.6	55.6	33.9
Financial activities.....	484.0	447.0	367.5	425.3	77.6	284.6	126.8
Trade.....	208.5	138.2	312.3	323.9	261.0	210.1	63.6
Construction.....	264.5	272.9	406.8	471.5	848.8	667.7	264.8
Real estate activities.....	57.6	124.5	221.7	161.2	195.5	78.4	50.1
Professional, and technical activities	27.1	141.2	65.0	63.2	89.9	60.6	76.7
Information and communication.....	108.1	120.7	197.9	(204.4)	247.4	202.4	(7.4)
Other.....	19.0	13.2	58.3	16.7	59.4	43.8	34.0
Not allocated	32.1	9.3	7.9	19.0	9.5	5.5	44.0

Source: National Bank.

Notes:

(1) The data is prepared in accordance with the IMF Balance of Payments Manual, 6th Edition.

(2) The data presented for nine months ended 30 September 2020 is based on estimates of the National Bank.

The following table shows the inflow of FDI in Serbia by country of origin for the years 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020:

Foreign Direct Investments	Year ended 31 December ⁽¹⁾					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020 ⁽²⁾
	(EUR million)						
Direct Investments in Serbia	2,114.2	2,126.9	2,548.1	3,464.5	3,815.3	2,786.0	1,794.9
Europe	1,818.6	1,748.7	2,167.8	2,467.9	3,214.6	2,450.3	1,270.8
European Union (EU-28) ⁽³⁾	1,530.1	1,410.4	1,819.7	2,084.0	1,976.1	1,469.3	1,013.8
of which: Germany	72.4	179.6	185.4	263.3	275.8	235.6	203.7
France	76.5	72.4	85.0	716.3	(279.9)	(309.0)	(0.3)
Italy	144.9	(97.7)	195.6	169.1	172.1	79.5	41.0
Netherlands.....	361.7	341.8	542.8	350.7	707.0	305.0	429.5
Austria	352.5	232.4	248.7	211.3	284.4	228.9	54.7
Russia	96.4	41.1	170.4	263.0	685.6	508.4	86.5
Switzerland.....	96.0	234.6	135.4	(4.6)	448.4	402.0	22.1
Turkey	27.8	15.4	17.5	62.1	14.5	9.9	13.6
Other European Countries	68.4	47.2	24.8	63.4	90.0	60.6	134.8
Asia	209.7	342.0	333.3	806.9	389.7	246.3	424.2
United Arab Emirates	120.5	81.1	132.2	201.7	50.4	54.9	33.4
China (including Taiwan and Hong Kong).....	66.5	219.4	179.2	690.0	321.8	178.4	353.6
Other Asian Countries	22.7	41.6	21.9	(84.8)	17.5	13.1	37.2

Foreign Direct Investments	Year ended 31 December ⁽¹⁾					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020 ⁽²⁾
	<i>(EUR million)</i>						
The Americas	69.6	51.0	45.0	88.0	216.1	86.6	63.8
Other countries	16.4	(14.8)	2.1	101.6	(5.1)	2.8	36.2

Source: National Bank.

Notes:

- (1) The data is prepared in accordance with the IMF Balance of Payments Manual, 6th Edition.
- (2) The data presented for nine months ended 30 September 2020 is based on estimates of the National Bank.
- (3) The UK has been included in EU-28 for the purpose of this table.

The table below shows the FDI inflow to Serbia, by country of origin, for the years 2015 to 2019 and for the first nine months ended 30 September 2019 and 2020 as a percentage of the total FDI inflow:

	Year ended 31 December ⁽¹⁾					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020 ⁽²⁾
	<i>(% share in FDI in Serbia)</i>						
Direct Investments in Serbia	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Europe	86.0	82.2	85.1	71.2	84.3	88.0	70.8
European Union (EU-28) ⁽³⁾	72.4	66.3	71.4	60.2	51.8	52.7	56.5
of which: Germany	3.4	8.4	7.3	7.6	7.2	8.5	11.3
France	3.6	3.4	3.3	20.7	(7.3)	(11.1)	(0.0)
Italy	6.9	(4.6)	7.7	4.9	4.5	2.9	2.3
Netherlands	17.1	16.1	21.3	10.1	18.5	10.9	23.9
Austria	16.7	10.9	9.8	6.1	7.5	8.2	3.0
Russia	4.6	1.9	6.7	7.6	18.0	18.2	4.8
Switzerland	4.5	11.0	5.3	(0.1)	11.8	14.4	1.2
Turkey	1.3	0.7	0.7	1.8	0.4	0.4	0.8
Other European Countries	3.2	2.2	1.0	1.8	2.4	2.2	7.5
Asia	9.9	16.1	13.1	23.3	10.2	8.8	23.6
United Arab Emirates	5.7	3.8	5.2	5.8	1.3	2.0	1.9
China (including Taiwan and Hong Kong)	3.1	10.3	7.0	19.9	8.4	6.4	19.7
Other Asian Countries	1.1	2.0	0.9	(2.4)	0.5	0.5	2.1
The Americas	3.3	2.4	1.8	2.5	5.7	3.1	3.6
Other countries	0.8	(0.7)	0.1	2.9	(0.1)	0.1	2.0

Source: National Bank.

Notes:

- (1) The data is prepared in accordance with the IMF Balance of Payments Manual, 6th Edition.
- (2) The data presented for nine months ended 30 September 2020 is based on estimates of the National Bank.
- (3) The UK has been included in EU-28 for the purpose of this table.

FDI inflows to Serbia originate primarily from countries in the EU, Asia Pacific and Middle East. In the period 2015 to 2019, European countries have been the most important contributors of FDI, with an average share of more than 80 per cent. of total FDI into Serbia. However, FDI inflows from other regions have been increasing since 2015, with investments from Asian countries increasing from 9.9 per cent. in 2015 to around 15.0 per cent. (on average) in the last three years. Among Asian countries, the highest investments stemmed from China (including Hong Kong and Taiwan) and the United Arab Emirates, which accounted for 8.4 per cent. and 1.3 per cent., respectively, of total FDI in 2019. During the first nine months of 2020, geographical distribution of FDI remained consistent, with 70 per cent. of investments originating from European countries and 24 per cent. stemming from Asia (predominantly from China).

A number of foreign investors, including China's Linglong Shandong, China's Zijin, China's Mei Ta, Japan's Toyo, Germany's ZF Friedrichshafen and Brose Fahrzeugteile, and South Korea's Kyungshi have announced either new greenfield investments or further expansion of their existing investments in Serbia, predominantly targeting the automobile industry despite the COVID-19 crisis. 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. 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 the widening of the overall savings-investment gap. As a result of the successful completion of the fiscal consolidation programme and strong economic growth, current revenues surpassed current expenditures and gross government savings increased its share in GDP to 4.8 per cent. in 2019. At the same time, as a result of the intensive implementation of the infrastructure projects, the share of government investment increased to 4.9 per cent. of GDP in 2019.

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, resulting in gross domestic savings increasing from 11.6 per cent. in 2015 to 15.1 per cent. in 2019. Also, as a result of the new investment cycle, private investment increased to 19.9 per cent. of GDP in 2019. The simultaneous increase of private and Government investments contributed to the increase in the current account deficit to 6.9 per cent. of GDP in 2019, as such investments were accompanied by growth in imports of equipment and intermediate goods.

In the first six months of 2020, the implementation of COVID-19-related economic measures led to a sharp contraction in gross national savings of the government resulting in a negative 7.0 per cent. of GDP, while the share of savings in the private sector increased sharply to 21.8 per cent. of GDP due to suppressed consumption during the “state of emergency” period. At the same time, gross national private investment contracted to 16.2 per cent. of GDP, whereas the share of public investments increased to 4.6 per cent. of GDP and the current account deficit contracted to 6.0 per cent. of GDP. Overall, gross national savings amounted to 14.7 per cent. of GDP in the first six months of 2020

(which is a marginal reduction of approximately 2 percentage points as compared to the corresponding period in 2019), while gross domestic investments declined from 23.3 per cent. in the first six months of 2019 to 20.7 per cent. in the first six months of 2020. On balance, overall savings and investments stood at negative 6.0 per cent. of GDP in the first six months of 2020 (as compared to negative 6.6 per cent. during the same period in 2019).

During the period 2015 to June 2020, workforce remittances (often being countercyclical in nature) represented a major component of private sector transfers and the overall secondary income account. During this period, workforce remittances represented an average share of around 65 per cent. of private sector transfers and around 62 per cent. of overall secondary income account.

The table below presents the saving and investment balance expressed as a percentage of GDP for the years 2015 to 2019 and for the first six months ended 30 June 2019 and 2020:

	Year ended 31 December					Six months ended 30 June ⁽¹⁾	
	2015	2016	2017	2018	2019	2019	2020
	(% of GDP)						
GDP.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand.....	107.0	104.8	106.6	108.6	110.0	108.6	100.3
Final consumption.....	88.4	86.7	87.0	86.0	84.9	86.5	87.9
Private consumption.....	71.9	70.8	70.9	69.4	68.2	69.4	67.9
Government final consumption.....	16.4	16.0	16.1	16.5	16.6	17.1	20.0
Gross domestic savings.....	11.6	13.3	13.0	14.0	15.1	13.5	12.1
Private gross domestic savings.....	10.0	8.9	6.9	8.4	9.6	8.0	18.3
Government gross domestic savings.....	1.6	4.4	6.0	5.7	5.6	5.5	(6.2)
Net transfers.....	3.7	2.1	1.4	3.7	2.9	3.1	2.6
Private net transfers.....	5.5	3.9	2.8	4.6	3.6	4.2	3.5
Government net transfers.....	(1.8)	(1.8)	(1.4)	(0.9)	(0.7)	(1.0)	(0.9)
Gross national savings.....	15.4	15.3	14.4	17.8	18.0	16.6	14.7
Private gross national savings.....	15.6	12.7	9.8	13.0	13.2	12.2	21.8
Government gross national savings.....	(0.2)	2.6	4.6	4.8	4.8	4.4	(7.0)
Gross domestic investment.....	18.8	18.3	19.6	22.6	24.9	23.3	20.7
Private investments ⁽²⁾	16.2	15.2	16.8	18.7	19.9	19.7	16.2
Government investments.....	2.7	3.1	2.8	3.9	4.9	3.5	4.5
Total savings – investment balance.....	(3.5)	(2.9)	(5.2)	(4.8)	(6.9)	(6.6)	(6.0)
Private savings – investment balance.....	(0.6)	(2.5)	(7.0)	(5.7)	(6.8)	(7.6)	5.6
Government savings – investment balance.....	(2.9)	(0.5)	1.8	0.9	(0.1)	0.9	(11.6)

Source: National Bank

Notes:

- (1) Since the GDP information for the first nine months of 2020 is not yet available, all data is presented for the first six months in 2020 and comparable period in 2019 and shown as a percentage of GDP based on the Office of Statistics' estimates of nominal GDP for the six months ended 30 June 2020 and 2019.
- (2) This includes the residual that occurs during the calculation of the savings and investment balance and may have slight differences compared to private investments from the National Accounts.

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.

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 Law on the National Bank of Serbia (the “**NBS Law**”) regulates 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.

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 independence of central bank, 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 in respect of services performed by banks, financial leasing companies, insurance companies and voluntary pension fund management companies, pursuant to the Law on the Protection of Financial Services Consumers;
- issuing banknotes and coins and managing cash flows;

- regulating, controlling and promoting the smooth 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 for 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 domestic 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. $\pm$ 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) to dinar-denominated securities. However, following the outbreak of the COVID-19 pandemic, and the resultant slowdown in economic activity, the National Bank provided additional dinar liquidity in the amount of RSD 26.2 billion to domestic banks through repo purchases of dinar-denominated government securities, with the aim of ensuring that banks have sufficient dinar liquidity. With the same objective, the National Bank provided additional dinar liquidity through FX swap auction of RSD 14.9 billion in March 2020 and the purchase of corporate bonds of RSD 25.2 billion in September 2020. Additionally, the National Bank injected an amount of RSD 97.0 billion through bilateral purchases of government securities from domestic banks to ensure the stability of the

domestic government bond market and provide additional dinar liquidity to the banking system. These purchases contributed to the stability of government bond yields in the secondary market despite a heightening of volatility in capital inflows due to general negative investor sentiment towards emerging market currencies on a global level. However, a large part of this injected liquidity was withdrawn by means of interventions through sale of foreign exchange in the domestic foreign exchange markets. See “– *Operations in the Domestic Foreign Exchange Market (FX interventions and FX swap auctions)*” for more details. 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 domestic foreign exchange market aim to ease excessive short-term volatility of the RSD: EUR 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, and since then the key policy rate has been reduced from 11.75 per cent. to 2.25 per cent. in 2019, which was allowed due to the continuously low levels of inflation in the economy, despite rising aggregate domestic demand and positive trends in the labour market. In recent years, the National Bank has adopted a relatively cautious approach to monetary policy, influenced by the general global uncertainty in the financial markets and potential shifts in capital flows towards emerging market economies, including Serbia. As part of its initial policy response to COVID-19 outbreak, the National Bank reduced its benchmark (key policy) interest rate by 50 basis points and narrowed its interest rate band from ± 1.25 percentage points to ± 1.00 percentage point relative to the key policy rate. In April and June 2020, the National Bank further reduced the key policy rate by an additional 50 basis points to 1.25 per cent., resulting in a cut in lending and deposit facility rates from 2.75 per cent. to 2.25 per cent., and from 0.75 per cent. to 0.25 per cent., respectively. Further, the National Bank introduced additional measures to support banks’ liquidity management through direct repo auctions and foreign exchange swap auctions. Separately, to mitigate the adverse effects of the COVID-19 and to provide additional impetus to economic growth, the National Bank stimulated lending in dinars in order to support dinarisation by introducing a “preferential” dinar remuneration rate at 0.5 percentage points above the standard remuneration rate of 0.10 per cent. This “preferential” remuneration rate is applicable to a portion of required reserves allocated in dinars in respect of, or against, the amount of dinar loans extended under the State Guarantee Scheme at an interest rate at least 0.5 percentage points lower than the maximum rate (1M BELIBOR+2.5 percentage points) envisaged by the State Guarantee Scheme.

In May 2020, the National Bank recognised dinar corporate bonds issued by domestic companies with adequate creditworthiness in the list of eligible securities for monetary operations. This measure supported the domestic economy to weather the challenges posed by the current COVID-19 crisis, and paved the way for domestic companies’ to diversify sources of financing through the development of the capital market segment. In coordination with the Government, the National Bank continues to remain committed to taking all necessary measures toward protecting and preserving, so far as possible, macroeconomic stability in the economy during these unprecedented times.

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) interventions in the domestic foreign exchange market.

Open market operations

The National Bank uses open market operations in order to regulate dinar 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 dinar 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 2015, the average stock of repo-sold securities amounted to RSD 28.5 billion. 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. In 2019, the average stock of repo-sold securities was slightly down compared to the previous year, and amounted to RSD 46.9 billion, while the value of repo-sold securities amounted to RSD 70.0 billion at the end of 2019, which was RSD 53.5 billion higher than the level of repo-sold securities at end of 2018. At the end of September 2020, the value of repo-sold securities amounted to RSD 30.0 billion. In response to the COVID-19 pandemic, the National Bank, along with the additional swap auction of foreign exchange purchases, organised three direct repo purchase auctions, by which it provided RSD 5.7 billion for a period of seven days (with RSD 1.0 billion more at maturity) and RSD 20.5 billion for a period of three months to banks, both at a favourable interest rate of 0.75 per cent. (which was equal to the deposit facility rate as at March 2020, the lowest rate in the National Bank's interest rate band). By these auctions, banks were able to obtain the dinar liquidity. Additionally, through regular FX swap auctions, the National Bank was able to supply liquidity to banks in both dinars and euros at favourable interest rates (i.e. at 10 basis point above the deposit facility rate for dinars and at zero per cent. for euros) between 31 March 2020 and 31 May 2020.

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:

- (a) 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 Base 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;
- (b) 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
- (c) to support local currency funding, the National Bank remunerates reserve requirements allocated in dinars (currently set at 0.10 per cent.). In July 2020, the National Bank introduced a "preferential" dinar remuneration rate (currently set at 0.6 per cent.) in order to support dinarisation and provide additional impetus to economic growth. This "preferential" remuneration rate is applicable to a portion of required reserves allocated in dinars in respect of, or against the amount of dinar loans extended under the State Guarantee Scheme at an interest rate of at least 0.5 percentage points lower than the maximum rate envisaged by the State Guarantee Scheme, which is (1M BELIBOR+2.5 percentage points). The NBS 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 introduced 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 1.00 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 1.00 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 ± 1.00 percentage points below and above the key policy rate.

Operations in the Domestic 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 domestic 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 2019, the National Bank intervened in the domestic foreign exchange market with net purchases of EUR 2.7 billion. In the first nine months of 2020, the National Bank intervened in the domestic foreign exchange market with net sales of EUR 1,635 million. Apart from seasonal factors influenced by a higher foreign currency demand of domestic companies, particularly importers of energy at the beginning of the year, the net sales by the National Bank during the first nine months of 2020 were influenced by factors related to the spread of COVID-19. The contraction of global economic activity and growing uncertainty in the international markets, especially between March and April 2020 contributed to the higher net demand for foreign currencies by residents and non-residents, which decreased significantly in the following months. Despite the downward pressure on dinars in the first nine months of 2020, the relative stability of the exchange rate was maintained owing to the timely and adequate reactions of the National Bank and timely application of the Government’s measures aimed at preserving macroeconomic stability. 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 sells the same amount of foreign exchange so as not to influence dinar and foreign currency liquidity.

In addition to holding regular FX swap auctions, the National Bank operates proactively to regulate dinar and foreign currency liquidity in the banking sector. In 2019, the National Bank conducted seven additional FX swap auctions (the last one being in June) in response to temporarily reduced dinar liquidity surpluses. In order to support the domestic economy and the financial system amid the spread of COVID-19 and to provide dinar liquidity, the National Bank organised an additional three-month EUR/RSD swap auction in March 2020, at a favourable implicit interest rate of 0.85 per cent. on dinar and zero per cent. on EUR, through which means it supplied banks with RSD 14.9 billion. By this

auction, banks were able to obtain necessary dinar liquidity with foreign exchange which would serve as collateral with National Bank. Separately, through regular FX swap auctions, the National Bank was able to supply liquidity to banks in both dinars and euros at favourable interest rates (i.e. at 10 basis point above the deposit facility rate for dinars and at zero per cent. for euros) between 31 March 2020 and 31 May 2020.

From 31 March until the end of 31 May 2020, the National Bank modified its practice in response to the COVID-19 pandemic by organising auctions at fixed swap points, instead of the previously applied variable multiple swap points, with the volumes of swap purchases and sales being no longer identical. As a result, the role of the National Bank in FX swap auctions was no longer exclusively that of an intermediary, but also that of a supplier of dinars and euros to banks at favourable interest rates. Interest rates used for calculating the swap points were set at the level of the deposit facility rate + 0.10 percentage points on RSD and 0.0 per cent. on EUR. Since June 2020, the National Bank have reinstated the use of variable multiple swap points when organising regular FX swap auctions, with the volumes of swap purchases and sales being identical so as to not influence dinar and foreign currency liquidity.

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 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
	(RSD million)					
Liquid assets (core) ⁽¹⁾	477,897	440,413	426,646	549,295	566,902	665,597
Liquid assets (broad measure) ⁽²⁾	508,498	474,213	471,748	565,800	636,902	695,597
Short-term liabilities.....	426,053	496,741	521,019	628,335	750,620	937,329
Total loans.....	2,515,242	2,664,578	2,695,506	2,901,062	3,142,079	3,460,904
Loans to public sector.....	739,009	785,925	748,940	775,448	835,210	927,812
Loans to private sector (excluding loans to other financial institutions).....	1,752,676	1,850,386	1,916,814	2,099,615	2,276,340	2,501,728
Loans to households.....	759,050	838,621	904,192	1,017,273	1,111,321	1,236,094
Loans to companies.....	992,225	1,009,700	1,011,349	1,080,740	1,163,055	1,265,126
Loans to non-profit and other organization.....	1,401	2,065	1,273	1,602	1,964	507
Loans to other financial institutions.....	23,557	28,267	29,751	25,999	30,529	31,365

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 stemmed from public sector borrowing (lending to public enterprises and banks' investment in government securities).

The positive trends in credit activity continued in 2019. In 2019, loans to the private sector rose in nominal terms by 8.4 per cent. as compared to 2018, and were the largest contributor (with almost 75 per cent.) to the growth of 8.3 per cent. in total loans, which amounted to RSD 3,142.1 billion at the end of 2019.

Despite the negative impacts of the COVID-19 pandemic, lending activity continued to rise in the first nine months of 2020, resulting in total loans reaching RSD 3,460.9 billion as at the end of September, which represents an increase of 10.1 per cent. compared to the end of 2019. This increase was mainly attributable to the loan disbursements made in the first quarter of 2020, the National Bank's proactive measures (including key interest rate cut and two loan moratoriums which took place at the end of March and between August and September 2020), and the State Guarantee Scheme which was introduced in May 2020. The State Guarantee Scheme which envisages a disbursement of EUR 2.0 billion until late January 2021, of which EUR 1.15 billion has been approved for disbursement up to the end of September 2020, is aimed at supporting SMEs and entrepreneurs exposed to or deemed to be more vulnerable to the negative economic consequences of the COVID-19 pandemic. Further, claims of the banks from the private sector increased as a result of investment in corporate bonds in September 2020. As at 30 September 2020, dinar and foreign currency loans to corporates and households amounted to RSD 927.5 billion and RSD 1,573.7 billion, respectively, reflecting an increase of 19.3 per cent. and 5.1 per cent., compared to the end of 2019. Investment loans continued to be the most dominant category of corporate loans with a share of 43.9 per cent, followed by liquidity and current assets loans with a share of 42.6 per cent. In terms of structure, loans to SMEs amounted to 67.7 per cent. of total corporate loans at end of September 2020, reflecting an increase of 12.1 per cent. relative to September 2019.

Monetary Aggregates

The following table shows certain statistics relating to monetary aggregates as at 31 December for the years 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
	<i>(RSD million, unless otherwise indicated)</i>					
Narrow money (M1).....	504,474	607,856	669,673	792,332	903,603	1,124,706
Broad money (M2).....	702,476	808,309	872,007	1,017,826	1,186,596	1,463,283
Broad money (M3).....	1,969,508	2,197,052	2,275,425	2,605,853	2,823,546	3,206,358
Broad money (M3) year-on-year growth rate (%).....	6.6	11.6	3.6	14.5	8.4	18.8
Broad money (M3) share of GDP ⁽¹⁾ (%).....	45.7	48.6	47.9	51.5	52.2	58.1 ⁽⁴⁾
Reserve money.....	651,491	640,947	638,010	776,599	810,724	946,411
Reserve money, year-on-year growth rate (%).....	6.9	(1.6)	(0.5)	21.7	4.4	25.7
Deposits in RSD.....	562,658	649,044	708,076	835,212	977,029	1,215,274
Deposits in foreign currencies.....	1,267,032	1,388,743	1,403,418	1,588,027	1,636,949	1,743,075
Loans in RSD ⁽²⁾	549,528	612,686	660,818	727,932	795,362	974,093
Loans in foreign currencies ⁽³⁾	1,370,099	1,352,043	1,345,662	1,477,412	1,606,985	1,688,359

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) This data is calculated as a share of projected nominal GDP for the whole year of 2020.

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 (M1) increased by 18.3 per cent., while broad money (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 2019, narrow money (M1) increased by 14.0 per cent. largely driven by the rise in household and corporate demand deposits. Broad money (M2) and the broadest aggregate (M3) increased by 16.6 per cent. and 8.4 per cent., respectively, as a result of the increase in longer-term source of funds. Time dinar deposits rose by RSD 57.5 billion, with dinar household savings rising by more than 30 per cent., reaching a new maximum of RSD 79.0 billion at the end of 2019. At the same time, FX deposits recorded growth of EUR 484.8 million, led by household FX savings, which stood at EUR 10.5 billion at the end of 2019. As at 31 December 2019, foreign currency loans and dinar loans stood at RSD 1,607.0 billion and RSD 795.4 billion, respectively.

After the usual seasonal contraction at the beginning of 2020, money supply rose on the back of increased Government spending in line with the economic response plan of the Government to alleviate the negative effects of the pandemic and ensure a stable credit activity. Numerous Government measures were undertaken to support both corporate and household liquidity (including tax payment deferrals, corporate subsidies in the form of minimum wage pay-outs to employees, loan disbursements under the State Guarantee Scheme and two moratoriums on loan repayments), which promoted the growth of demand deposits and rise in currency circulation, bringing narrow money (M1) to a total of RSD 1,124.7 billion as at the end of September 2020. Time dinar deposits of non-monetary sectors also rose across the board, with growth mostly concentrated in corporate and household deposits, bringing broad money aggregate (M2) to RSD 1,463.3 million as at the end of September 2020. This, along with the rise in foreign currency deposits further propped by foreign currency inflows from exports, FDI and external borrowing of corporates resulted in broad money aggregate (M3) reaching RSD 3,206.4 billion as at the end of September 2020.

Despite the pandemic, both dinar and foreign currency savings of households continued to increase, testifying the household confidence in the banking system and the domestic currency. As at the end of September 2020, dinar savings (which included non-residents' deposits) reached RSD 89.3 billion, while foreign currency savings amounted to EUR 11.2 billion, with increases of RSD 9.7 billion and EUR 351.5 million, respectively. Owing to the National Bank's proactive measures, lending activity continued to rise in the first nine months of 2020 amidst the COVID-19 pandemic, which along with the banks' investment in corporate bonds, resulted in dinar and foreign currency loans to corporates

and households amounting to RSD 974.1 billion and RSD 1,688.4 billion respectively as at the end of September.

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 2015 to 2019 and for September 2020:

	Year ended 31 December					September (year-on- year rates)
	2015	2016	2017	2018	2019	2020
	<i>(% change)</i>					
Fruit and vegetables	(1.5)	(6.8)	13.8	10.0	(1.2)	9.0
Regulated prices.....	5.5	2.2	2.9	2.4	3.4	4.3
Electricity.....	12.2	3.8	2.1	0.0	4.1	3.9
Gas for households	(15.0)	16.4	0.4	0.0	0.5	(0.3)
Utilities	2.5	0.5	0.2	1.3	1.4	0.7
Social welfare services.....	(7.5)	(1.0)	2.2	0.9	0.2	0.1
Transport services (regulated).....	2.5	0.0	0.3	2.1	0.6	(0.1)
Postal and telecommunications services	0.0	0.0	0.0	0.0	0.5	13.5
Cigarettes	12.9	4.7	8.9	8.2	7.6	7.0
Medications	(5.2)	3.1	(0.8)	0.9	0.4	0.4
Other	1.5	1.3	1.6	0.6	5.1	2.1
Petroleum products	(5.9)	5.7	4.7	5.5	0.7	(10.0)
Core inflation ⁽¹⁾	1.6	1.5	1.3	1.0	1.1	1.7
Total inflation (CPI)	1.5	1.6	3.0	2.0	1.9	1.8

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 2019, average inflation remained at a similar level, decreasing to 1.9 per cent., compared with 2.0 per cent. in 2018, with somewhat larger fluctuations during the year related to volatility in vegetable prices and, to a lesser degree, the prices of oil derivatives. Other key components of inflation remained relatively stable. Core inflation at the end of 2019 was 1.1 per cent., slightly up from 1.0 per cent. at the end of 2018.

As at September 2020, total inflation stood at 1.8 per cent., which is within the target tolerance band of 3.0 per cent. ± 1.5 per cent. of National Bank. In the first five months of 2020, inflation levels declined and stood at 0.6 per cent. in April and 0.7 per cent. in May due to a drop in vegetable prices, as well as a sharp decline in global oil prices in the early days of the pandemic. Since June, total

inflation has stabilised within the target tolerance band as vegetable prices reversed its course. In the first nine months of 2020, the core inflation rate has been relatively stable, moving around the lower bound of the target tolerance band and standing at 1.7 per cent. in September 2020.

Since the beginning of the COVID-19 pandemic, inflation has remained fairly stable in Serbia, and with exception of the decline in global oil prices, there has been no major price movements in either direction. However, as in other countries, the COVID-19 pandemic is likely to have a deflationary impact in Serbia. While disruptions of the global supply chain may have some inflationary impact in the medium-term, this is likely to be significantly overshadowed by the deflationary pressure caused by the decline in global aggregate demand. The exact impact of the COVID-19 crisis on inflation will depend largely on the length of the pandemic and the pace of normalisation of economic conditions.

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 2015 to 2019 and for the first nine months of 2020⁽¹⁾:

	2015	2016	2017	2018	2019	2020
January	6.76	3.01	2.81	2.75	2.96	1.98
February	7.16	2.88	2.83	2.84	2.72	1.84
March	6.72	2.73	2.81	2.68	2.81	1.70
April	5.83	2.64	2.76	2.72	2.76	1.60
May	5.30	2.59	2.76	2.70	2.78	1.54
June	5.00	2.48	2.69	2.58	2.70	1.37
July	4.84	2.61	3.09	2.60	2.52	1.41
August	4.58	2.59	2.97	2.61	2.25	1.39
September	3.95	2.66	2.82	2.77	2.10	1.37
October	3.40	2.66	2.65	2.78	1.98	-
November	3.24	2.69	2.70	2.88	1.99	-
December	3.06	2.94	2.85	2.78	2.00	-

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 2015 to 2019 and for the first nine months of 2020⁽¹⁾:

	2015	2016	2017	2018	2019	2020
January	1.32	0.90	0.58	0.71	0.88	0.90
February	1.25	0.77	0.59	0.83	1.03	0.97
March	1.20	0.66	0.42	0.95	0.78	0.92
April	1.11	0.79	0.57	0.82	0.96	0.81
May	1.08	0.70	0.50	0.77	0.98	0.93
June	0.94	0.80	0.61	0.72	0.65	0.83
July	0.90	0.65	0.56	0.87	0.90	0.81
August	1.00	0.64	0.59	0.86	0.93	0.79
September	0.82	0.55	0.56	0.81	0.83	0.79
October	0.96	0.58	0.69	0.95	0.80	-
November	1.11	0.58	0.72	1.07	1.09	-
December	0.82	0.54	0.91	1.38	1.13	-

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 money market, lower country risk premium and increased interbank competition in the loan market. Interest rate differential between dinar and

euro-indexed loans to corporate sector has narrowed, facilitating dinar lending and increase of dinarisation.

As a result of the impact of the National Bank's monetary policy accommodation, coupled with the declining interest rates in the international money market, interest rates on dinar savings recorded a continuous decline until the end of 2016, and remained low 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 domestic 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 in respect of the dinar as against the euro and to 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.

Even with the higher uncertainty in the international markets due to the COVID-19 crisis, the relative stability of the domestic foreign exchange market was preserved by the National Bank. Despite the depreciation pressures in the first nine months of 2020, the relative stability of the dinar exchange rate was maintained owing to the timely and adequate reactions of the National Bank and timely application of the Government's measures aimed at preserving macroeconomic stability. During the first nine months of 2020, the value of the dinar against the euro remained almost unchanged due to interventions by the National Bank in the domestic foreign exchange market in moderate amounts, mostly through foreign exchange sales, with occasional foreign exchange purchases. During this period, the National Bank achieved net selling of EUR 1,635 million, through foreign exchange sales of EUR 1,840 million and foreign exchange purchases of EUR 205 million.

Apart from seasonal factors due to increased demand for foreign currency from domestic companies, particularly importers of energy at the beginning of the year, the net sales by the National Bank during the first nine months of 2020 were influenced by factors related to the spread of COVID-19. Net demand for foreign currency from residents and non-residents grew on the back of global economic contraction and uncertainty in the international markets, mostly between March and April, but decreased significantly in the latter months following investor confidence in the measures of the National Bank and the Government aimed at preserving the relative stability of the domestic foreign exchange market.

The following table shows the exchange rate history for the years 2015 to 2019 and for the nine months ended 30 September 2020, expressed in dinars per euro and not adjusted for inflation:

	Dinar to Euro ⁽¹⁾			
	Low	High	Average	Period End
2020 (through 30 September 2020).....	117.4966	117.6739	117.5779	117.5803
2019.....	117.4333	118.4940	117.8524	117.5928
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

Source: National Bank

Note:

(1) Not adjusted for inflation.

The following table shows the exchange rate history for the years 2015 to 2019 and for the nine months ended 30 September 2020, expressed in dinars per U.S. dollar and not adjusted for inflation:

	Dinar to U.S.\$ ⁽¹⁾			
	Low	High	Average	Period End
2020 (through 30 September 2020).....	98.0600	109.3884	104.5574	100.1706
2019.....	102.4454	107.8600	105.2762	104.9186
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

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 from domestic energy-importing enterprises. However, the dinar strengthened against the euro in April 2017, which continued through most of 2018 and 2019, as a result of the improvement of macroeconomic indicators and perception of Serbia's prospects. Strong macroeconomic performance of Serbia and positive perceptions of the domestic economy also led to increased inflow of foreign exchange, partly due to increased investment from foreign portfolio investors in long-term, primarily ten-year and seven-year dinar-denominated bonds of Serbia.

In 2019, the dinar nominally strengthened by 0.5 per cent. against the euro and, nominally weakened by 1.5 per cent. against the U.S. dollar. In the first nine months of 2020, the dinar remained almost unchanged against the euro and nominally strengthened by 4.7 per cent. against the U.S. dollar. In the first nine months of 2020, the National Bank intervened in the domestic foreign exchange market with a net selling of EUR 1,635 million. The National Bank net sales at the beginning of the year were mostly in response to the downward pressure on the dinar, which is common for this period of the year, and was driven by the increased demand for foreign currency from domestic companies and particularly importers of energy. From March, the National Bank intervened in the domestic foreign exchange market by net selling of foreign currency in response to the economic impact of the spread of COVID-19, as set out above. See “- Operations in the Domestic Foreign Exchange Market (FX interventions and FX swap auctions)”. Net demand for foreign currency from residents and non-residents grew on the back of global economic activity contraction and uncertainty in the international markets, mostly in the months of March and April, but decreased significantly in the latter months. Pressures on the dinar as a result of the spread of the COVID-19 pandemic were modest as of 30 September 2020 due to the increased resilience of the domestic economy and the domestic financial markets. As of 30 September 2020, Serbia also had not witnessed substantial capital outflows or substantial sales of dinar-denominated securities from foreign investors. By appearing on both sides of

the market in the first nine months of 2020, through selling foreign currency in response to depreciatory pressure, and buying foreign currency in periods of appreciatory pressures, the National Bank intervened in the domestic foreign exchange market to mitigate excessive short-term fluctuations in the dinar exchange rate against the Euro.

Dinarisation Strategy

Approximately 60 per cent. 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 Serbia, such as towards the end of the 20th century and in the first decade of the 21st century, in order to protect from losses due to the expectations of inflation and depreciation of the domestic currency, individuals were 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 owned 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 is expected to 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. With this in mind, 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.

Accordingly, the National Bank stimulates the dinarisation process by delivering low and stable inflation, preserving relative exchange rate stability, enhancing management of foreign exchange risk and exposures in the private sector, and using other measures. 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 8.6 percentage points to an all-time high of 36.6 per cent. in September 2020. In particular, dinarisation of receivables to households increased to 56.6 per cent., while dinarisation of receivables to the corporate sector decreased to 19.3 per cent., with the latter ratio showing signs of improvement following the implementation of the State Guarantee Scheme which fuelled corporate lending in dinar.
- dinarisation of households and corporate deposits has also grown since the end of 2012, reaching an all-time high of 39.2 per cent. in September 2020, with increased dinarisation of both households deposits (25.7 per cent.) and corporate deposits (60.2 per cent.). The increase in household deposits was related to the increase in dinar savings, which was largely the result of achieved macroeconomic stability, relative stability of the dinar exchange rate and 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 RSD 18.5 billion (30.3 per cent.) in 2019, reaching RSD 79.6 billion at the end of December 2019. In 2020, RSD savings continued to increase notwithstanding the COVID-19

pandemic, rising by RSD 9.7 billion (or 12.2 per cent.) to a total amount of RSD 89.3 billion as of 30 September 2020.

- the dinar share of public debt also increased, reaching 29.4 per cent. at the end of September 2020, which is 10.3 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;
- adopting monetary policy measures that are in favour of dinarisation (e.g. extending preferential treatment to dinar sources of financing with the required reserve and providing privileged treatment to dinar securities in the form of a permitted collateral);
- adopting prudential measures (e.g. lowering capital requirements for dinar receivables (as compared with foreign currency receivables) and prescribing obligations to deposit/participate in the approval of currency indexed loans, providing a protective layer of capital for structural system risk and offering “preferential” dinar remuneration rate on required reserves in relation to dinar loans extended under the State Guarantee Scheme); 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). The Government is also continuously looking to improve financial market legislation, as seen with the recent amendments to the Law on Public Debt and the Law on Capital Markets to ease the access to the domestic capital markets for foreign investors through international clearing houses.

Foreign Assets

The following table shows the foreign assets of the National Bank as at 31 December for the years 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
	<i>(EUR million, except where otherwise indicated)</i>					
Net foreign assets.....	10,315	10,164	9,934	11,241	13,366	13,026
Gross foreign exchange reserves.....	10,378	10,205	9,962	11,262	13,378	13,030
Use of IMF resources.....	—	—	—	—	—	—
Gold.....	566	661	675	736	1,337	1,660
Foreign exchange reserves (months of imports) ⁽¹⁾	6.7	6.2	5.4	5.4	5.7	5.9

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 exchange reserves reduced by EUR 173 million and EUR 243 million, respectively. Over this period, net outflows were largely due to settlement 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 exchange 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 2019, the gross foreign exchange reserves of the National Bank increased by EUR 2,116 million, and reached EUR 13,378 million as at 31 December 2019. This was largely as a result of National Bank interventions in the domestic foreign exchange market in the net amount of EUR 2,680 million.

In the first nine months of 2020, the gross foreign exchange reserves of the National Bank remained broadly stable at EUR 13,030 million in September 2020, from EUR13.1 billion in March and a peak of EUR14.3 billion in May. In comparison to 2019, the gross foreign exchange reserves of the National Bank decreased by EUR 348 million. The main challenges faced by the National Bank during this period included minimising the adverse effects of (i) the negative rates environment on euro denominated asset classes (which constitute the largest part of the foreign exchange reserves), (ii) overall low interest rates environment and (iii) the pronounced volatility in the financial markets triggered by COVID-19. In the first nine months of 2020, the main outflows from foreign exchange reserves largely related to the National Bank's interventions in the domestic foreign exchange market in the net amount of EUR 1,605 million in response to COVID-19, as well as settlement of liabilities of foreign creditors in the amount of EUR 871.8 million. On the other hand, the main inflows into the foreign exchange reserves were largely attributable to a Eurobond issuance in the amount of EUR 1,969 million.

Banking Sector

Overview

Commercial banks are dominant market participants in Serbia, with a market share of about 90 per cent. As at 30 September 2020, 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. As at 30 September 2020, foreign-owned banks (from 13 different countries) accounted for 76.4 per cent. of total assets, 82.3 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 30 September 2020:

	Pre-tax result	Assets (net)	Equity (book value)	Loans	Deposits	Number of employees
	<i>(RSD millions)</i>			<i>(% of sector total)</i>		
Greek banks.....	1,369.68	4.2	7.6	5.1	3.3	6.4
Italian banks	13,982.43	26.6	26.6	26.3	26.9	19.2
French banks	636.24	3.3	1.9	4.2	3.2	4.0
Austrian banks.....	7,796.58	14.5	13.6	14.5	14.3	12.1
German banks.....	577.65	3.2	2.4	4.0	2.7	1.7
Serbian banks	14,929.36	23.6	24.0	17.7	25.2	28.7
Other banks	4,140.74	24.6	23.9	28.2	24.4	27.9
Total banks	43,432.68	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.

In the first nine months of 2020, the banking sector continued to remain resilient, well capitalised and liquid amidst the disruption caused by COVID-19. As at 30 September 2020, Serbia's banking sector assets and capital amounted to RSD 4,510 billion (EUR 38.4 billion) and RSD 717 billion (EUR 6.1 billion), respectively. The sector employed 22,858 people within the entire banking network, which comprised 1,576 business units, branches, branch offices and teller units. Loans and receivables represented the dominant share of 63.5 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. As at 30 September 2020, the top five banks in Serbia had a market share of 53.2 per cent. of assets, 51.7 per cent. of loans and 54.5 per cent. of deposits, whereas the top 10 banks had a market share of 80.0 per cent. of assets, 78.2 per cent. of loans and 80.9 per cent. of deposits.

With the aim of ensuring that banks have sufficient liquidity, the National Bank provided additional liquidity (both in dinars and euros) to the banks through EUR/RSD swap auctions, a reduction of the stock of sold repo securities, as well as through repo purchase auctions, and outright purchase of government securities through bilateral transaction with banks. As a result, after a temporary tightening in early March, the dinar liquidity was restored in the first nine months of 2020. In July 2020, the European Central Bank and the National Bank set up a repo line arrangement to address any potential euro liquidity needs in light of COVID-19. Accordingly, liquidity ratios of the banks continued to be at levels higher than the regulatory minimum due to these measures of the National Bank. In September 2020, the average monthly liquidity ratio of the Serbian banking sector was 2.19, well above the regulatory minimum of 1.0. As at 30 September 2020, liquid assets amounted to 36.2 per cent. of the total balance sheet assets of the banking sector and 49.6 per cent. of total short-term liabilities.

For the period ended 30 September 2020, the net profit before taxes amounted to RSD 43.4 billion (EUR 369 million), with return on assets and return on equity at 1.35 per cent. and 8.14 per cent., respectively. Of the total number of banks, 19 banks operated with a gain of RSD 44.6 billion, while seven banks operated with a loss in the total amount of RSD 1.2 billion (with participation in the total balance sheet of the banking sector of 2.0 per cent.). Although net impairment losses have increased, the COVID-19 pandemic has not considerably impacted the banking sector profitability.

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

- in 2016, the National Bank granted a licence to operate to a newly established bank and provided 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 provided three consents to banks for merger in 2017 and 2018;
- in 2018, the National Bank withdrew a licence to operate from one bank and provided its prior consent to foreign individuals to acquire ownership in one bank;
- in January 2019, the National Bank provided its prior consent to a foreign legal entity for acquiring ownership of one domestic bank;
- in April and June 2019, the National Bank provided its prior consents to domestic legal entities for acquiring ownership in two domestic banks;
- in April 2019, the National Bank provided its consent for the merger of a bank; and
- as at the date of this Base Prospectus, the National Bank has not received any applications for mergers and acquisitions of bank ownerships in 2020.

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 attributed to the loan balance, have 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 aims 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 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 supervision over 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 3.43 per cent. as at 30 September 2020, while the absolute amount of gross NPLs has decreased by 77.9 per cent. from RSD 427.3 billion to RSD 94.2 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 NPLs in the Serbian banking sector in the period from the adoption of the NPL Resolution Strategy until 30 September 2020:

	Gross NPLs			Gross NPL Ratio		
	As at 31 August 2015	As at 30 September 2020 (RSD billions)	% Change	As at 31 August 2015	As at 30 September 2020 (%)	Percentage Point Change
Sector breakdown						
Total	427.3	94.2	(77.9)	22.2	3.4	(18.8)
Corporate	210.2	32.8	(84.4)	26.0	2.7	(23.3)
Households	74.6	40.1	(46.2)	11.2	3.6	(7.6)
Other sectors	142.5	21.3	(85.1)	31.8	5.1	(26.7)
NPLs in relation to ownership structure						
State owned	66.4	18.1	(72.8)	26.2	5.6	(20.6)
Privately held	36.0	5.8	(84.0)	35.3	3.4	(31.9)
Foreign owned	324.9	70.4	(78.3)	20.8	3.1	(17.7)
NPLs in relation to country of origin						
Austria	60.7	8.1	(86.7)	20.7	2.0	(18.7)
France	37.0	2.8	(92.3)	16.1	2.4	(13.7)
Germany	2.4	1.7	(29.0)	3.8	1.6	(2.2)
Italy	84.3	17.8	(78.9)	17.5	2.5	(15.0)
Greece	78.1	8.4	(89.2)	27.0	6.1	(20.9)
Other foreign countries ⁽¹⁾	62.4	31.5	(49.5)	29.9	4.1	(25.8)
Serbia	102.4	23.8	(76.7)	28.9	4.9	(24.0)
NPL of corporate sector (privately owned) – industry breakdown						
Agriculture	9.5	1.1	(88.1)	16.0	1.2	(14.8)
Manufacturing	62.6	13.1	(79.1)	21.8	3.6	(18.2)
Trade	63.2	6.2	(90.3)	24.6	1.7	(22.9)
Construction	35.9	4.0	(89.0)	47.9	2.9	(45.0)
Other	39.1	8.5	(78.3)	30.0	3.2	(26.8)

	Gross NPLs			Gross NPL Ratio		
	As at 31 August 2015	As at 30 September 2020 <i>(RSD billions)</i>	% Change	As at 31 August 2015	As at 30 September 2020 <i>(%)</i>	Percentage Point Change
Total	210.2	32.8	(84.4)	26.0	2.7	(23.3)
NPLs of retail products						
Cash loans.....	22.5	23.5	4.5	10.6	4.1	(6.5)
Credit cards.....	5.4	1.7	(68.2)	14.8	5.1	(9.7)
Overdrafts	4.3	1.7	(59.7)	15.7	8.5	(7.2)
Consumer loans	3.8	0.3	(92.1)	23.9	3.1	(20.8)
Mortgage loans	33.5	11.6	(65.3)	9.8	2.7	(7.1)
NPLs coverage overview (% covered)						
NPL IFRS provisions.....	-	-	-	56.4	62.4	6.0
Total IFRS provisions	-	-	-	60.5	98.0	37.5
Regulatory provisions (balance sheet)	-	-	-	N.A.	-	-
Total regulatory provisions	-	-	-	N.A.	-	-

Source: National Bank.

Notes:

- (1) 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 2015 to 2019 and as at 30 September 2020:

	Gross NPLs (As at 31 December)					As at 30 September
	2015	2016 <i>(RSD billions)</i>	2017	2018	2019	2020
Total	424.62	345.78	204.93	130.65	101.42	94.25
Corporates	198.28	157.66	102.37	53.37	37.12	32.83
Households.....	73.44	69.23	45.41	39.61	39.02	40.13
Other sectors	152.90	118.89	57.15	37.67	25.28	21.29

Source: National Bank.

	Gross NPL Ratio (As at 31 December) ⁽¹⁾					As at 30 September
	2015	2016	2017 <i>(%)</i>	2018	2019	2020
Total	21.58	17.03	9.85	5.70	4.09	3.43
Corporates	23.56	17.58	10.80	5.20	3.32	2.67
Households.....	10.87	9.28	5.63	4.36	3.91	3.63
Other sectors	33.99	30.67	17.49	10.54	6.89	5.10

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 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at
	2015	2016	2017	2018	2019	30 September 2020
Capital Adequacy						
Regulatory capital to risk-weighted assets	20.9	21.8	22.6	22.3	23.4	22.4
Tier 1 capital to risk weighted assets	18.8	20.0	21.6	21.1	22.4	21.5
Balance sheet capital to balance sheet assets	20.3	19.5	19.8	17.9	17.3	15.9
Leverage	N/A	N/A	11.09	12.64	13.55	12.56
Asset Quality						
Gross NPL/total gross loans.....	21.58	17.03	9.85	5.70	4.09	3.43
Regulatory provisions for balance sheet exposure/gross NPLs	114.18	118.92	133.24	160.49	N/A	N/A
IFRS provisions /gross NPLs.....	62.27	67.83	58.10	60.19	61.47	62.42
Profitability						
Profit before tax (RSD billions)	9.72	21.3	68.69	75.72	67.68	43.43
Return on assets (ROA)	0.32	0.68	2.08	2.12	1.72	1.35
Return on equity (ROE)	1.58	3.40	10.57	11.27	9.79	8.14
Net interest margin to average balance sheet assets	4.3	3.9	3.7	3.6	3.3	3.0
Net interest margin to gross operating income.....	70.73	70.42	63.73	66.49	66.41	66.96
Operating expenses to gross operating income	62.22	64.80	58.72	58.67	61.46	59.34
Operating expenses to average balance sheet assets....	3.8	3.6	3.4	3.1	3.0	2.7
Personnel expenses to operating expenses	36.7	37.7	38.1	39.4	37.6	40.2
Liquidity and Foreign Exchange Risk						
Average monthly liquidity ratio	2.1	2.1	2.0	2.0	2.2	2.2
Average narrow liquidity ratio	1.7	1.7	1.7	1.7	1.8	1.9
Liquid coverage ratio	N/A	N/A	239.5	213.3	199.3	210.7
Liquid assets to total assets.....	34.3	36.9	36.7	37.4	37.3	36.2
Liquid assets to short-term liabilities	52.0	53.7	53.1	52.8	52.3	49.6
Liquid assets (core) to total assets.....	28.1	30.5	30.8	31.8	31.1	32.0
Liquid assets (core) to short-term liabilities.....	42.5	44.4	44.6	44.9	43.7	43.8
Loans to deposits	99.0	92.0	93.2	90.0	91.2	88.3
Sensitivity to Market Risk						
Net open FX position (overall) to regulatory capital...	4.44	2.74	2.90	4.52	1.54	1.46

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, to 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 above changes, the National Bank has implemented a number of 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;
- making 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; and

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

Capital adequacy

During 2017 and 2018, the level of capital of the banking sector was stable. At the end of December 2019, the capital adequacy ratio was 23.4 per cent., which is well above the prescribed regulatory minimum in Serbia (i.e., 8 per cent.). As at 30 September 2020, the capital adequacy ratio was 22.4 per cent., while the Tier 1 ratio was 21.5 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.

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, Basel III standards were applicable at the individual bank level and at the level of the banking group. At the same time, the National Bank introduced regulations relating to the structure of the bank's capital and stipulated new indicators of capital adequacy at the level of the banking group and certain other levels.

The prescribed minimum capital adequacy ratio was lowered from 12 per cent. to 8 per cent., while capital buffers (capital conservation buffer, countercyclical capital buffer, systemic risk buffer and capital buffer for a systemically important bank) were set in parallel. The National Bank also introduced new standards for calculating capital requirements for market, operational and credit risk on the basis of securitisation, by allowing a more favourable risk weight for exposures secured by mortgages on business real estate and by setting 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, 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 through publication of 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 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 September 2017, the National Bank adopted the guidelines relating to bank capital, which introduced more detailed conditions for the calculation of capital and the method of calculating deductible items of equity, including the calculation of certain regulatory adjustments.

Macprudential policy – capital buffers

Capital buffers (capital conservation buffer, countercyclical capital buffer, systemic risk buffer and capital buffer for a systemically important bank) were established as part of the macroprudential policy. As of 30 September 2020, the capital buffer rates stood at:

- Capital conservation buffer – 2.5 per cent. RWA;
- Countercyclical capital buffer – 0 per cent. RWA;

- Capital buffer for a systemically important bank – 1 to 2 per cent. RWA, for banks identified as systemically important; and
- Systemic risk buffer – 3 per cent. of FX and FX indexed placements approved to corporates and households in Serbia.

The macroprudential policy stance is adjusted on a regular basis. Countercyclical capital buffer rate was maintained at 0 per cent., to mitigate the potential negative consequences of the COVID-19 pandemic on financing of the corporates and households. Lending activity recorded double-digit growth despite the unfavourable circumstances as a result of COVID-19.

IFRS 9

Banks in Serbia started applying IFRS 9 from 1 January 2018. Application of IFRS 9 resulted in a change in the classification, valuation and calculation of the impairment of financial instruments as it introduced the concept of expected credit losses (in place of incurred credit losses).

Other Regulations

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

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

In addition, the following regulations relating to lending to natural persons (which excludes farmers and entrepreneurs) were adopted:

- 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).

In December 2019, the National Bank adopted the following regulations to bolster dinar lending to corporates:

- Decision Amending the Decision on Capital Adequacy of Banks; and
- Decision Amending the Decision on Risk Management by Banks.

These amended regulations were adopted with a view of changing the currency structure of lending in the Republic of Serbia by providing for larger share of dinar loans in total loans and creating an environment conducive to more favourable dinar financing of corporates, especially SMEs. The aim of these amendments is to mitigate potential risks to the stability of the financial system that may arise from the considerable share of FX and FX-indexed loans in bank balance sheets, which is in line with prior efforts of the National Bank to boost dinarisation of the financial system.

In view of the need to preserve and further strengthen the financial system amid potential risks caused by the emergency health situation due to the COVID-19 pandemic, the National Bank adopted the “Decision on Temporary Measures for Preserving Financial System Stability” in March 2020, and imposed its first moratorium on debt payments. The first moratorium was a deferral of repayment of loans, as well as all other obligations of debtors (natural persons, farmers and entrepreneurs, corporates) and allowed for an implied deferral of payments of loans for at least 90 days.

In May 2020, the National Bank adopted regulations with the aim to postpone the application of the measures regulating the approval of FX and FX-indexed loans, which were adopted in December 2019, due to the emergency health situation caused by the COVID-19 pandemic. This postponement minimised the possible consequences of the current situation on the stable operation of banks, released the additional operational capacities of banks and extended greater opportunities for providing liquidity to the real sector during the crisis, by allowing banks to be able to grant all types of FX and FX-indexed loans to all economic operators, entrepreneurs and farmers.

In June 2020, the National Bank adopted the “Decision Amending the Decision on Measures for Safeguarding and Strengthening Stability of the Financial System” which created regulatory assumptions for first time homebuyers. In accordance with the new regulation, in the case of first time homebuyers, banks may grant a mortgage loan to a natural person provided that the amount of the loan does not exceed 90 per cent. of the value of the property mortgaged (which is an exception from the general limit of 80 per cent.).

In July 2020, as a response to a possible deterioration in the financial position of citizens who took out household loans before the extraordinary circumstances brought on by the COVID-19 pandemic, the National Bank adopted the following regulations to facilitate repayment of those loans:

- Decision Amending the Decision on Capital Adequacy of Banks; and
- Decision Amending and Supplementing the Decision on Managing Concentration Risk Arising from Bank Exposure to Specific Products.

More specifically, as part of these regulations, banks were encouraged to offer borrowers an option to refinance or change the maturity date of the last instalment of any consumer, cash and other loans (except housing loans and current account overdrafts) approved before or by 18 March 2020 for an additional two years relative to the current repayment regime (implying repayment term of up to seven years in the course of this year, up to six years in the course of 2021, and up to eight years for consumer loans approved for the purchase of motor vehicles irrespective of the year).

Against the backdrop of the COVID-19 emergency health situation, the National Bank adopted the “Decision on Temporary Measures for Banks for the Purpose of Mitigating the Consequences of COVID-19 Pandemic in Order to Preserve Financial System Stability” at the end of July 2020, prescribing an additional moratorium for the settlement of liabilities. In accordance with this decision, borrowers were offered a further suspension in the settlement of their liabilities to banks, maturing in the period between 1 August 2020 and 30 September 2020, as well as a suspension of payment of liabilities that matured in July 2020, and which the borrower has not settled.

In August 2020, the National Bank adopted the “Decision on Temporary Measures for Banks to Facilitate Access to Financing for Natural Persons”. The decision prescribes three sets of temporary measures that facilitate access to housing loans for citizens, and thus provides support to the real sector, more specifically the construction industry, through faster turnover of assets, the possibility of

extension of housing loan repayment periods for a maximum five years and temporary relaxation of the approval procedure for household short-term dinar loans up to a certain amount.

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 caution, or otherwise endangering the bank's creditworthiness. The National Bank has the power to send a written warning to the bank, issue orders and pass other 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 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 realised by the bank 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 as a 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 while performing 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 plays an important role 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. The role of the National Bank as a supervisor is also reflected in the procedure through which it monitors compliance and assesses 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 by the Securities Commission to act as the operator of the regulated market and the multilateral trading platform (“**MTP**”).

The following table shows certain statistics regarding trading on the BSE for the years 2015 to 2019 and for the nine months ended 30 September 2019 and 2020:

	Year ended 31 December						Nine months ended 30 September	
	2014	2015	2016	2017	2018	2019	2019	2020
Number of Trades at BSE.....	238,023	146,232	87,893	66,952	60,744	31,115	22,855	13,423
Average Number of Trades Per Month.....	19,835	12,186	7,324	5,579	5,062	2,593	2,539	1,491
Average Number of Trades Per Trading Session.....	945	580	347	266	242	123	122	72
Securities Traded at BSE (millions of shares).....	52.7	42.7	20.8	10.9	9.3	20.4	12.1	7.3
Average Securities Traded Per Month (millions).....	4.4	3.6	1.7	0.9	0.8	1.7	1.3	0.8
Average Trade Size (volume in no. of securities/no. of transactions)	221.3	292.3	236	163	153	657	528	540
Trading Volume at BSE								
(RSD millions)	20,259	22,429	44,574	66,907	63,188	91,918	50,388	38,012
Year-on-Year change (%).....	(32.8)	10.7	98.7	50.1	(5.6)	45.5	10.4	(24.6)*
Average Trading Volume Per Month (RSD millions).....	1,688.2	1,869.1	3,715	5,576	5,266	7,659.8	5,598.7	4,223.6
Average Trade Size (Total trading value in RSD/no. of transactions).....	85,112	153,381	507,139	999,333	1,040,228	2,954,139	2,204,698	2,831,872
BSE Total Market Capitalisation (RSD millions) ...	796,635	683,361	592,443	548,869	522,726	569,647	563,765	488,297
Year-on-Year Change (%).....	3.1	(14.2)	(13.3)	(7.4)	(4.8)	9.0	9.3**	(13.4)*
BSE Total Market Cap/GDP (%).....	18.4	15.8	13.1	11.5	10.3	10.5	10.4	8.9
Number of Trading Sessions.....	252	252	253	252	251	252	187	187
Stocks Traded on the BSE	946	844	717	635	572	496	511	456
Year-on-Year Change (%).....	(6.7)	(10.8)	(15.0)	(11.4)	(9.9)	(13.3)	(13.5)**	(10.8)*

Source: Belgrade Stock Exchange

Notes:

* The data is represented based on a comparison of the period January to September 2020 against January to September 2019.

** The data is represented based on a comparison of the period January to September 2019 against January to September 2018.

The Law on Capital Market regulates the capital market in Serbia. 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.

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 or Smart Listing. Securities that do not

qualify for admission to listing or the segment of the regulated market which is selected in the listing application, are admitted to the Open 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 on the BASE of Fintel Energija a.d was successfully completed at the end of October 2018 and its shares began trading on 20 November 2018.

Since 2015, long-term bonds of the Republic of Serbia, with the residual maturity ranging from 1 to 11 years, denominated in RSD and EUR have been trading on the BSE. Seven series of Government bonds for the settlement of liabilities on the grounds of the “old” foreign currency savings of citizens from the former republics of the FRY, were admitted to secondary trading during the first quarter of 2020.

Lingering repercussions of the global financial crisis have caused the key market indicators on the BSE to continue to decline over the recent years. Compared to other capital markets in the region, liquidity is still relatively low. On the other hand, the value of securities trading has improved over the last five years, mainly supported by secondary trading of Government bonds. However, the global pandemic has recently caused a sharp decline in stock prices and trading volumes, and is continuously eroding prospects for recovery. While the Government introduced a set of economic measures to contain the negative impact on the economy, the financial market turmoil and spiked volatility due to heightened uncertainty led to a sharp decline of securities turnover, which dropped to EUR 323.3 million in the first nine months of 2020, registering a 24.6 per cent. decrease compared to the same period in 2019. During the same period, the number of trades fell by 41 per cent. Leading index BELEX15 lost 13.57 per cent. since the end of 2019, while BELEXline lost 12.94 per cent. of its value, following a mild recovery during the third quarter of 2020. Market capitalization declined by 14.3 per cent. with large portion of the capitalization still being inactive.

Insurance Sector

Overview

As at 30 September 2020, 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 others were engaged in both life insurance and non-life insurance. The premium per capita in Serbia amounted to U.S.\$147 in 2019, an increase of U.S.\$44 compared to 2015. As at 30 September 2020, the premium per capita amounted to U.S.\$116, an increase of U.S.\$10 compared to 30 September 2019. As a percentage of GDP, the premium slightly increased from 1.9 per cent. in 2015 to 2.0 per cent. in 2019.

15 insurance companies were majority foreign-owned as at 31 December 2019 and 30 September 2020. The foreign-owned companies have the prevailing market share, representing 89.5 per cent. and 88.3 per cent. of life insurance premium, 63.6 per cent. and 62.0 per cent. of non-life insurance premium and 76.4 per cent. and 75.2 per cent. of total assets as at 31 December 2019 and 30 September 2020, respectively.

Motor vehicle liability insurance accounts for the largest part of the total premium, with a share of 32.9 per cent. and 33.4 per cent. as at 31 December 2019 and 30 September 2020, respectively

The following table shows a breakdown of the total insurance premium in Serbia by type of insurance for the years 2015 to 2019 and for the nine months ended 30 September 2019 and 2020:

	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
					%		
Property insurance	18.2	17.5	17.9	19.5	18.7	18.1	18.9
Motor vehicle insurance	7.7	7.8	8.4	9.0	9.6	9.6	10.0
Life insurance	23.9	25.9	24.4	23.8	23.3	22.4	22.4
Motor vehicle liability	35.8	34.0	34.4	33.6	32.9	33.3	33.4
Other non-life insurance	14.3	14.8	14.9	14.1	15.4	16.6	15.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Bank.

Balance sheet

The balance sum of insurance companies as at 30 September 2020 amounted to RSD 313.3 billion (EUR 2.66 billion or U.S.\$3.13 billion) compared to RSD 299.7 billion (EUR 2.55 billion or U.S.\$ 2.86 billion) at the end of 2019, which is an increase of 4.5 per cent. The balance sum of insurance companies at the end of 2019, compared to RSD 191.8 billion (EUR 1.58 billion or U.S.\$ 1.72 billion) at the end of 2015, represented a five-year average rate of growth of 12.3 per cent. The balance sum of insurance companies at the end of 2018 amounted to RSD 279.0 billion (EUR 2.36 billion or U.S.\$ 2.70 billion).

As at 30 September 2020, the assets of insurance undertakings comprised mostly of debt securities (60.2 per cent.), followed by deposits and cash (10.7 per cent.), receivables (7.3 per cent.), technical reserves borne by co-insurance, reinsurance and retrocessionaire firms (7.3 per cent.) and real estate, plant and equipment (6.7 per cent.). As at 31 December 2019, the largest component of the assets of insurance companies was debt securities (58.6 per cent.), followed by technical reserves borne by co-insurance, reinsurance and retrocessionaire firms (9.3 per cent.), deposits and cash (9.2 per cent.), receivables (7.2 per cent.) and real estate, plant and equipment (7.1 per cent.). Compared to the asset structure in 2018, there was a noticeable decrease in the share of technical reserves borne by co-insurance, reinsurance and retrocessionaires firms from 12.7 per cent. in 2018 to 9.3 per cent. in 2019. This was mainly as a result of settling a significant part (59 per cent.) of a single large debt claim at the end of 2019. On the other hand, the share of debt securities at the end of 2019 (58.6 per cent.) was higher than at the end of 2018 (57.4 per cent.) and it continued to be the largest component of the assets of insurance companies. The share of technical reserves borne by co-insurance, reinsurance and retrocessionaires firms continued to decrease from 9.3 per cent. at the end of 2019 to 7.3 per cent. as at 30 September 2020 as a result of the settlement of the above single large debt claim in full amount during the first three months of 2020. Debt securities continued to be the largest component of the assets of insurance companies, increasing its share from 58.6 per cent. at the end of 2019 to 60.2 per cent. as at 30 September 2020.

At the end of 2019, technical reserves accounted for 67.6 per cent. of total liabilities, which amounted to RSD 202.5 billion (EUR 1.72 billion or U.S.\$1.93 billion). This however represented a decline compared to 2018, when technical reserves were 70.7 per cent. of total liabilities, which amounted to RSD 197.3 billion (EUR 1.67 billion or U.S.\$ 1.91 billion). This decline was mainly due to the settlement of the abovementioned single large debt claim. As at 30 September 2020, technical reserves accounted for 69.0 per cent. of total liabilities, which amounted to RSD 208.4 billion (EUR 1.77 billion or U.S.\$ 2.08 billion). This represented an increase compared to the year-end of 2019, when technical reserves were 67.6 per cent. of total liabilities.

Performance indicators

The insurance sector is well-capitalised, as the main capital adequacy indicator was 234.5 per cent. at the end of 2019 and 227.9 per cent. at the end of 2018. The main capital adequacy indicator was 239.1 per cent. as at 30 September 2020 and 227.0 per cent. as at 30 September 2019. The liquidity indicator suggests sufficient liquidity for the settlement of short-term liabilities in the insurance sector.

As at 30 September 2020, return on assets and return on equity were 3.5 per cent. and 18.0 per cent. respectively, an improvement compared to 30 September 2019, when return on assets and return on

equity amounted to 3.2 per cent. and 16.8 per cent. respectively. As at the end of 2019, return on assets and return on equity were 3.9 per cent. and 17.4 per cent. respectively, an improvement compared to 2015, when returns amounted to 1.5 per cent. and 7.1 per cent. respectively. At the end of 2018, return on assets and return on equity were 3.2 per cent. and 15.5 per cent. respectively.

Financial Leasing Sector

Overview

Total balance sheet assets of the financial leasing sector increased by 8.1 per cent. at the end of September 2020, to RSD 111.3 billion compared to 31 December 2019. The largest share stemmed from financial lease receivables (portfolio), which amounted to RSD 102.5 billion as at 30 September 2020 and represented 92.14 per cent. of total balance sheet assets, an increase of 9.3 per cent. compared to 31 December 2019.

As at 31 December 2019, the total balance sheet assets of the financial leasing sector amounted to RSD 102.9 billion, reflecting an increase of 18.7 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 93.8 billion and recorded an increase of 20.6 per cent. compared to 31 December 2018.

Total capital amounted to RSD 9.8 billion as at 30 September 2020, an increase of 4.1 per cent. compared to 31 December 2019. Net profit at the end of nine-month period ended 30 September 2020 amounted to RSD 0.6 billion. Out of the total 17 financial leasing companies, eight financial leasing companies had a negative net result.

Total capital amounted to RSD 9.4 billion as at 31 December 2019, a decrease of 2.4 per cent. compared to 31 December 2018. Net profit at the end of 31 December 2019 reached RSD 0.8 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 (41.5 per cent.) as at 30 September 2020, followed by passenger vehicles (36.2 per cent.) and construction machinery (8.7 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 24.2 per cent. as at 30 September 2020. The trade sector accounted for 23.7 per cent., followed by manufacturing, mining and water, gas and steam supply with 12.7 per cent. and construction with 11.1 per cent. as at 30 September 2020. Other activities accounted for 19.6 per cent. of investment.

Performance indicators

As at 30 September 2020, the rate of return on average assets was 0.83 per cent. and the rate of return on equity was 9.08 per cent.

As at 30 September 2020, the financial leasing sector had a relatively low share of non-performing assets in the total portfolio. At the end of September 2020, financial lease receivables past due more than 90 days accounted for 2.16 per cent. of gross financial lease receivables in this sector. The net carrying value of these receivables accounted for 0.5 per cent. of the total net portfolio.

Sector for Voluntary Pension Funds

General Overview

The voluntary pension fund market in Serbia includes four management companies, which manage the assets of seven voluntary pension funds. It also includes one custody bank with fund accounts, five brokerage banks and one insurance broker.

As at 31 December 2019, the total capital of the management companies amounted to RSD 1.14 billion, a decrease of 2.6 per cent. compared to 2015 when the total capital of management companies amounted to RSD 1.18 billion. As at 30 September 2020, the total capital of the management companies amounted to RSD 1.10 billion, which represents a decrease of 3.6 per cent. compared to 31 December 2019 when the total capital of the management companies amounted to RSD 1.14 billion.

The total net assets of funds has steadily increased since 2015. 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. As at 30 September 2020, the total net assets of the funds amounted to RSD 45.9 billion.

The following table shows the net assets of voluntary pension funds as at 31 December for the years 2015 to 2019 and for the nine months as at 30 September 2020:

	2015	As at 31 December		2018	2019	As at 30 September 2020
		2016	2017			
Net assets (RSD billions).....	28.9	32.8	36.2	40.2	45.2	45.9

Source: National Bank.

As at 31 December 2019, 201,587 beneficiaries were in the accumulation phase, with a total of 275,833 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 179.4 thousand in 2015 to RSD 252.3 thousand at the end of 2019. As at 30 September 2020, 203,564 beneficiaries were in the accumulation phase, with a total of 278,457 voluntary pension fund membership contracts (which is 4,270 beneficiaries and 5,638 membership contracts more than as at 30 September 2019). 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 245.4 thousand at the end of September 2019 to RSD 253.0 thousand at the end of September 2020.

Total payments in 2019 amounted to RSD 3,915.26 million, compared to RSD 2,580.85 million in 2015, representing an increase of 51.7 per cent. In the first nine months of 2020, total payments amounted to RSD 2.6 billion, compared to the same period in 2019 when total payments amounted to RSD 2.9 billion, representing a decrease of 10 per cent.

Structure of the portfolio of the voluntary pension funds sector

Government bonds remain the dominant investment of pension fund assets. In 2019, the share of dinar-denominated government securities was 68.14 per cent., while the share of euro-denominated government securities was 10.09 per cent. As at 30 September 2020, 84.46 per cent. of government securities were dinar-denominated and 15.54 per cent. were euro-denominated.

Valuations and other market indicators of individual class assets in which funds invest their assets (e.g. increased price volatility of the most liquid stocks on BSE, the growth of the average interest rate on government bonds of certain maturities and currencies, etc.), as well as general trends in the economy in 2020 due to increased uncertainty caused by the COVID-19 pandemic, influenced, to a certain extent, the revised investment focus of voluntary pension funds. From the beginning of 2020, funds have increased their aggregate exposure to the class of term bank deposits, while the participation of shares issued by legal entities in Serbia in the total assets of funds at the sector level has declined from 11.1 per cent. to 10.5 per cent. as at 30 September 2020. Other asset classes have retained their participation levels in fund portfolios, and the implementation of the usual investment policy is expected to be continued in the following period with potential rebalancing of certain asset classes in line with projections of global and local economic indicators.

The following table shows the structure of assets of voluntary pension funds as at 31 December for the years 2015 to 2019 and for the nine months as at 30 September 2020:

	As at 31 December					As at 30 September 2020
	2015	2016	2017	2018	2019	
				(%)		
Shares	4.1	7.4	8.5	8.4	11.1	10.5
Government bonds.....	82.8	77.0	83.6	83.1	78.2	76.7
Corporate bonds.....	0.0	0.0	0.0	0.0	3.3	3.2
Other securities.....	0.0	0.4	0.3	0.3	0.0	0.0
Investment funds.....	0.0	0.3	0.3	0.5	0.5	0.5
Real estate.....	0.2	0.2	0.0	0.0	0.0	0.0
Term deposits	0.5	1.0	1.6	3.1	3.6	5.1
Investment abroad.....	0.0	0.0	0.0	0.2	0.0	0.0
Transaction accounts.....	12.2	13.0	5.4	4.4	3.2	3.3
Receivables.....	0.1	0.7	0.2	0.0	0.1	0.2

Source: National Bank.

The following table shows the currency composition of assets of voluntary pension funds as at 31 December for the years 2015 to 2019 and for the nine months as at 30 September 2020:

	As at 31 December					As at 30 September 2020
	2015	2016	2017	2018	2019	
RSD	87.2	87.3	86.4	86.6	87.3	85.2
EUR.....	12.8	12.7	12.7	12.5	12.7	14.8
USD.....	0.0	0.0	1.0	0.9	0.0	0.0

Source: National Bank.

Performance indicators

The return on assets of voluntary pension funds measured by the FONDex index, which represents the movement in the value of investment units of all funds at an annual level, was 7.1 per cent. in 2019, compared to 16.6 per cent. in 2015. As at 30 September 2020, the return on assets of voluntary pension funds as measured by the FONDex index was 1.9 per cent. on an annual level, compared to 5.7 per cent. as at 30 September 2019. As at 31 December 2019, the investment return amounted to RSD 2,896.8 million, a decrease of 27.7 per cent. compared to RSD 4,007.7 million in 2015. The investment return amounted to RSD 871.02 million as at 30 September 2020, representing a decrease of 48.1 per cent. as compared to RSD 1,679.8 million as at 30 September 2019.

Payment system

Legislation

Law on Payment Services

Since 2014, the National Bank has taken significant steps to improve Serbia's payment system.

In December 2014, Serbia adopted the Law on Payment Services, a legal framework for modern forms of payments in the Republic of Serbia. 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 order 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 2.3 million transactions in 2015 to slightly more than 25 million transactions in 2019. According to preliminary data for the third quarter of 2020, in the first nine months of 2020, mobile banking transactions increased by 45.93 per cent. to 26.2 million from 17.9 million transactions in the first nine months of 2019. Electronic banking transactions increased by 41.5 per cent. in the last five years, from 97.4 million transactions in 2015 to 137.8 million transactions in 2019. According to preliminary data for the third quarter of 2020, during the first nine months of 2020, a marginal increase in the number of electronic banking transactions was realised, from 101.1 million transactions in the first nine months

of 2019 to 103.2 million transactions in the first nine months of 2020. The number of payment transactions executed using cards at POS terminals has more than doubled in the last 5 years, from 122 million transactions in 2015 to 246 million transactions in 2019, while the number of internet card purchases of goods and services in dinars increased by a factor of nearly 9.5, from 741,000 transactions in 2015 to 6.9 million transactions in 2019. According to preliminary data for the third quarter of 2020, in the first nine months of 2020, 218.6 million of payment transactions were executed using cards at POS terminals, which was an increase of 22.21 per cent. compared to 179 million of payment transactions executed in the first nine months of 2019, while the number of internet card purchases of goods and services in dinars almost doubled, from 4.7 million transactions in the first nine months of 2019 to 9.5 million transactions in the first nine months of 2020.

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 (i.e. Payment Accounts Directive). The three main objectives of the new legislation were: the regulation of access to the payment account with basic services; acceleration of the process of changing the payment account; and further improvement in 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. This law implements the EU directive on interchange fees (i.e. Interchange Fee Regulation) and has led to the expansion of the network of POS terminals, which increased by 20 per cent. from June 2018 to September 2020.

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 instant payment at points of sale, which recently became active at the end of February 2020, enables customers to pay at the point of sale through the mobile application of their payment service provider (using IPS QR codes). This form of payment allows merchants to have cash immediately available on their payment account. Additionally, from June 2020, instant payments can be initiated through the internet. At present, two banks are certified by the National Bank to provide instant payment service to internet merchants and several banks are in the process of developing mobile applications, which will enable small merchants to accept instant payments at point of sales. During the next year, the IPS NBS system will also enable bank customers to transfer money from one user to another user using only a mobile phone number, which will further contribute to the development of the cashless payment market in Serbia.

By the end of September 2020, 25.4 million transactions were made through the IPS NBS system, in comparison to 7.8 million transactions at the end of 2019 and the average time needed to make the transaction is only 1.12 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 (i.e. of municipalities, towns, and the autonomous province of Vojvodina) and the financial plans of the mandatory social insurance organisations (the retirement and disability insurance fund, the national health insurance fund, the national employment service and the 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 the 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. This will include macroeconomic projections for the next two fiscal years. The first draft of the fiscal strategy is normally presented by 15 April. 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 the Fiscal Council has assessed the parameters and objectives of the fiscal strategy, the Government will normally adopt the fiscal strategy by June 15. The fiscal strategy represents the basis for the 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 financial plans for the preparation of the Budget on the instructions of the Ministry of Finance. These instructions contain the amount of funds which the draft financial plan may assume will be allocated, based on the medium-term scope of expenditures set by the fiscal strategy (with projections for the following two fiscal years). The direct beneficiaries of the Budget prepare financial plans for the period of three years, while the Budget Law is passed annually. The expenditure ceilings and financial plans of the budget beneficiaries represent the baseline for the following budget cycle. The Government has until 1 November to adopt the draft Budget Law and the Decisions on Approving the Financial Plans of the 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 decisions on the budgets of the 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 constitutes 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 the 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 the 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 classified 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. Under these rules, local government fiscal deficits can arise only where they are entirely as a result of public investment. Where this is the case, local governments are permitted to run a deficit of up to 10 per cent. of their revenues for that year. Approval from the Ministry of Finance must be sought if a local government plans to run a deficit of greater than 10 per cent. of its revenue in any one year. The Ministry of

Finance will only consider granting such approval if the planned deficit is proposed to be caused solely by the realisation of public investment.

In 2016, the Government adopted the Public Financial Management Reform Program 2016 – 2020 (the “**PFM Program**”) to provide a comprehensive and integrated framework for planning, coordinating, implementing and monitoring the progress of activities involving public finance with the aim of improving macroeconomic stability, ensuring efficient and effective allocation and use of public resources, and improving the services, transparency and overall functionality of the public administration of the Republic of Serbia. The PFM Program sets out reforms to strengthen the legal and institutional framework for managing public finances in the Republic of Serbia, in line with EU and international standards. After two and a half years of successful implementation of activities under the PFM Program, the Ministry of Finance, in consultation with the European Commission, revised the existing PFM Program and its action plan to cover the period July 2019 to December 2020. The revised PFM Program for the period July 2019 to December 2020 was adopted by the Government on 26 September 2019. The Ministry of Finance is currently developing a new Public Financial Management Reform Program for the period 2021 - 2025.

2020 Budget

On 28 November 2019, the Assembly adopted the 2020 Budget. Under the 2020 Budget:

- total revenues are budgeted at RSD 1,314.5 billion at the central government level and RSD 2,340.8 at the general government level;
- total expenditures are budgeted at RSD 1,334.7 billion at the central government level and RSD 2,369.9 billion at the general government level; and
- the resulting budget deficit at the central government level is assumed at RSD 20.2 billion, or 0.3 per cent. of the expected GDP, while the total fiscal deficit is assumed at RSD 29.0 billion, or 0.5 per cent. of the expected GDP.

The 2020 Budget assumes real GDP growth of 4.0 per cent. and average inflation of 2.0 per cent. in 2020.

First Supplementary Budget

On 29 April 2020, the Assembly adopted the First Supplementary Budget to account for the impact of the COVID-19 pandemic and re-stated the macroeconomic targets for the fiscal year 2020 presented in the 2020 Budget Law as follows:

- total revenues are budgeted at RSD 1,244.8 billion at the central government level and RSD 2,110.7 billion at the general government level;
- total expenditures are budgeted at RSD 1,625.8 billion at the central government level and RSD 2,505.5 billion at the general government level; and
- the resulting budget deficit at the central government is assumed at RSD 381.0 billion, or 6.9 per cent. of the expected GDP, while the total fiscal deficit is assumed at RSD 394.8 billion, or 7.2 per cent. of the expected GDP.

The Supplementary Budget assumes real GDP decline of 1.8 per cent. and average inflation of 1.5 per cent. in 2020.

Second Supplementary Budget

Keeping in mind the performance of the economy for the first nine months of 2020, the 2020 Budget Law was further revised pursuant to the Second Supplementary Budget on 12 November 2020. The Second Supplementary Budget seeks to address the effects of COVID-19 on the Serbian economy, with a review of performance of the economy for the period January – September 2020 based on the

provisional data available as at the end of September 2020, which indicates that targets for certain macroeconomic indicators are yet to be realised. Under the Second Supplementary Budget:

- total revenues are budgeted at RSD 1,291.4 billion at the central government level and RSD 2,223.5 billion at the general government level;
- total expenditures are budgeted at RSD 1,774.4 billion at the central government level and RSD 2,715.8 billion at the general government level; and
- the resulting budget deficit at the central government is assumed at RSD 483 billion, or 8.8 per cent. of the expected GDP, while the total fiscal deficit is assumed at RSD 492.3 billion, or 8.9 per cent. of the expected GDP.

The Second Supplementary Budget assumes real GDP decline of 1.0 per cent. and average inflation of 1.5 per cent. in 2020.

2021 Draft Budget

As of the date of this Base Prospectus, the Draft Budget for 2021 (the “**Draft Budget**”) is being prepared, which is expected to be adopted by the Government on 20 November 2020 and placed before the parliament of Serbia on 7 December 2020. The Draft Budget envisages RSD 1,336 billion of total revenues and proceeds and RSD 1,515 billion of total expenditures and outflows, which is expected to result in a projected deficit of RSD 179 billion, representing 3 per cent. of the expected GDP. It assumes a real GDP growth of 6 per cent., average inflation of 2 per cent. and debt-to-GDP ratio of 58.7 per cent. at the general government level in 2021. It also contemplates a further increase of 5.0 per cent. and 3.5 per cent. (adjusted to 5.0 per cent. from 1 April 2021 onwards) in public sector wages for healthcare workers and other public sector employees respectively, together with an increase of 5.9 per cent. in pensions from January 2021. Since this Draft Budget is yet to be adopted by the Government and considered by the parliament of Serbia, it may be subject to changes or may be further adjusted. On receiving the formal assent of the parliament, which is expected on 11 December 2020, the Draft Budget will be adopted as the Budget Law. There can be no assurance the Draft Budget will be adopted by the Government or parliament in the current form or that such objectives in fact will be achieved.

The above targets and assumptions are based on the most recently available information and may be further adjusted, amended or revised, whether as part of regular review or otherwise, to take into account the prevalent economic and fiscal indicators, which are evolving based on numerous factors that are highly uncertain, rapidly changing and cannot be accurately predicted as a consequence of COVID-19.

Budget Execution

In 2015, the general Government budget deficit amounted to RSD 149.1 billion, or 3.5 per cent. of GDP. In 2016, the general Government budget deficit amounted to RSD 54.0 billion, or 1.2 per cent. of GDP, representing a decrease of 63.8 per cent. as compared to 2015. In 2017 and 2018, the Government achieved a general Government surplus of RSD 52.3 billion (or 1.1 per cent. of GDP) and RSD 32.2 billion (or 0.6 per cent. of GDP), respectively. In 2019, the Government realised a general Government deficit of RSD 11.1 billion (or 0.2 per cent. of GDP). See “—*Fiscal Developments in 2015*”, “—*Fiscal Developments in 2016*”, “—*Fiscal Developments in 2017*”, “—*Fiscal Developments in 2018*” and “—*Fiscal Developments in 2019*” for additional information.

The following table shows the actual revenues and expenditures of the consolidated general government budget for the years 2015 to 2019, and the preliminary execution figures for the first nine months ended 30 September 2020 compared with the actual revenues and expenditures for the first nine months ended 30 September 2019:

	Year ended 31 December					Nine months ended 30 September	
	2015	2016	2017	2018	2019	2019	2020
	(RSD millions)						
Public Revenues (including Grants)	1,694,831	1,842,651	1,973,402	2,105,266	2,278,558	1,646,384	1,599,605.
	.1	.8	.7	.9	.4	.6	5
Current revenues	1,687,613	1,833,248	1,964,870	2,090,598	2,263,694	1,639,033	1,591,647.
	.7	.6	.6	.2	.3	.5	5
Tax revenues	1,463,590	1,585,766	1,717,897	1,822,236	1,993,677	1,454,185	1,418,935.
	.1	.9	.3	.5	.2	.4	1
Personal income tax	146,775.3	155,065.4	167,881.6	179,422.9	203,739.5	146,441.7	143,791.9
Corporate income tax	62,668.1	80,414.5	111,777.8	112,487.9	126,719.3	102,695.5	95,801.4
Value added tax	416,056.2	453,502.6	479,266.5	499,828.4	550,563.3	395,140.7	398,822.4
Excises	235,780.7	265,605.9	279,934.3	290,039.3	306,545.7	225,452.3	221,824.0
Customs	33,320.9	36,426.7	39,707.9	43,649.6	48,093.1	34,258.1	37,306.9
Other tax revenues	63,294.3	67,262.5	71,903.5	77,142.4	82,140.9	60,789.7	58,181.9
Social contributions	505,694.6	527,489.3	567,425.6	619,666.0	675,875.5	489,407.4	463,206.6
Non-tax revenues	224,023.6	247,481.7	246,973.3	268,361.7	270,017.1	184,848.2	172,712.5
Grants	7,217.4	9,403.2	8,532.1	14,668.7	14,864.1	7,351.0	7,958.0
Public Expenditures	1,843,965	1,896,659	1,921,100	2,073,041	2,289,671	1,611,322	1,960,380.
	.5	.3	.1	.8	.9	.6	0
Current expenditures	1,696,602	1,714,883	1,745,250	1,847,242	2,001,739	1,445,695	1,757,578.
	.7	.9	.3	.1	.5	.8	8
Expenditures for employees	419,155.7	417,675.2	426,334.7	468,822.3	516,298.2	379,961.8	426,062.8
Purchase of goods and services	257,553.6	283,573.8	301,597.2	343,378.3	379,254.1	260,449.8	304,839.2
Interest payment	129,867.7	131,602.5	121,220.3	108,632.5	108,936.4	97,353.5	87,044.6
Subsidies	134,734.4	112,655.5	113,332.1	109,662.1	121,176.1	69,453.0	209,118.2
Social grants and transfers	709,961.3	713,846.2	720,057.5	745,955.3	782,937.0	577,751.3	593,835.9
of which: Pensions	490,214.3	494,212.9	497,845.1	525,245.3	559,348.9	419,887.2	437,319.5
Contributions for unemployed persons	12,537.5	9,813.2	9,137.7	8,912.5	8,207.7	6,261.5	5,833.4
Sick leave	9,728.3	10,263.5	12,413.3	13,627.6	9,207.4	6,557.7	8,476.8
Social assistance	166,047.7	156,851.4	158,606.5	160,918.1	165,636.6	121,766.0	112,636.4
Other transfers to households	31,433.4	42,705.3	42,055.1	37,251.9	40,536.4	23,279.0	29,569.9
Other current expenditures	45,330.0	55,530.7	62,708.4	70,791.5	93,137.8	60,726.4	136,678.0
Capital expenditures	114,527.3	139,325.9	133,862.4	199,263.1	266,254.2	152,396.8	174,651.7
Activated guarantees ¹	30,107.3	39,116.9	28,809.2	19,727.4	10,788.0	8,611.2	5,663.2
Net lending	2,728.2	3,332.6	13,178.1	6,809.2	10,890.1	4,618.7	22,486.3
Consolidated Balance	-	-54,007.5	52,302.6	32,225.1	-11,113.5	35,062.0	-
	149,134.3	529,234.2	494,221.5	441,321.0	760,608.3	593,308.4	571,281.8
Financing Inflows	644,728.6	529,234.2	494,221.5	441,321.0	760,608.3	593,308.4	571,281.8
Privatisation proceeds	939.6	5,236.3	3,732.0	3,397.4	45,892.8	44,776.8	1,360.2
Receipts from repayment of loans	2,864.1	2,505.8	3,473.1	19,500.6	39,400.2	18,895.1	5,065.4
Domestic borrowing	556,475.4	425,739.6	365,576.9	300,206.7	364,624.1	315,876.9	290,124.9
Foreign borrowing	84,449.5	95,752.5	121,439.6	118,216.2	310,691.2	213,759.7	274,731.2
Financing Outflows	518,699.0	517,717.8	530,379.6	476,067.7	628,595.5	471,358.6	230,220.2
Debt repayment to domestic creditors ²	445,637.6	443,146.5	355,081.3	264,962.0	309,528.1	274,882.4	147,118.8
Debt repayment to foreign creditors	55,559.9	72,780.7	174,291.6	201,010.9	270,204.4	182,079.6	81,555.9
Acquisition of financial assets	17,501.5	1,790.6	1,006.8	10,094.7	48,863.1	14,396.6	1,545.5

Source: Ministry of Finance

Notes:

- (1) The amount does not include activated guarantees for PE "Roads of Serbia" which are included in the category: 'Debt repayment to foreign creditors'.
- (2) The amount includes the repayment of frozen foreign currency savings and a loan for economic revival, 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 table shows the actual public revenues and expenditures against the central government budget for the years 2015 to 2019 and the preliminary execution figures for the nine months ended 30 September 2020 against the central First Supplementary Budget and Second Supplementary Budget:

	Year ended 31 December												Nine months ended 30 September
	2015		2016		2017		2018		2019		2020		2020
	Budget	Executed	Budget	Executed	Budget	Executed	Budget	Executed	Budget	Executed	First Supplementary Budget	Second Supplementary Budget	Executed
	(RSD millions)												
Public revenues.....	924,383	947,838	997,428	1,041,921	1,092,884	1,119,142	1,178,448	1,179,184	1,246,191	1,274,577	1,244,821	1,291,355	914,441
Current revenues	918,460	942,374	986,063	1,033,358	1,079,406	1,112,202	1,164,209	1,166,116	1,232,277	1,262,255	1,229,817	1,277,517	908,112
Tax revenues.....	764,200	797,169	829,500	887,981	916,800	969,103	988,600	988,600	1,006,879	1,059,900	1,103,672	1,064,300	804,199
Personal income tax	43,900	44,825	45,400	47,675	56,000	55,561	56,700	59,204	61,500	69,054	57,200	66,500	48,625
Corporate income tax	66,500	56,961	58,300	74,239	74,400	103,319	88,000	102,212	108,500	115,981	89,300	113,000	88,407
Value added tax	399,400	416,056	427,000	453,503	466,000	479,266	503,400	499,828	539,100	550,563	565,800	547,500	398,822
Excises	215,700	235,781	254,200	265,606	271,400	279,934	286,300	290,039	291,400	306,546	296,100	299,700	221,824
Customs.....	29,200	33,321	34,800	36,427	38,600	39,708	42,900	43,650	47,100	48,093	44,400	51,000	37,307
Other tax revenues	9,500	10,226	9,800	10,532	10,400	11,314	11,300	11,947	12,300	13,435	11,500	12,300	9,213
Non-tax revenues	154,260	145,204	156,563	145,377	162,606	143,100	175,609	159,236	172,377	158,582	165,517	187,517	103,913
Grants.....	5,922	5,464	11,365	8,562	13,477	6,940	14,239	13,069	13,914	12,323	15,004	13,837	6,329
Public expenditures.....	1,115,732	1,062,759	1,119,194	1,049,868	1,161,984	1,085,228	1,206,848	1,147,001	1,269,091	1,261,825	1,625,821	1,774,411	1,278,615
Current expenditures	1,033,837	994,657	1,043,086	973,970	1,028,987	954,224	1,052,019	981,441	1,084,020	1,058,833	1,439,252	1,526,410	1,142,762
Expenditures for employees	241,212	229,214	251,552	227,076	253,663	237,095	272,308	256,314	294,444	282,360	318,915	322,365	230,371
Purchase of goods and services.....	91,681	69,331	98,291	76,832	105,873	79,091	119,670	86,078	128,023	99,125	128,616	135,474	71,776
Interest payment.....	131,062	125,763	139,927	128,066	133,966	118,164	117,821	106,495	103,134	106,827	106,952	108,454	85,747
Subsidies	80,551	110,394	85,967	95,742	84,414	87,893	89,346	91,731	100,286	111,794	202,981	278,009	212,167
Social assistance and transfers from the budget.....	468,717	437,387	446,298	415,941	421,970	399,393	416,613	401,664	421,987	406,190	568,076	570,807	429,328
Other current expenditures	20,613	22,568	21,051	30,314	29,101	32,588	36,261	39,159	36,147	52,537	113,712	111,301	113,373
Capital expenditures	49,151	35,744	42,222	34,096	94,209	84,975	127,229	141,218	165,515	184,211	154,136	201,795	108,066
Net lending.....	2,058	2,250	1,853	2,685	3,988	28,809	6,650	4,614	6,556	7,993	23,633	38,406	22,124
Activated guarantees.....	30,685	30,107	32,033	39,117	34,800	17,220	20,950	19,727	13,000	10,788	8,800	7,800	5,663
Fiscal surplus/deficit	-191,349	-114,921	-121,767	-7,947	-69,100	33,914	-28,400	32,184	-22,900	12,752	-381,000	-483,057	-364,174

Source: Ministry of Finance

Note:

(1) The amount does not include activated guarantees for PE "Roads of Serbia".

The following table shows year-on-year nominal changes in certain categories of revenues and expenditures of the general government budget for the years 2018 to 2019 and for the first nine months ended 30 September 2019 and 2020:

	Year ended 31 December		Nine months ended 30 September	
	2018	2019	2019	2020
	(% change)			
Public revenues	6.7	8.2	7.1	(2.8)
Current revenues	6.4	8.3	7.0	(2.9)
Tax revenues.....	6.1	9.4	8.4	(2.4)
Personal income tax.....	6.9	13.6	13.5	(1.8)
Corporate income tax.....	0.6	12.7	13.6	(6.7)
Value added tax	4.3	10.2	5.2	0.9
Excises.....	3.6	5.7	7.0	(1.6)

	Year ended 31 December		Nine months ended 30 September	
	2018	2019	2019	2020
	(% change)			
Customs	9.9	10.2	9.6	8.9
Other tax revenues	7.3	6.5	10.4	(4.3)
Non-tax revenues	8.7	0.6	(2.8)	(6.6)
Grants	71.9	1.3	28.1	8.3
Public expenditures.....	7.9	10.4	8.7	21.7
Current expenditures	5.8	8.4	7.9	21.6
Expenditures for employees	10.0	10.1	8.8	12.1
Purchase of goods and services.....	13.9	10.4	11.3	17.0
Interest payment.....	(10.4)	0.3	2.5	(10.6)
Subsidies	(3.2)	10.5	(0.7)	201.1
Capital expenditures	48.9	33.6	24.4	14.6
Activated guarantees ¹	(31.5)	(45.3)	(44.9)	(34.2)
Net lending	(48.3)	59.9	13.6	386.8

Source: Ministry of Finance

Note:

(1) The amount does not include activated guarantees for PE “Roads of Serbia”.

The following table shows year-on-year real changes in certain categories of revenues and expenditures of the general government budget for the years 2018 to 2019 and for the first nine months ended 30 September 2019 and 2020:

	Year ended 31 December		Nine months ended 30 September	
	2018	2019	2019	2020
	(% change)			
Public Revenues.....	4.6	6.4	5.0	(4.4)
Current revenues	4.3	6.5	4.9	(4.4)
Tax revenues	4.0	7.6	6.3	(4.0)
Personal income tax	4.8	11.7	11.3	(3.4)
Corporate income tax	(1.3)	10.8	11.4	(8.2)
Value added tax.....	2.2	8.3	3.1	(0.7)
Excises	1.6	3.9	4.9	(3.2)
Customs	7.8	8.3	7.4	7.2
Other tax revenues	5.2	4.7	8.2	(5.8)
Non-tax revenues	6.5	(1.1)	(4.7)	(8.0)
Grants.....	68.6	(0.4)	25.6	6.6
Public Expenditures	5.8	8.6	6.6	19.7
Current expenditures.....	3.8	6.6	5.8	19.7
Expenditures for employees	7.8	8.3	6.7	10.4
Purchase of goods and services	11.6	8.6	9.1	15.2
Interest payment.....	(12.1)	(1.4)	0.5	(12.0)
Subsidies	(5.1)	8.7	(2.6)	196.4
Capital expenditures	45.9	31.4	22.0	12.8
Activated guarantees ¹	(32.9)	(46.2)	(46.0)	(35.3)
Net lending.....	(49.3)	57.3	11.4	379.2

Source: Ministry of Finance

Note:

(1) The amount does not include activated guarantees for PE “Roads of Serbia”.

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/m³ 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 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.

Fiscal Developments in 2019

In 2019, the Government realised a fiscal deficit of RSD 11.1 billion, or 0.2 per cent. of GDP at the general government level. The Government, however, achieved a primary surplus of 1.8 per cent. of GDP, owing to the impact of the successful fiscal consolidation of previous years which effected a reduction in public spending. General Government Debt continued to fall as a percentage of GDP, decreasing by 1.5 percentage points from 54.4 per cent. in 2018 to 52.9 per cent. in 2019. Successful fiscal policy and favourable and persistently improving conditions of the financial market ensured stabilisation in the levels of interest expenditure, in turn allowing space for a degree of fiscal relaxation as seen with the Government's announcement of increases to wages and pensions in November 2019.

Revenues in 2019 exceeded the budgeted amount by RSD 116.9 billion, or 2.2 per cent. of GDP, primarily due to increases in tax and non-tax revenues. All tax categories achieved better-than-expected revenues, in particular personal income tax, corporation income tax and excises. Realisation of non-tax revenues was higher than planned by 0.7 per cent. of GDP. Government expenditures were also higher than planned, being RSD 99.3 billion (or 1.8 per cent. of GDP) above the budgeted amount. Capital expenditures during the period exceeded the budget plan by RSD 50.4 billion (or 0.9 per cent. of GDP) and represented the largest single expenditure which exceeded the planned amount in the Budget. The Government views such expenditure as important for creating conditions to support accelerated economic growth.

Recent Developments

In the first six months of 2020, total revenues amounted to RSD 579.1 billion at the central government level, of which tax revenues represented RSD 509 billion, while total expenditures amounted to RSD 883.9 billion, of which capital expenditures represented RSD 66.1 billion.

In the first nine months of 2020, a fiscal deficit of RSD 360.8 billion was realised at the general government level, with a central government budget deficit of RSD 364.2 billion. In the first nine

months of 2020, total revenues (including grants) amounted to RSD 1,599.6 billion at the general government level, representing 75.8 per cent. of projected total revenues and grants set forth in the First Supplementary Budget for 2020. This result is 2.8 per cent. lower compared to the same period in 2019 as a result of the temporary measures implemented by the Government and the shutdown of economic activity in the beginning of March 2020 in response to the COVID-19 pandemic. In the first nine months of 2020, total expenditures amounted to RSD 1,960.4 billion at the general government level, representing 78.2 per cent. of projected total expenditures set forth in the First Supplementary Budget for 2020. Consumption expenditures increased by 21.6 per cent. on the back of the Government's response to the pandemic, while capital expenditures increased by 14.6 per cent. and subsidies increased by 201.1 per cent., in each case as compared to the same period in 2019.

The effects of the COVID-19 pandemic began to emerge in March, when the Government declared a "state of emergency" and wide-ranging restrictions were introduced, in line with the approach taken in many other countries. The Government adopted an economic response plan in April 2020, with additional measures in July and August 2020, worth approximately RSD 690 billion (being 12.5 per cent. of GDP) to provide stimulus and support to the Serbian economy through this period of reduced activity and heightened uncertainty. This stimulus support complemented the measures adopted by the National Bank, which were aimed at ensuring sufficient liquidity in the financial system. See – *"Monetary System – Implementation of Serbia's Monetary Policy"*.

The Government's economic response plan comprised direct and indirect assistance to companies and entrepreneurs, fiscal stimulus to households, tax reliefs and suspension or deferral of obligations. By means of these measures, the Government announced:

- (i) the provisions of net minimum wages for three months in respect of employees of micro businesses, SMEs and entrepreneurs that paid flat tax or tax on actual revenues in the private sector. Such payments were made in the months of May, June and July 2020;
- (ii) the provision of 50 per cent. of the net minimum wages for three months to large private companies that satisfied certain criteria in respect of employees who were on involuntary leave but continued to be on the payroll of such companies during the months of March, April and May 2020. Such payments were made in the months of May, June and July 2020;
- (iii) the deferral of:
 - the maturity of the advance corporate income tax payments for private sector companies; and
 - advance taxes and contributions payable on entrepreneurs' income,which were due in the months of March, April and May 2020. Such payments are deferred until the beginning of 2021 (for entrepreneurs that are taxed on a lump-sum basis) or until the submission of the final tax return for 2020 (for companies and entrepreneurs that are taxed on their actual income), with an option to defer these payments for an additional 24 months without default interest being applied;
- (iv) the deferral of:
 - the maturity of personal income tax payments; and
 - mandatory social security contribution payments,in respect of four months' salaries (i.e. either for March, April, May and June 2020 or April, May, June and July 2020) for private sector companies. Such payments are deferred until the beginning of 2021, with an option to defer these payments for an additional 24 months without default interest being applied;

- (v) the implementation of loan programmes through the Serbian Fund for Development to provide liquidity and working capital support to entrepreneurs, micro businesses, SMEs, agricultural households and registered cooperatives;
- (vi) the provision of guarantee scheme of EUR 2 billion to commercial banks for providing loans to entrepreneurs, micro businesses, SMEs and agricultural households in order to maintain resources and liquidity for businesses (the “**Guarantee Scheme Loans**”). These Guarantee Scheme Loans are backed by a partial state guarantee capped at EUR 480 million (i.e. 1.02 per cent. of GDP);
- (vii) the provision of direct cash assistance in the form of a one-time payment of EUR 100 per adult to all citizens of Serbia in the age group of 18 and above;
- (viii) the provision of 10 per cent. increase in salaries for healthcare workers, a one-off financial assistance of RSD 4,000 to pensioners and support for agricultural producers;
- (ix) a dividend moratorium until the end of 2020 for companies, excluding public enterprises; and
- (x) additional investments in health preparedness.

To help further limit the negative economic impact of COVID-19, the Serbian government adopted a second stimulus package of approximately RSD 66 billion in July 2020, with an estimated fiscal cost of 1.2 per cent. of GDP. Part of the funds within this package were directed towards the payment of 60 per cent. of the net minimum wages to workers of SMEs and entrepreneurs that were affected in August and September, as well as to cover taxes and contributions on wages for a one-month period. In August 2020, the Government announced financial aid for hotels, and offered a one-off direct subsidy of EUR 350 per bed, and an additional EUR 150 per accommodation unit. A total amount of RSD 1.23 billion was paid to hotels that applied for this support as of 26 October 2020. As additional investment towards health preparedness, the Government has initiated the construction of two new COVID hospitals, one in Belgrade and the other in Kruševac. The Government has invested approximately RSD 4.1 billion towards the COVID hospital in Belgrade, while more than RSD 2 billion has been invested in the COVID facility in Kruševac.

Set out below is the estimated impact of the economic response plan, together with the estimated cost of the additional measures adopted in July and August 2020, which envisages a potential impact of 12.5 per cent. of GDP, of which tax measures are estimated at 3.4 per cent. of GDP:

	Estimated impact (RSD billion)	% GDP
Tax Policy Measures		
Deferred payment of withholding tax for the private sector during the “state of emergency” plus one additional month; private companies are expected to repay these obligations in instalments, but not before January 2021.	168	3.0
Deferred payment of corporate income tax for the second quarter of 2020.....	21	0.4
VAT exemption for all donors.	–	–
Total	189	3.4
Direct Support to Private Sector		
Direct support to micro, small and medium enterprises in the private sector – payment of three minimum wages plus additional two months of 60 per cent. of minimum wages.	128.8	2.3
Direct support to large private companies – support in the amount of 50 per cent. of the net minimum wage during the “state of emergency” for employees who have received a decision on work termination (Articles 116 and 117 of the Labor Law)	4.5	0.1
Direct support to Hotel and Leisure Sector – EUR 350 per bed and EUR 150 per room	2	0.0
Total	135.3	2.4
Measures to Preserve Private Sector Liquidity		
Financial support during the COVID-19 crisis through the Fund for Development of the Republic of Serbia.....	24	0.4
Guarantee scheme to support the economy during the COVID-19 crisis	240	4.4
Total	264	4.8

	Estimated impact (RSD billion)	% GDP
Other Measures		
Dividend moratorium until the end of the year, excluding public enterprises and loss of income stemming from dividends	16	0.3
Wage and income measures (10 per cent. increase in salaries for health care workers, direct cash assistance of RSD 4,000 to pensioners, support for agricultural producers)	16	0.3
Fiscal stimulus – domestic demand incentive	70	1.3
Total	102	1.9
Fiscal Measures Impact Assessment		
Total	450	8.2
Package of Measures		
Total	690	12.5

The above projected impact is provisional, based on estimates that Serbia and/or its agencies believe to be based on reasonable assumptions. All such data is provided based on the most recently available information but the estimated impact cited in this Base Prospectus may differ materially from the actual impact as an element of this data is estimated and may change or continually be revised based on future developments.

Also, while the fiscal cost of COVID-19 is difficult to accurately predict, given the potential for higher expenditures and weaker revenues, particularly if significant additional measures are needed to contain a sustained rise in infection rates, the Government expects the total fiscal deficit to reach a projected level of 8.9 per cent. of GDP in 2020. The projected level of deficit is based on the most recently available information and tentative estimates of the fiscal cost of the economic measures designed to address the current situation of COVID-19. Economic consequences of the impact of COVID-19 or its eventual aftermath may require the implementation of new measures in line with future developments, which may involve additional fiscal incentives and require constant revision of the economic and fiscal metrics based on the assessment of the future situation and available new information. Accordingly, the actual fiscal cost of COVID-19, and its resulting impact on the total fiscal deficit and other relevant metrics, may differ, potentially significantly, from the amounts set forth.

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, Corridors 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 maintain transparency and ensure 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. As a result of financial measures taken to support the economy and Serbian citizens in light of the COVID-19 pandemic, Serbia’s General Government Debt increased in the first nine months of 2020. In line with its fiscal accountability, the Government is undertaking appropriate measures to reduce the existing level of the General Government Debt (i.e. 56.7 per cent. of projected GDP at the central government level and 57.6 per cent. at the general government level as of 30 September 2020) to the targeted value. There can be no assurance that such objectives in fact will be achieved and that General Government Debt will reach the targeted value, and these objectives are most unlikely to be realised in 2020.

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 57.8 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 53.6 per cent. of GDP in 2018. At the end of 2019, the Public Debt amounted to RSD 2,816 billion, or 52.0 per cent. of GDP. Measured as a percentage of GDP, Public Debt increased from 52.0 per cent. of GDP at the end of 2019 to approximately 56.7 per cent. of the projected GDP at the end of September 2020, while General Government Debt increased from 52.9 per cent. to 57.6 per cent.

The Public Debt excludes Serbia’s restitution commitments, on which, per the current legislation, 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 properties were nationalised after World War II. Such

properties 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, and extended the timeframe for finalisation of the basic elements of the restitution bonds and the conditions for distribution and collection until June 2020. As these conditions have not yet been finalised, no final decisions have been made in relation to compensation for applicants. The timeframe for finalisation of these elements is expected to be extended, and changes to the Law on Property Restitution and Compensation are expected to be adopted by the end of 2020. Serbia’s total restitution commitments is expected to amount to approximately EUR 2 billion, calculated at an interest rate of 2 per cent. per annum from 30 June 2020 (or such other dates as may be prescribed) 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. Serbia may 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 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
	<i>(RSD billions)</i>					
Public Debt	3,018.6	3,064.6	2,751.1	2,720.2	2,815.6	3,128.2
Internal Public Debt ⁽³⁾	1,174.7	1,129.7	1,101.6	1,130.9	1,175.1	1,318.8
External Public Debt ⁽⁴⁾	1,843.9	1,934.9	1,649.5	1,589.3	1,640.6	1,809.4
	<i>(% of nominal GDP)^{(1) (2)}</i>					
Public Debt	70.0	67.7	57.8	53.6	52.0	56.7
Internal Public Debt ⁽³⁾	27.2	24.9	23.1	22.3	21.7	23.9
External Public Debt ⁽⁴⁾	42.7	42.7	34.7	31.3	30.3	32.8

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 2020 and annual GDP numbers published on 1 October 2020. See “*Presentation of Economic and Other Information*” and “*Economy of Serbia – Gross Domestic Product*”.
- (2) All data presented as at the end of September 2020 is shown as a percentage of GDP based on the Ministry of Finance’s estimates of nominal annual GDP for 2020.
- (3) 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.
- (4) 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, Corridors of Serbia and Development Fund of Serbia) as at 31 December for the years 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
	<i>(RSD billions)</i>					
General Government Debt	3,072.3	3,110.8	2,790.5	2,757.3	2,864.0	3,175.5
Public Debt.....	3,018.6	3,064.6	2,751.1	2,720.2	2,815.6	3,128.2
Non-guaranteed Debt of local self-governments and other legal entities.....	53.7	46.2	39.4	37.1	48.3	47.3
	<i>(% of nominal GDP)^{(1) (2)}</i>					
General Government Debt	71.2	68.7	58.6	54.4	52.9	57.6
Public Debt.....	70.0	67.7	57.8	53.6	52.0	56.7
Non-guaranteed Debt of local self-governments and other legal entities.....	1.2	1.0	0.8	0.7	0.9	0.9

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 2020 and annual GDP numbers published on 1 October 2020. See “Presentation of Economic and Other Information” and “Economy of Serbia – Gross Domestic Product”.
- (2) All data presented as at the end of September 2020 is shown as a percentage of GDP based on the Ministry of Finance’s estimates of nominal annual GDP for 2020.

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 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
	(RSD billions)					
Public Debt	3,018.6	3,064.6	2,751.1	2,720.2	2,815.6	3,128.2
Direct liabilities, of which	2,727.0	2,799.8	2,542.3	2,540.0	2,640.6	2,962.5
Internal Public Debt.....	1,100.8	1,082.6	1,076.8	1,112.6	1,154.2	1,298.5
External Public Debt.....	1,626.2	1,717.3	1,465.4	1,427.4	1,486.5	1,664.0
Indirect liabilities⁽³⁾, of which	291.6	264.8	208.9	180.1	175.0	165.7
Internal Public Debt.....	73.9	47.1	24.8	18.3	20.9	20.3
External Public Debt.....	217.7	217.6	184.1	161.9	154.1	145.4
	(% of nominal GDP) ⁽¹⁾⁽²⁾					
Public Debt	70.0	67.7	57.8	53.6	52.0	56.7
Direct liabilities, of which	63.2	61.8	53.4	50.1	48.7	53.7
Internal Public Debt.....	25.5	23.9	22.6	21.9	21.3	23.5
External Public Debt.....	37.7	37.9	30.8	28.1	27.4	30.2
Indirect liabilities⁽³⁾, of which	6.8	5.8	4.4	3.6	3.2	3.0
Internal Public Debt.....	1.7	1.0	0.5	0.4	0.4	0.4
External Public Debt.....	5.0	4.8	3.9	3.2	2.8	2.6

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 2020 and annual GDP numbers published on 1 October 2020. See “Presentation of Economic and Other Information” and “Economy of Serbia – Gross Domestic Product”.
- (2) All data presented as at the end of September 2020 is shown as a percentage of GDP based on the Ministry of Finance’s estimates of nominal annual GDP for 2020.
- (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 30 September 2020, these guarantees amounted to EUR 1,409.4 million (RSD 165.7 billion).

Pursuant to the Second Supplementary Budget, Serbia expects to borrow up to RSD 903 billion in 2020. Out of this, up to RSD 455 billion is expected to be raised through the issuance of Government securities in the domestic market (RSD 385 billion in dinar-denominated securities and RSD 70 billion in euro-denominated securities), and up to RSD 377 billion is expected to be raised through the issuance of bonds in international capital markets, which will be used to refinance existing debt and finance the Budget deficit. The remaining RSD 71 billion is expected to be raised from proceeds of local and foreign borrowings, which will be used to repay existing debt, finance the Budget deficit and implement 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 PE “Srbijagas”, PE Electric Power Industry of Serbia, Srbija Voz JSC and Elektromreza Srbije JSC. In 2019, Serbia issued a guarantee amounting to EUR 90 million in respect of a loan granted to PE “Srbijagas”. In the first nine months of 2020, Serbia issued guarantees amounting to EUR 100 million for Srbija Voz JSC.

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 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
	(RSD billions)					
Internal Public Debt	1,174.7	1,129.7	1,101.6	1,130.9	1,175.1	1,318.8
Direct liabilities	1,100.8	1,082.6	1,076.8	1,112.6	1,154.2	1,298.5
Government securities	932.8	1,000.7	1,012.3	1,057.2	1,101.7	1,238.3
Bonds on account of citizens' foreign currency savings	118.5	51.9	47.0	45.6	44.5	52.2
Other direct liabilities	49.5	30.0	17.5	9.8	7.9	8.0
Indirect liabilities	73.9	47.1	24.8	18.3	20.9	20.3

Source: Ministry of Finance

The share of government securities issued on domestic financial markets in RSD held by foreign investors was 24.9 per cent. (EUR 1.9 billion or RSD 228.2 billion) as at 30 September 2020.

The following table shows the total nominal value of T-bills and T-bonds outstanding as at 31 December for the years 2015 to 2019 and as at 30 September 2020:

	As at 31 December										As at 30 September
	2015		2016		2017		2018		2019		2020
	(%)	(RSD billions)	(%)	(RSD billions)	(%)	(RSD billions)	(%)	(RSD billions)	(%)	(RSD billions)	(RSD billions)
Treasury Bills											
3 month maturity	0.6	5.8	-	-	-	-	-	-	-	-	-
6 month maturity	0.9	8.6	0.1	0.7	-	-	-	-	-	-	-
53-week maturity (RSD)	8.3	77.4	4.8	47.6	0.2	1.8	-	-	-	-	2.8
53-week maturity (EUR)	3.7	34.2	4.0	40.1	2.2	22.3	1.1	11.7	-	-	-
Treasury Bonds											
2-years amortizing (RSD)...	8.0	74.8	3.7	37.1	1.2	12.2	0.3	2.6	-	-	-
2-year maturity (RSD)	11.9	111.3	8.9	88.6	7.9	79.6	5.2	54.9	-	-	3.9
2-year maturity (EUR)	10.6	98.9	9.0	90.2	6.5	65.3	3.1	33.0	2.1	23.3	2.3
2-year maturity (USD)	-	-	-	-	0.6	6.1	0.6	6.4	-	-	-
3-year maturity (RSD)	22.5	209.8	25.4	254.5	27.4	277.3	18.8	198.7	16.0	176.8	11.8
3-year maturity (EUR)	6.9	64.3	9.5	95.3	9.7	98.5	8.7	92.3	6.8	74.8	3.8
5-year maturity (RSD)	5.4	50.0	5.0	50.0	4.1	41.9	12.4	130.8	12.5	137.9	15.9
5-year maturity (EUR)	5.4	50.0	7.2	72.4	10.7	108.2	10.3	108.4	9.8	108.3	8.0
7-year maturity (RSD)	10.0	93.6	14.5	145.3	20.1	203.6	19.3	203.6	31.6	348.5	27.2
7-year maturity (EUR)	-	-	-	-	-	-	0.7	7.7	0.7	7.7	0.6
10-year maturity (RSD)	1.0	9.3	0.9	9.3	0.9	9.4	10.5	111.0	10.1	111.0	9.0
10-year maturity (EUR)	2.9	27.4	4.3	42.6	5.3	54.1	6.1	64.2	6.9	75.6	6.1
12-year maturity (RSD)	-	-	-	-	-	-	-	-	-	-	3.2
12-year maturity (EUR)	-	-	-	-	-	-	-	-	-	-	0.9
15-year maturity (EUR)	1.9	17.6	2.7	27.1	3.2	32.2	3.0	32.1	3.4	37.9	3.1
20-year maturity (EUR)	-	-	-	-	-	-	-	-	-	-	1.4
Total	100.0	932.8	100.0	1,000.7	100.0	1,012.3	100.0	1,057.2	100.0	1,101.7	100.0

Source: Ministry of Finance

As at 30 September 2020, the outstanding amount of debt represented by T-bills and T-bonds increased to RSD 1,238.3 billion, compared to RSD 1,101.7 billion as at 31 December 2019, 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 in local currency for the first time, and finalised the maturity in the yield curve for both dinar and euro denominated Government securities. In addition, in February 2015, a benchmark issuance 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, with amounts of RSD 110 billion, RSD 110 billion and RSD 110 billion in 2016, 2017 and 2018, respectively, with maturities ranging from three to ten years. The Government also issued euro-denominated bonds with a maturity of 15 years in 2016 and 2017, in an amount of EUR 75 million each. In January 2019, the Government issued three and seven year benchmark securities amounting to RSD 100 billion and RSD 150 billion, respectively. It also issued euro-

denominated bonds with a maturity of 15 years in February 2019, in an amount of EUR 50 million. In January and February 2020, the Government issued new 5.5 year and 12.5 year benchmark issuances, each issue volume amounting to RSD 100 billion (to be reopened throughout the year). It also issued new euro-denominated Government securities with a maturity of 20 years, in a total amount of EUR 150 million in January 2020. In February and March 2020, the Government reopened its 12.5 year benchmark issuance and issued new euro-denominated securities with maturities of two, five and 12 years, respectively, each in the amount of EUR 100 million. In April 2020, the Government issued three year local currency bonds in the amount of RSD 55 billion, and issued 53-week bills worth RSD 35 billion. In the same month, it reopened its 5.5 year benchmark issuance and its two year euro-denominated securities for an amount of EUR 50 million. In May 2020, the Government issued two year local currency bonds in the amount of RSD 50 billion and reopened this issuance at the end of the month. At the same time in May, the Government also reopened its 5.5 year benchmark issuance and as a result held in total three RSD auctions in May. During the period from June 2020 to September 2020, the Government continued to reopen 5.5 and 12.5 year benchmark issuances.

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 9.44 per cent. at the end of 2015 to 4.81 per cent. at the end of 30 September 2020. On the other hand, the average coupon rate of EUR denominated securities reduced from 4.06 per cent. at the end of 2015 to 2.69 per cent. at the end of 30 September 2020.

The following table shows the weighted-average rate in RSD primary auctions as at 31 December for the years 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
			(%)			
3 month T-Bills.....	4.96	2.78	—	—	—	—
6 month T-Bills.....	4.42	3.13	2.64	—	—	—
53-week T-Bills.....	5.94	3.93	3.48	—	—	1.80
2-year T-Bonds.....	7.06	4.78	4.56	—	—	2.02
3-year T-Bonds.....	8.62	5.38	4.83	3.83	3.72	2.15
5-year T-Bonds.....	6.50	5.68	5.12	4.17	4.07	2.60
7-year T-Bonds.....	11.99	5.83	5.40	5.00	4.31	—
10-year T-Bonds.....	—	—	—	5.18	—	—
12-year T-Bonds.....	—	—	—	—	—	3.72

Source: Ministry of Finance

The following table shows the weighted-average rate in EUR primary auctions as at 31 December for the years 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
			(%)			
53-week T-Bills.....	1.83	0.94	0.63	0.46	—	—
2-year T-Bonds.....	2.67	1.36	1.04	0.88	0.92	0.50
3-year T-Bonds.....	4.00	2.98	1.86	1.25	1.03	—
5-year T-Bonds.....	4.49	3.14	2.62	1.89	1.65	1.10
7-year T-Bonds.....	—	—	—	—	2.50	—
10-year T-Bonds.....	4.48	4.20	4.00	3.50	2.84	—
12-year T-Bonds.....	—	—	—	—	—	1.89
15-year T-Bonds.....	—	4.20	4.20	—	3.60	—
20-year T-Bonds.....	—	—	—	—	—	3.0

Source: Ministry of Finance

No disbursements were made against Internal Public Debt related guarantees in the first nine months of 2020, compared to disbursements of EUR 78.7 million in 2019, EUR 81.3 million in 2018, EUR 20.0 million in 2017, EUR 0.0 million in 2016 and EUR 91.8 million in 2015.

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 2015 to 2019 and as at 30 September 2020:

	As at 31 December					As at 30 September
	2015	2016	2017	2018	2019	2020
	(RSD billion)					
Multilateral creditors.....	834.0	850.9	815.5	788.7	777.4	747.5
IBRD	223.4	227.7	251.4	255.9	257.3	261.8
EIB	209.3	222.8	215.8	220.1	215.7	211.0
Paris Club	166.3	162.9	139.5	129.2	117.7	102.2
EBRD	53.3	76.7	67.3	62.1	62.1	57.2
IMF	59.9	61.0	54.7	55.8	56.3	54.7
IDA	57.4	51.0	39.1	33.0	26.4	20.1
KfW	18.6	17.5	19.3	20.0	18.9	18.5
CEB	8.8	8.4	11.4	12.6	23.0	22.0
London Club	37.0	22.9	17.0	–	–	–
Bilateral creditors	344.3	398.8	365.7	427.3	476.9	463.1
China	75.5	88.4	88.4	105.8	128.7	127.5
UAE	111.3	117.1	99.1	103.4	104.9	100.2
Russia	53.2	67.5	58.9	63.7	76.0	78.9
EU	21.9	15.5	9.7	4.6	0.3	0.0
Other ⁽¹⁾	82.4	110.3	109.6	149.8	167.0	156.5
Eurobond	584.1	615.0	446.0	361.9	372.2	577.7
Other creditors ⁽²⁾	81.6	70.4	22.4	11.4	14.0	21.1
Total external public debt	1,843.9	1,934.9	1,649.5	1,589.3	1,640.6	1,809.4
of which guaranteed external public debt ⁽³⁾	217.7	217.6	184.1	161.9	154.1	145.4

Source: Ministry of Finance

Notes:

- (1) Other bilateral creditors comprise Kuwait, France, Libya, Poland, Azerbaijan and Algeria. The Abu Dhabi Development Fund is also included as other bilateral creditors.
- (2) Other creditors comprise debt from commercial banks. EUROFIMA, Japan International Cooperation Organisation and T.C. ZİRAAT BANKASI A.Ş. and DENİZBANK A. Ş 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 14.5 per cent. of total External Public Debt as at 30 September 2020, followed by the EIB, accounting for 11.7 per cent. of total External Public Debt.

Serbia disbursed EUR 31.8 million and JPY 3.8 billion under its External Public Debt related guarantees in the first nine months of 2020, as compared to EUR 113.1 million, Kuwait dinar (“**KWD**”) 0.2 million and JPY 2.8 billion in 2019, EUR 90.1 million, KWD 1.0 million and JPY 261.8 million in 2018 and EUR 66.9 million and JPY 3.5 billion in 2017, EUR 285.1 million in 2016 and EUR 177.5 million in 2015.

Public Debt Currency Structure

The following table shows the Public Debt of the Government, listed by currency as at 31 December for the years 2015 to 2019 and as at 30 September 2020:

	As at 31 December										As at 30 September	
	2015		2016		2017		2018		2019		2020	
	(RSD billions		(RSD billions		(RSD billions		(RSD billions		(RSD billions		(RSD billions)	
	)	%	)	%	)	%	)	%	)	%	)	%
EUR	1,202.3	39.8	1,217.8	39.7	1,144.0	41.6	1,089.4	40.0	1,244.4	44.2	1,475.0	47.2
U.S.\$	993.9	32.9	1,038.0	33.9	810.9	29.5	720.0	26.5	566.3	20.1	519.6	16.6
RSD.....	668.9	22.2	639.8	20.9	632.5	23.0	708.4	26.0	781.3	27.7	919.5	29.4
Special Drawing Rights	117.3	3.9	111.9	3.7	93.7	3.4	88.9	3.3	82.8	2.9	74.8	2.4
CHF.....	19.5	0.6	16.8	0.5	13.1	0.5	12.7	0.5	12.0	0.4	10.0	0.3
Other	16.6	0.6	40.3	1.3	56.8	2.1	100.9	3.7	128.9	4.6	129.3	4.1
Total	3,018.6	100.	3,064.6	100.	2,751.1	100.	2,720.2	100.	2,815.6	100.	3,128.2	100.0

As at 31 December					As at 30 September
2015	2016	2017	2018	2019	2020
0	0	0	0	0	0

Source: Ministry of Finance

As at 30 September 2020, the largest portion of the Public Debt was denominated in Euro (47.2 per cent.), followed by RSD (29.4 per cent.) and U.S. dollars (16.6 per cent.). Since the end of 2016, the share of dinar-denominated debt in the total Public Debt has gradually increased, while the share of U.S. dollar-denominated debt has declined. As at 30 September 2020, the share of dinar-denominated debt in the total Public Debt amounted to 29.4 per cent., representing an increase from 20.9 per cent. of total Public Debt at the end of 2016. 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 16.6 per cent. as at 30 September 2020.

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 Budget Law determines the borrowing requirements (including the criteria) of the Government, whereas 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 consists of eight core principles: i) the share of dinar-denominated debt should be above 30 per cent. of the Public Debt in the mid-term (this was 29.4 per cent. as of 30 September 2020); ii) the share of euro-denominated debt should be at least 65 per cent. of foreign currency debt, including future borrowings and transactions (this was 66.8 per cent. as of 30 September 2020); iii) the share of floating interest rate debt should be below 15 per cent. in the mid-term (this was 13.9 per cent. as of 30 September 2020); iv) the average time for re-pricing of Public Debt should remain at least above 5.0 years (this was 5.2 years as of 30 September 2020); v) the weighted average interest rate for Public Debt in domestic currency should not exceed 5.0 per cent. (this was 4.8 per cent. as of 30 September 2020); 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 13.0 per cent. as of 30 September 2020); vii) the average time to maturity of Internal Public Debt should be at least 5 years in the mid-term (this was 5.2 years as of 30 September 2020); viii) the average time to maturity of External Public Debt should be at least 7 years ± 0.5 in the mid-term (this was 7.4 years as of 30 September 2020). In line with these principles, the Government is targeting reduction of Public Debt up to 45 per cent. of GDP in the medium 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 2015 to 2019:

	Year ended 31 December				
	2015	2016	2017	2018	2019
			(RSD billions)		
Principal Payments	514.5	537.2	546.0	474.0	572.7
Interest Payments	125.0	127.4	117.0	106.0	106.8
Total	639.5	664.6	663.0	580.0	679.5

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 Notes described in this

Base Prospectus) for the years ended 31 December 2020 to 2024 based on the stock of Public Debt as at 30 September 2020:

	Year ended 31 December ⁽¹⁾				
	2020	2021	2022 (RSD billions)	2023	2024
Principal Payments	274.5	392.8	378.0	392.1	290.1
Interest Payments.....	94.5	99.0	77.7	64.9	50.2
Total.....	369.0	491.8	455.7	457.0	340.3

Source: Ministry of Finance

Notes:

(1) This does not include future borrowings.

Bilateral and Multilateral Development Organisations

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 and the third review was completed in December 2019. This was followed by the fourth review which was completed in August 2020 and the fifth review which was conducted in October 2020 (with the final report on this review to be published in January 2021). Following the IMF’s staff visit in October 2020, the IMF in its press release dated 16 October 2020 noted that Serbia’s economic activity has rebounded following a sharp contraction in the second quarter of 2020 amidst the disruption caused by COVID-19 as a result of: the introduction of a timely and sizeable fiscal package which provided necessary support to households and businesses, higher healthcare spending, accommodative monetary policy and temporary extraordinary measures adopted to maintain the banking sector’s liquidity and to support borrowing. It specifically recognised that both monetary and financial measures taken by the Government, as well as the large fiscal package deployed, in response to the crisis played a key role in supporting the Serbian economy. As a result, it revised its economic outlook and estimated that Serbia’s real GDP growth is poised to contract by 1.5 per cent. in 2020 before rebounding to 5 per cent. in 2021. These economic forecasts were revised based on more recent data, which demonstrate a faster recovery than that previously anticipated by the IMF. While acknowledging that tax revenues have been stronger than expected, it noted that expenditure will be higher as execution of public investments is expected to accelerate during the last quarter of 2020. Against this context, it projected the overall fiscal deficit to be less than 9 per cent. of GDP in 2020, with Public Debt remaining below 60 per cent. of GDP. In spite of the economic activity having gradually recovered, it specifically noted that Serbia’s economic outlook remains highly uncertain as the downside risks are high, reflecting the unpredictable course of the pandemic and related economic disruptions it may cause in Serbia and its trading partners. With the trajectory of the virus, and therefore its economic impact, still subject to significant uncertainty, these estimates may well be revised in the future.

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 so that it achieves integration into the EU. The CPF envisages the approval of 13 loans in the total amount of U.S. dollars 1.6 billion (EUR 1.4 billion). The outstanding debt to the IBRD as at 30 September 2020 was EUR 2.2 billion. Discussions pertaining to World Bank’s next five year cycle of engagement in Serbia under the CPF is pending but is expected to be initiated in the forthcoming period.

European Bank for Reconstruction and Development (“EBRD”)

Since 2001, the EBRD has approved over EUR 6.3 billion by way of funding to Serbia. As at 30 September 2020, the total amount of outstanding debt under EBRD loans was EUR 486.8 million, of which EUR 78.3 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 6.0 billion by way of funding to Serbia. As at 30 September 2020, 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 a EUR 150 million APEX credit line, through commercial banks, for small and medium-sized projects to help boost growth and job creation in 2018, 2019 and 2020.

Paris Club

As at 30 September 2020, the total amount of outstanding liabilities to Paris Club creditors was EUR 868.8 million (RSD 102.2 billion).

London Club

As at 30 September 2020, there were no outstanding liabilities to London Club creditors.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

United States Federal Income Taxation

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme (including Notes with a maturity of 30 years or longer) and only applies to Notes held as capital assets for U.S. federal income tax purposes (generally, held for investment). It does not address any aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax exempt entities, retirement plans, former citizens or long-term residents of the United States, dealers or traders in securities or currencies or to holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes, U.S. citizens or lawful permanent residents living abroad or U.S. Holders (as defined below) that have a functional currency other than the U.S. dollar. Moreover, this summary does not address the U.S. state and local tax, federal estate and gift tax, Medicare contribution tax or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial "issue price," as defined in "—U.S. Holders—Original Issue Discount" below.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as at the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in the relevant Final Terms.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) an individual citizen or resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any state thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to the consequences of acquiring, owning or disposing of Notes.

A Non-U.S. Holder is a beneficial owner of the Notes other than a U.S. Holder or a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes).

Prospective investors should consult their own tax advisers with respect to the U.S. federal, state, local and non-U.S. tax consequences of acquiring, owning or disposing of Notes.

U.S. Holders

Accelerated Accrual

U.S. Holders that use an accrual method of accounting for tax purposes generally will be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements. The application of this rule thus may require the accrual of income earlier than would be the case under the general tax rules described below, although the precise application of this rule is unclear at this time. However, recently proposed regulations which are not yet in effect but upon which taxpayers may rely generally would exclude, among other things, original issue discount and market discount (in either case, whether or not de minimis) from the applicability of this rule. U.S. Holders that use an accrual method of accounting should consult with their tax advisers regarding the potential applicability of this legislation to their particular situation.

Interest

Except as set forth below, interest (including “qualified stated interest” as defined under “—Original Issue Discount” below) paid on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a “foreign currency”), including any additional amounts, will be includible in a U.S. Holder’s gross income as ordinary interest income in accordance with the U.S. Holder’s usual method of tax accounting. In addition, interest on the Notes will generally be treated as foreign source income for U.S. federal income tax purposes. Prospective purchasers of Notes should consult their own tax advisers concerning the applicability of foreign tax credit and source of income rules attributable to the Notes.

Foreign Currency Denominated Stated Interest

Any interest paid in a foreign currency will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, 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. 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 in the case of an accrual period that spans two taxable years of the U.S. Holder, the part of the period within each taxable year), or, at the accrual basis U.S. Holder’s election, at either the spot rate of exchange on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within each taxable year) or the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. Any such selection will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the Internal Revenue Service. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate applicable to an accrual of that interest.

Original Issue Discount

U.S. Holders of Notes issued with original issue discount (“**OID**”) will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of Notes issued with OID (including cash basis taxpayers) should be aware that, as described in greater detail below, they generally must include OID in income for U.S. federal income tax purposes on an economic accrual basis, in advance of the receipt of cash attributable to that income. However, U.S. Holders of such Notes generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notes issued with OID will be referred to as “Original Issue Discount Notes.” Solely for the purposes of determining for U.S. federal income tax purposes whether a Note has OID and the yield and maturity of a Note, the Issuer may, under certain circumstances, be deemed

to exercise any call option that has the effect of decreasing the yield on the Note and the U.S. Holder may, under certain circumstances, be deemed to exercise any put option that has the effect of increasing the yield on the Note. The relevant Final Terms will so state when the Issuer determines that a particular Note will be an Original Issue Discount Note.

The following discussion does not address the U.S. federal income tax consequences of an investment in contingent payment debt instruments. In the event the Issuer issues contingent payment debt instruments the relevant Final Terms or a supplement to this Base Prospectus will describe the material U.S. federal income tax consequences thereof.

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. dollar are described in “—*Foreign Currency Discount Notes*” below.

For U.S. federal income tax purposes, a Note, other than a Note with a term of one year or less, will be treated as an Original Issue Discount Note if the excess of the Note’s “stated redemption price at maturity” over its “issue price” equals or exceeds a *de minimis* amount (i.e., 0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a Note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The “stated redemption price at maturity” of a Note is the sum of all payments required to be made on such Note other than “qualified stated interest” payments. The “issue price” of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler or similar persons or organizations acting in the capacity of an underwriter, broker, agent or wholesaler). The term “qualified stated interest” means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given in the relevant Final Terms when it is determined that a particular Note will bear interest that is not qualified stated interest.

In the case of a Note issued with *de minimis* OID, the U.S. Holder generally must include such *de minimis* OID in income as stated principal payments on the Notes made in proportion to the stated principal amount of the Note. Any amount of *de minimis* OID that has been included in income will be treated as capital gain.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income on a constant yield method in advance of the receipt of some or all of the related cash payments. Under this method, the amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by

any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the relevant Final Terms and should consult their own tax advisers regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

Certain of the Notes may be redeemed prior to their maturity. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisers with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

Election to Treat All Interest as OID

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. U.S. Holders should consult their own tax advisers about this election.

Short-Term Notes

In the case of Notes having a term of one year or less (“**Short-Term Notes**”), all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, U.S. Holders generally will be taxable on the discount in lieu of any stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short-Term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method U.S. Holders of a Short-Term Note are not required to include accrued discount in their income currently unless they elect to do so (but will be required to include any stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short-Term Notes (as ordinary income) on a straight line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realised on the sale, exchange or retirement of the Short-Term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the U.S. Holder’s interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a “premium.” A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under the U.S. Holder’s regular accounting method for U.S. federal income tax purposes. In

the case of a Note that is denominated in, or determined by reference to, a foreign currency, bond premium will be computed in units of foreign currency and amortisable bond premium will reduce interest income in units of the foreign currency. At the time amortised bond premium offsets interest income, foreign currency gain or loss (taxable as ordinary income or loss) is measured by the difference between exchange rates at that time and at the time of the acquisition of the Notes. Any election to amortise 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 U.S. Holder, and is irrevocable without the consent of the Internal Revenue Service. Bond premium on a Note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognised on disposition of the Note.

Foreign Currency Discount Notes

OID for any accrual period on an Original Issue Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under “—*Foreign Currency Denominated Stated Interest*” above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Benchmark Replacement

The treatment of a Benchmark Replacement for U.S. federal income tax purposes is not entirely clear. It is possible that a Benchmark Replacement could be treated as a deemed exchange that is taxable to U.S. Holders of Notes. Recently released proposed Treasury regulations generally would increase the number of circumstances in which the modification of the terms of a debt instrument to replace an IBOR-referencing rate will not be treated as a taxable deemed exchange for U.S. federal income tax purposes. Although the proposed Treasury regulations generally will not be effective until the date of publication of a Treasury decision adopting these rules as final regulations in the U.S. Federal Register, a taxpayer generally is permitted to elect to rely on these provisions currently so long as the taxpayer and its related parties consistently apply these proposed Treasury regulations prior to that date. Prospective investors in the Notes are urged to consult with their tax advisers regarding the potential applicability of these rules to their particular situations.

Sale, Exchange or Retirement

A U.S. Holder's tax basis in a Note generally will be its U.S. dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by (i) the amount of any payments on the Note that are not qualified stated interest and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The U.S. dollar cost of a Note purchased with a foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement (less any accrued but unpaid stated interest, which will be taxable as ordinary interest income) and the U.S. Holder's adjusted tax basis of the Note. The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of such amount on the date of sale, exchange or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Gain or loss recognised on the sale, exchange or retirement of a Note (other than gain or loss that is attributable to OID, or to

changes in exchange rates, which will be treated as ordinary income or loss) will be capital gain or loss and will be long term capital gain or loss if the Note was held for more than one year. The deductibility of capital losses is subject to limitations. Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Note that is attributable to changes in exchange rates will be treated as ordinary income or loss. A U.S. Holder will recognise foreign currency gain or loss on the principal amount of the Note equal to the difference between (i) the U.S. dollar value of the U.S. Holder's purchase price for such Note determined at the spot rate on the date of sale, exchange or retirement and (ii) the U.S. dollar value of the U.S. Holder's purchase price for the Note determined at the spot rate on the date the U.S. Holder acquired the Note. However, foreign currency gain or loss is taken into account only to the extent of total gain or loss realised on the transaction. Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Note generally will be U.S.-source income or loss. Prospective investors should consult their tax advisers as to the foreign tax credit implications of such sale, exchange or retirement of Notes.

Sale or Other Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time of such sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S.-source ordinary income or loss.

Multi-Currency Notes

U.S. Holders of Notes that are denominated in more than one currency or that have one or more non currency contingencies and are denominated in either one foreign currency or more than one currency will be subject to special rules applicable to "multi-currency debt securities." A U.S. Holder generally would be required to apply the "noncontingent bond method" in the multi-currency debt security's denomination currency, which, for this purpose, would be the multi-currency debt security's predominant currency as determined by the Issuer. A description of the principal U.S. federal income tax considerations relevant to holders of multi-currency Notes, including specification of the predominant currency, will be set forth, if required, in the relevant Final Terms.

Other Notes

A description of the principal U.S. federal income tax considerations relevant to U.S. Holders of any other type of Note that the Issuer may issue under the Programme will be set forth, if required, in the relevant Final Terms or in a supplement to this Base Prospectus.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Internal Revenue Service Form 8886. U.S. Holders should consult their own tax advisers as to the possible obligation to file Internal Revenue Service Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale, exchange or retirement of the Notes.

Foreign Financial Asset Reporting

Individuals and, to the extent provided by the U.S. Secretary of the Treasury in regulations or other guidance, certain domestic entities that hold an interest in a "specified foreign financial asset" are required to attach certain information regarding such assets to their income tax return for any year in which the aggregate value of all such assets exceeds the relevant threshold. A "specified foreign financial asset" includes any debt or equity of a non-U.S. entity, to the extent not held in an account at a financial institution, though accounts at non-U.S. financial institutions may themselves be "specified foreign financial assets." Penalties may be imposed for the failure to disclose such information

regarding specified foreign financial assets. U.S. Holders are advised to consult their tax advisers regarding the potential reporting requirements that may be imposed on them by this legislation with respect to their ownership of the Notes.

Non-U.S. Holders

Under U.S. federal income tax law currently in effect, subject to the discussion below under “—*U.S. Backup Withholding and Information Reporting*”, payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless such interest is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Subject to the discussion below under “—*U.S. Backup Withholding and Information Reporting*”, any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met. Non-U.S. Holders should consult their own tax advisers regarding the U.S. federal income and other tax consequences of owning Notes.

U.S. Backup Withholding and Information Reporting

Information reporting requirements apply to certain payments on the Notes and to proceeds of the sale, exchange or retirement of Notes made within the United States or through certain U.S. paying agents, U.S. intermediaries or U.S.-related brokers, to certain holders of Notes (other than an exempt recipient). The payor will be required to backup withhold on such payments to a holder of a Note that is a U.S. person, other than an “exempt recipient,” if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments of principal and interest, as well as accruals and payments of OID, as applicable, to a Non-U.S. Holder will not be subject to backup withholding and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certification is incorrect. The backup withholding rate under current law is 24 per cent.

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission has published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transaction tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal is very broad in scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution and at least one party is established in a participating Member State. A financial institution may be, or may be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State, or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

CLEARING AND SETTLEMENT

Book Entry Procedures for the Global Notes

For each Series evidenced by a Restricted Global Note which is held by or on behalf of DTC, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See “— *Book Entry Ownership*” and “— *Settlement and Transfer of Notes*”.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**” and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Restricted Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Restricted Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Exchange for Definitive Note Certificates*”, DTC will surrender the relevant Restricted Global Notes for exchange for individual Restricted Definitive Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book Entry Ownership

A Global Note representing the Notes will have an ISIN and a Common Code and (except for a Restricted Global Note held by or on behalf of DTC) will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L 1855 Luxembourg.

DTC

The Restricted Global Note representing Restricted Notes of any Series, unless otherwise specified in the applicable Final Terms, and unless held through Euroclear or Clearstream, Luxembourg, will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be) for its share of each payment made by the Issuer to the holder of the Global Notes, and in relation to all other rights arising under the Global Notes, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be).

The Issuer expects that, upon receipt of a payment in respect of Notes evidenced by a Global Note, the Common Depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of the beneficial interests in any Global Note held through such Direct Participant in any clearing system will be governed by standing instructions and customary practices.

Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and such obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note, in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any Paying Agent will have responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within a clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Restricted Global Note which is held by or on behalf of DTC to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading Between Euroclear and Clearstream, Luxembourg Participants

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 held 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.

Trading Between DTC Participants

Secondary market sales of book entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement system in same day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an Unrestricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Restricted Global Note will instruct the relevant Registrar to decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note of the relevant class and increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to

Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the relevant Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Restricted Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the relevant Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by an Unrestricted Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Restricted Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no 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 or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre Issue Trades Settlement

It is expected that the delivery of Notes will be made against payment therefor on the relevant closing date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until two days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisers.

TRANSFER RESTRICTIONS

The Notes are being 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 Notes sold 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 Notes.

The Issuer is a foreign government as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore, the Issuer is not subject to the information provision requirements of Rule 144A(d)(4)(i) under the Securities Act.

Each prospective purchaser of Notes in reliance on Rule 144A (a “**144A Offeree**”), by accepting delivery of this Base Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

- (i) such 144A Offeree acknowledges that this Base Prospectus is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Base Prospectus, or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S is unauthorised, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited.
- (ii) such 144A Offeree agrees to make no photocopies of this Base Prospectus or any documents referred to herein.

Each purchaser of Restricted Notes within the United States, by accepting delivery of this Base Prospectus, will be deemed to have represented, agreed and acknowledged as follows (terms used herein that are defined in Rule 144A or in Regulation S are used herein as defined therein, as applicable):

- (a) the purchaser of the Notes (i) is a QIB, (ii) is acquiring the Notes for its own account or for the account of a QIB and (iii) is aware, and each beneficial owner of such Notes has been advised, that the sale of the Notes to it is being made in reliance on Rule 144A. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account;
- (b) the purchaser understands that such Restricted Notes are being offered or sold only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Restricted Notes have not been and will not be registered under the Securities Act or any other applicable State securities laws, the purchaser acknowledges that such Restricted Note is a “restricted security” (as defined in Rule 144(a)(3) under the Securities Act) and that (i) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (A) in the United States to a person that the seller reasonably believes is a QIB purchasing for its own account, or for the account or benefit of a QIB, in a transaction meeting the requirements of Rule 144A whom the seller has notified, in each case, that the offer, resale, pledge or other transfer is being made in reliance on Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (D) to the Issuer or an affiliate of the Issuer (upon redemption thereof or a similar transaction); in each case in accordance with any applicable securities laws of any state of the United States and (ii) no representation can be made as to the availability at any time of the exemption provided by Rule 144 for the resale of the Restricted Notes;

- (c) the purchaser understands that such Restricted Notes, unless the Issuer and the relevant Registrar determine otherwise in compliance with Applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES 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 REALE 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;

- (d) it acknowledges that, prior to any transfer of Definitive Note Certificates or of beneficial interests in the Global Notes, the holder of Definitive Note Certificates or the holder of beneficial interests in Global Notes, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Fiscal Agency Agreement; and
- (e) the Issuer, the Arranger, the Dealers and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

SUBSCRIPTION AND SALE

Subject to the terms and conditions contained in the Dealer Agreement dated on or about the date hereof (the “**Dealer Agreement**”) between the Issuer and the Permanent Dealers, from time to time the Notes will be offered by the Issuer to the Permanent Dealers and the Permanent Dealers may agree to purchase such Notes. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are either jointly and severally or severally (and not jointly), as the case may be, underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they made to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act, and, subject to certain exceptions, may not be offered or sold within the United States.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that except as permitted by the Dealer Agreement it will offer the Notes for resale in the United States initially only to persons who they reasonably believe to be QIBs in reliance on Rule 144A and 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.

The Notes are being offered and sold outside the United States in accordance with Regulation S. The Dealer Agreement provides that Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of the Notes within the United States only to QIBs in reliance on Rule 144A.

An offer or sale of Notes within the United States by a Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or another available exemption from registration under the Securities Act.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than a year (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will

not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) 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 Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA and UK Retail Investors

Unless the Final Terms in respect of any Notes specifies the “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the “**MAS**”). Accordingly, each Dealer has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the 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 Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the 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 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 Notes pursuant to an offer made under Section 275 of the SFA except:

- (a) 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;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the “SFA” is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (“SFO”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32) of Hong Kong “C(WUMP)O” or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Base Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the offerings of the Notes contemplated in this Base Prospectus as completed by the Final Terms in relation thereto.

Switzerland

The offering of the Notes in Switzerland is exempt from the requirement to prepare and publish a prospectus under the Swiss Financial Services Act (“**FinSA**”) assuming the Notes will have a minimum denomination of CHF 100,000 (or equivalent in another currency) or more and the Notes will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Base Prospectus does not constitute a prospectus pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Notes contemplated in this Base Prospectus completed by the Final Terms in relation thereto.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No representation is made that any action has been or will be taken in any jurisdiction that would, or is intended to, permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus or any other offering materials or any final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed (and each further Dealer appointed under the Programme will be required to agree) that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Base Prospectus, any other offering material or any Final Terms (in all cases at its own expense) and neither the Issuer nor any other Dealer shall have responsibility therefor. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or form which they purchase, order, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

GENERAL INFORMATION

1. Admission to Trading

It is expected that each Tranche which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of one or more Global Notes in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 24 November 2020. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions on the Market will normally be effected for delivery on the second working day after the day of the transaction.

2. Clearing of the Notes

It is expected that the Notes will be accepted for clearance through Euroclear and Clearstream, Luxembourg and/or DTC. Where relevant, the appropriate common code and the International Securities Identification Number and/or (where applicable) the CUSIP number in relation to each Series will be specified in the Final Terms relating thereto. The relevant Final Terms will specify any other clearing system as shall have accepted the Notes for clearance together with any further appropriate information.

3. Authorisations

The establishment of the Programme was authorised and approved pursuant to the Conclusions (*zaključci*) of the Government of the Republic of Serbia dated 5 November 2020 and 19 November 2020. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with any future update of the Programme and the issue and performance of any Notes issued under the Programme from time to time.

4. No significant change

Other than as disclosed in the “Overview”, “Risk Factors”, “Description of Serbia”, “Economy of Serbia”, “External Sector”, “Monetary System”, “Public Finance” and “Public Debt” sections of this Base Prospectus, 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 2019.

5. Litigation

There are no, nor have there been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on the financial position of the Issuer.

6. Documents available for inspection

For so long as Notes may be issued pursuant to this Base Prospectus, and for so long as any Notes remain outstanding under the Programme thereafter, the following documents will be available at the Issuer’s website at <http://www.javnidug.gov.rs/eng/default.asp?P=101>:

- (a) the Budgets of Serbia, including any supplementary Budgets, for the fiscal years 2015, 2016, 2017, 2018, 2019 and 2020;
- (b) the Fiscal Agency Agreement;
- (c) the Deed of Covenant;

- (d) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the UK or the EEA nor offered in the UK or the EEA in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Notes at the Specified Office of the Fiscal Agent and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity); and
- (e) this Base Prospectus and any supplements thereto.

This Base Prospectus is and, the Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be, published on the website of the London Stock Exchange at <http://www.londonstockexchange.com>.

7. Third Party Information

The Issuer confirms that where information included in the Base Prospectus has been sourced from a third party the source is identified, and that information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

8. Dealers Transacting with the Issuer

Certain of the Dealers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers or their affiliates routinely hedge their credit exposures to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Issuer may apply all or part of the proceeds of any Notes issued pursuant to the Programme in repayment of all or part of any credit facilities extended by any Dealer(s) to the Issuer pursuant to the arrangements described above.

9. Information on websites

Except where such information has been incorporated by reference into this Base Prospectus, the contents of the Issuer's website, any website mentioned in this Base Prospectus or any website directly or indirectly linked to these websites have not been verified and do not form part of this Base Prospectus and investors should not rely on such information.

THE ISSUER

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AGENT, PRINCIPAL
PAYING AGENT AND
CALCULATION AGENT**

**EUROPEAN REGISTRAR
AND TRANSFER AGENT**

**U.S. PAYING AGENT,
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